

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-K

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

For the fiscal year ended December 31, 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)

Registrant's telephone number, including area code: (847) 402-5000

Securities registered pursuant to Section 12(b) of the Act:

| <u>Title of each class</u>  | <u>Name of each exchange on which registered</u>  |
|---|---|
| Common Stock, par value \$0.01 per share  | New York Stock Exchange<br>Chicago Stock Exchange |
| 5.10% Fixed-to-Floating Rate Subordinated Debentures due 2053   | New York Stock Exchange                           |
| Depository Shares each representing a 1/1,000th interest in a share of Fixed Rate Noncumulative Perpetual Preferred Stock, Series A | New York Stock Exchange                           |
| Depository Shares each representing a 1/1,000th interest in a share of Fixed Rate Noncumulative Perpetual Preferred Stock, Series D | New York Stock Exchange                           |
| Depository Shares each representing a 1/1,000th interest in a share of Fixed Rate Noncumulative Perpetual Preferred Stock, Series E | New York Stock Exchange                           |
| Depository Shares each representing a 1/1,000th interest in a share of Fixed Rate Noncumulative Perpetual Preferred Stock, Series F | New York Stock Exchange                           |
| Depository Shares each representing a 1/1,000th interest in a share of Fixed Rate Noncumulative Perpetual Preferred Stock, Series G | New York Stock Exchange                           |

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

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

The aggregate market value of the common stock held by non-affiliates of the registrant, computed by reference to the closing price as of the last business day of the registrant's most recently completed second fiscal quarter, June 30, 2018, was approximately \$31.24 billion.

As of January 31, 2019, the registrant had 331,963,104 shares of common stock outstanding.

Documents Incorporated By Reference

Portions of the following documents are incorporated herein by reference as follows:

Part III of this Form 10-K incorporates by reference certain information from the registrant's definitive proxy statement for its annual stockholders meeting to be held on May 21, 2019, (the "Proxy Statement") to be filed not later than 120 days after the end of the fiscal year covered by this Form 10-K.

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## Part I

## Item 1. Business

The Allstate Corporation was incorporated under the laws of the State of Delaware on November 5, 1992 to serve as the holding company for Allstate Insurance Company. Its business is conducted principally through Allstate Insurance Company, Allstate Life Insurance Company and other subsidiaries (collectively, including The Allstate Corporation, "Allstate").

Allstate's purpose is to protect people from life's uncertainties and prepare them for the future so they can realize their hopes and dreams. Allstate is primarily engaged in the property and casualty insurance business in the United States and Canada. Additionally, Allstate provides customers other protection offerings such as life, accident and health insurance and protection plans that cover electronic devices and personal identities.

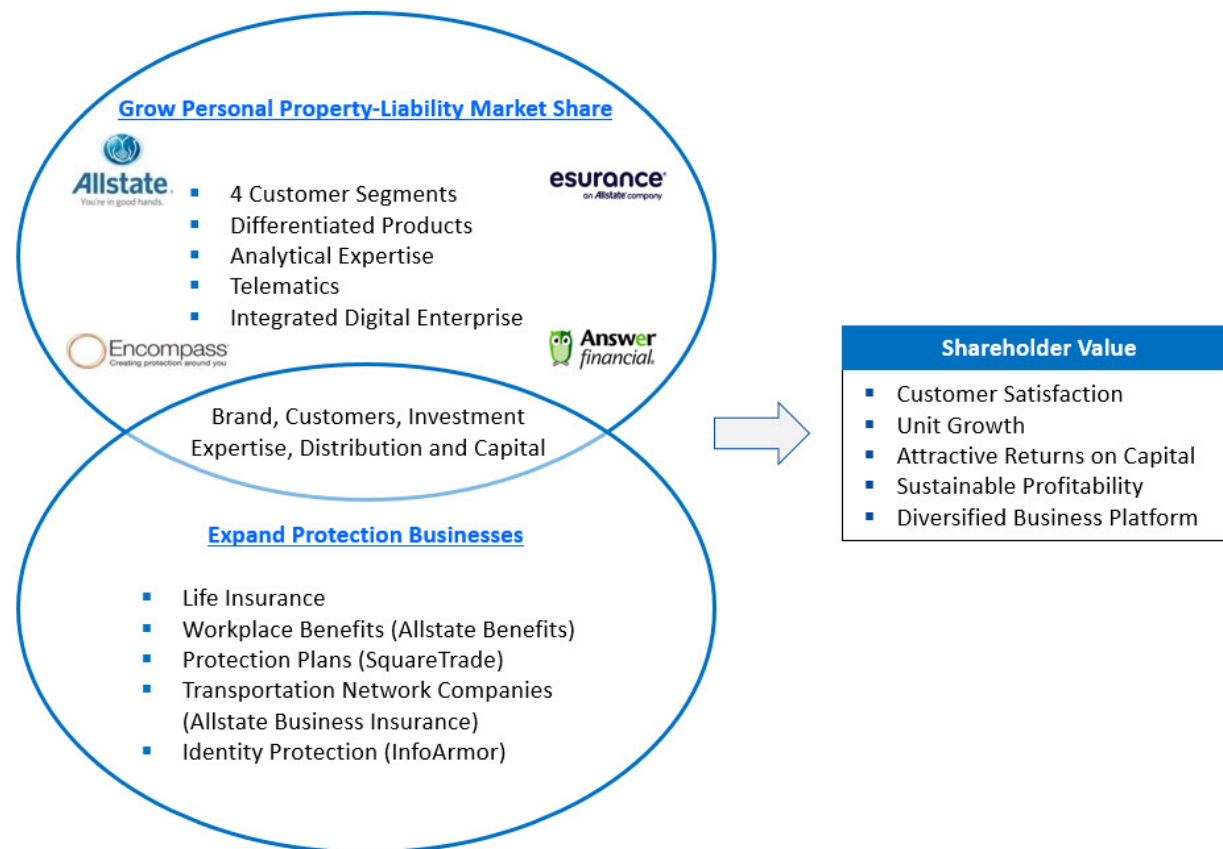
The Allstate Corporation is one of the largest publicly held personal lines insurers in the United States. Allstate's Property-Liability strategy is to serve distinct customer segments with differentiated offerings. The Allstate brand is widely known through the "You're In Good Hands With Allstate®" slogan. Allstate is the 3<sup>rd</sup> largest personal property and casualty insurer in the United States on the basis of 2017 statutory direct premiums written according to A.M. Best.

In addition, Allstate also has strong market positions in other protection products. According to A.M. Best, Allstate is the nation's 20<sup>th</sup> largest issuer of life insurance business on the basis of 2017 ordinary life insurance in force and 38<sup>th</sup> largest on the basis of 2017 statutory admitted assets. Allstate Benefits provides accident, health and life insurance through employers and is one of the top five voluntary benefits carriers in the market based on a 2017 voluntary/worksites industry survey. SquareTrade provides protection plans on a wide variety of consumer goods such as cell phones, tablets, computers and appliances, and has a leading position in distribution through major retailers. InfoArmor provides identity protection through employers and has a leading position in this distribution channel. In total, Allstate had 113.9 million policies in force ("PIF") as of December 31, 2018.

In this Annual Report on Form 10-K, we occasionally refer to statutory financial information. All domestic United States insurance companies are required to prepare statutory-basis financial statements. As a result, industry data is available that enables comparisons between insurance companies, including competitors that are not required to prepare financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP"). We frequently use industry publications containing statutory financial information to assess our competitive position.

## Strategy and Segment Information

Allstate's strategy is to grow personal property-liability market share and expand other protection businesses by leveraging our brand, customer base, investment expertise, distribution channels and capital.



We evaluate performance and make resource and capital decisions across seven reportable segments.

| Reportable segments                  |  |
|--------------------------------------|--|
| Allstate Protection (1)              | Includes the Allstate, Encompass and Esurance brands and Answer Financial. Offers private passenger auto, homeowners, other personal lines and commercial insurance through agencies and direct, including contact centers and the internet.   |
| Service Businesses                   | Includes SquareTrade, Arity, InfoArmor, Allstate Roadside Services and Allstate Dealer Services, which offer a broad range of products and services that expand and enhance our customer value propositions. InfoArmor is included in Service Businesses since its acquisition on October 5, 2018. |
| Allstate Life                        | Offers traditional, interest-sensitive and variable life insurance products through Allstate exclusive agencies and exclusive financial specialists.   |
| Allstate Benefits                    | Offers voluntary benefits products, including life, accident, critical illness, short-term disability and other health insurance products sold through workplace enrolling independent agents and Allstate exclusive agencies.   |
| Allstate Annuities                   | Consists of deferred fixed annuities and immediate fixed annuities (including standard and sub-standard structured settlements) in run-off.  |
| Discontinued Lines and Coverages (1) | Relates to property and casualty insurance policies written during the 1960's through the mid-1980's with exposure to asbestos, environmental and other claims in run-off.   |
| Corporate and Other                  | Includes holding company activities and certain non-insurance operations.  |

(1) Allstate Protection and Discontinued Lines and Coverages segments comprise Property-Liability.

## Allstate Protection Segment

Our Allstate Protection segment accounted for 90.2% of Allstate’s 2018 consolidated insurance premiums and contract charges and 29.2% of Allstate’s December 31, 2018 PIF. In this segment, private passenger auto, homeowners, and other personal lines insurance products are offered to consumers through agencies and directly through contact centers and online. Our strategy is to position product offerings and distribution channels to meet customers’ evolving needs and help them manage the risks they face.

Allstate Protection has four market-facing businesses with products and services that cater to different customer preferences for advice and brand recognition to improve our competitive position and performance.

### Strategy

We serve all four consumer segments using differentiated products, analytical expertise, telematics and an integrated digital enterprise that leverages data and technology to redesign our processes with a focus on greater effectiveness and efficiencies and long-term expense savings.



### Allstate brand strategy

Our strategy is to grow profitably through exclusive agencies, who serve as trusted advisors to customers, while leveraging best-in-class operational capabilities to gain market share and efficiencies. The Allstate brand differentiates itself by offering comprehensive product options and features through agencies that provide local advice and service, including a partnership with exclusive financial specialists to deliver life and retirement solutions. This strategy focuses on four customer-centric themes to expand our trusted advisor initiative and deliver profitable growth:

| Available   | Competitive  | Simple   | Connected  |
|---|--|--|--|
| <b>Provide products and services that protect what matters most</b>   | <b>Offer products that make good use of our customers’ hard-earned money</b> | <b>Easy to interact with</b>   | <b>Know our customers and proactively interact in value-added ways</b>                             |
| Continue to build effective and efficient distribution systems and product offerings that provide a competitive advantage | Advance our pricing sophistication and improve cost competitiveness          | Provide seamless, personalized customer interactions supported by contemporary products and technology | Expand the breadth of value-added products and services, enabled by connections with our customers |

**Available** Allstate's 10,700 exclusive agencies provide customized solutions and support based on our consumers' needs. Agencies are established in 10,600 locations, supported by 26,900 licensed sales professionals and 1,100 exclusive financial specialists who are trusted advisors to our customers.

#### Being a trusted advisor means that our agencies

- Have a local presence in our customers' communities
- Know customers and understand the unique needs of their households
- Help customers assess the potential risks they face
- Provide local expertise and personalized guidance on how to protect what matters most to customers by offering customized solutions
- Support customers when they have changes in their lives and during their times of need

Allstate exclusive agencies also offer life and retirement solutions and can partner with exclusive financial specialists who provide expertise with more complex life and retirement solutions and other financial needs of our customers.

Exclusive agencies and financial specialists are supported through marketing assistance, service and business processes, technology, education, offering financing to grow their businesses and other resources to help them enhance the customer experience and to acquire and retain more customers. We continue to focus on the effectiveness and efficiency of our distribution system and the breadth of our product offerings.

**Competitive** Data, analytics and technology support advancements in pricing sophistication for all lines of business. Pricing and underwriting strategies and decisions are designed to generate sustainable profitable growth.

Targeted marketing includes messaging that communicates the value of our Good Hands®, the importance of having proper coverage, product options, and the ease of doing business with Allstate and our exclusive agencies.

Enhanced loss cost management and expense control are a priority. To achieve this, we are continuing to modernize our operating platform (including enhanced digital capabilities) and optimizing vendor relationships. Investments are being made to increase efficiencies and reduce expenses.

**Simple** We are focused on creating value through simplicity, quality, rewarding engagement and improving ease of access and service through an integrated digital enterprise.

Emerging technologies and predictive analytics are being used to simplify the customer experience and expedite the claims process. To achieve this, we have opened several Digital Operating Centers to handle auto physical damage claims countrywide. The centers utilize virtual estimation capabilities, which include estimating damage through photos and video with the use of QuickFoto Claim® and Virtual Assist® (video chat technology used to review supplemental damage with auto body shops). We are also leveraging virtual

capabilities to handle property claims by estimating damage through video with Virtual Assist and aerial imagery using satellites, airplanes and drones.

**Connected** We will continue to leverage telematics to offer customers a highly individualized price, better understand their risks and improve customer experience delivered through innovative products and services.

Current capabilities are being expanded through our partnership with Arity, which uses telematics to offer personalized, engaging programs that empower drivers with insights about their vehicle's health, costs and safety.

**Exclusive agency compensation structure** The compensation structure for Allstate exclusive agencies rewards agencies for delivering high value to customers and achieving certain business outcomes such as product profitability, growth and household penetration. Allstate exclusive agency remuneration comprises a base commission, variable compensation and a bonus.

- Agencies receive a monthly base commission payment as a percentage of their total eligible written premium.
- Variable compensation rewards agencies for meeting customers' needs for life insurance and retirement policies sold relative to the size of the agency.
- Bonus compensation is based on a percentage of premiums and can be earned by agencies who are meeting certain sales goals and selling additional policies to meet customer needs profitably.

Agencies have the ability to earn commissions and additional bonuses on non-proprietary products provided to customers when an Allstate product is not available. In 2018, Ivantage had \$1.8 billion non-proprietary premiums under management and is a leading provider of property and casualty brokerage services.

Allstate exclusive financial specialists receive commissions for proprietary and non-proprietary sales and earn a bonus based on the volume of business produced with Allstate exclusive agencies.

Allstate independent agent remuneration comprises a base commission and a bonus that can be earned by agents who achieve sales goals and a target loss ratio.

**Commercial lines strategy** We are actively pursuing profitable expansion of our commercial lines, including the shared economy, such as transportation network companies. Profit improvement actions have been implemented for our traditional commercial lines insurance products, emphasizing pricing, claims, governance and operational improvements.

#### Esurance strategy

We are working to make insurance surprisingly painless by innovating to make it simple, transparent, and affordable. We plan to grow profitably by

delivering an excellent customer experience at an exceptional value through an engaged and high-performing workforce. To provide an enhanced customer experience we:

- Offer a seamless online and mobile experience with fast quoting for ease and convenience.
- Provide hassle-free purchases and claims processing through intuitive tools and advanced technology.
- Offer a broad suite of protection products and solutions to our customers.
- Offer innovative product options and features.

### Encompass strategy

Our strategy is to expand the independent agency footprint, broaden geographic and product diversification, enhance pricing and underwriting sophistication and provide a superior customer and agent experience.

Over the past several years, Encompass has been executing on a profit improvement plan emphasizing pricing, governance and operational improvements at both the state and countrywide levels. These actions have improved underlying profitability but led to a reduction of policies in force compared to prior years for both auto and homeowners.

### Answer Financial strategy

Answer Financial is an insurance agency that sells other insurance companies' products directly to customers online. Our strategy as a technology-enabled insurance agency is to provide comparison shopping and related services for businesses, offering customers choice, convenience and ease of use.

### Allstate Protection pricing and risk management strategies

Our pricing and underwriting strategies and decisions are designed to generate sustainable profitable growth.

A proprietary database of underwriting and loss experience enables sophisticated pricing algorithms and methodologies to more accurately price risks while also seeking to attract and retain customers in multiple risk segments.

- For auto insurance, risk evaluation factors can include, but are not limited to, vehicle make, model and year; driver age and marital status; territory; years licensed; loss history; years insured with prior carrier; prior liability limits; prior lapse in coverage; and insurance scoring utilizing telematics data and other consumer information.
- For property insurance, risk evaluation factors can include, but are not limited to, the amount of insurance purchased; geographic location of the property; loss history; age, condition and construction characteristics of the property; and

characteristics of the insured including insurance scoring utilizing other consumer information.

A combination of underwriting information, pricing and discounts are also used to achieve a more competitive position and growth. The pricing strategy involves local marketplace pricing and underwriting decisions based on risk evaluation factors and an evaluation of competitors to the extent permissible by applicable law.

Pricing of property products is intended to establish risk-adjusted returns that are acceptable over a long-term period. Rate increases are pursued to keep pace with loss trends, including losses from catastrophic events and those that are weather-related (such as wind, hail, lightning and freeze not meeting our criteria to be declared a catastrophe). We also take into consideration potential customer disruption, the impact on our ability to market our products, regulatory limitations, our competitive position and profitability.

In any reporting period, loss experience from catastrophic events and weather-related losses may contribute to negative or positive underwriting performance relative to the expectations incorporated into product pricing.

Property catastrophe exposure is managed with the goal of providing shareholders an acceptable return on the risks assumed in the property business and to reduce the variability of earnings. Our property business includes personal homeowners, commercial property and other property insurance lines. Our current catastrophe reinsurance program supports our risk tolerance framework that targets less than a 1% likelihood of annual aggregate catastrophe losses from hurricanes and earthquakes, net of reinsurance, exceeding \$2 billion. The use of different assumptions and updates to industry models, and updates to our risk transfer program could materially change the projected loss. Growth strategies include areas where we believe diversification can be enhanced and an appropriate return can be earned for the risk. As a result, our modeled exposure may increase, but in aggregate remain lower than \$2 billion as noted above. In addition, we have exposure to other severe weather events and wildfires, which impact catastrophe losses.

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

**Products and distribution**

Allstate Protection differentiates itself by offering solutions to meet broad-based household protection needs and a comprehensive range of innovative product options and features across distribution channels that best suit each consumer segment.

| <b>Insurance products</b> |   |
|---------------------------|---|
| Allstate brand            | Auto  |
|                           | Homeowners  |
|                           | Specialty auto (motorcycle, trailer, motor home and off-road vehicle)   |
|                           | Other personal lines (renters, condominium, landlord, boat, umbrella, manufactured home and stand-alone scheduled personal property)              |
|                           | Commercial lines  |
| Esurance brand            | Auto  |
|                           | Homeowners  |
|                           | Motorcycle  |
| Encompass brand           | Renters   |
|                           | Auto  |
|                           | Homeowners  |
| Answer Financial          | Other personal lines (renters, condominium, landlord, boat and umbrella)  |
|                           | Comparison quotes for non-proprietary auto, homeowners and other personal lines (condominium, renters, motorcycle, recreational vehicle and boat) |



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**Innovative product offerings and features**


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**Market-leading solutions**


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|                 |   |   |
|-----------------|---|---|
| Allstate brand  | Your Choice Auto <sup>®</sup>                 | Qualified customers choose from a variety of options, such as Accident Forgiveness, Deductible Rewards <sup>®</sup> , Safe Driving Bonus <sup>®</sup> and New Car Replacement.  |
|                 | Allstate House and Home <sup>®</sup>          | Featured options include Claim RateGuard <sup>®</sup> , Claim-Free Bonus, deductible rewards and flexibility in options and coverages, including graduated roof coverage and pricing based on roof type and age for damage related to wind and hail events.   |
|                 | Claim Satisfaction Guarantee <sup>®</sup>     | Promised return of premium to standard auto insurance customers dissatisfied with their claims experience.  |
|                 | Bundling Benefits                             | Auto customers with a qualifying property policy are provided an auto renewal guarantee and a deductible waiver (when the same event, with the same covered cause of loss, damages both auto and property). Offered in 15 states as of December 31, 2018.   |
|                 | Auto Replacement Protection                   | Replaces a qualifying customer's vehicle involved in a total loss accident with a vehicle of the same or similar make and model that is one year newer. Offered in 15 states as of December 31, 2018.   |
| Encompass brand | EncompassOne Policy <sup>®</sup>              | Packaged insurance product with one premium, one bill, one policy deductible and one renewal date. Broad coverage options include customizable features such as enhanced accident forgiveness, new-car replacement coverage, walk-away home coverage option should the insured decide not to rebuild, flexible additional living expense coverage, water-sewer backup coverage options and roadside assistance. This product is offered in 36 states and the District of Columbia ("D.C.") as of December 31, 2018. |
|                 | Surround Solutions by Encompass <sup>SM</sup> | Offers contemporary auto (6-months), homeowner and specialty lines products, pricing, services and support designed to provide flexibility and be customized based on consumer needs. Offered exclusively in four states for Encompass as of December 31, 2018.   |

**Telematics offerings**


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|                  |                            |   |
|------------------|----------------------------|---|
| Allstate brand   | Drivewise <sup>®</sup>     | Telematics-based insurance program, available in 49 states and the District of Columbia as of December 31, 2018, that uses a mobile application or an in-car device to capture driving behaviors and encourage safe driving. It provides customers with information and tools, incentives and driving challenges. For example, in most states, Allstate Rewards <sup>®</sup> provides reward points for safe driving. |
|                  | Milewise <sup>®</sup>      | Usage-based insurance product, available in 6 states as of December 31, 2018, that gives customers flexibility to customize their insurance and pay based on the number of miles they drive.  |
| Esurance brand   | DriveSense <sup>®</sup>    | Telematics-based insurance program, available in 32 states as of December 31, 2018, that primarily uses a mobile application to capture driving behaviors and reward customers for safe driving.  |
| Encompass brand  | Route Report <sup>SM</sup> | Telematics application, available in 4 states as of December 31, 2018, used to capture driving behaviors and reward customer participation.   |
| Answer Financial | StreetWise <sup>SM</sup>   | Telematics application, available in all 50 states and D.C. as of December 31, 2018, used to capture driving behaviors.   |

**Shared economy solutions**


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|                |   |  |
|----------------|---|--|
| Allstate brand | Transportation Network Company Commercial Auto                  | Commercial coverage for drivers of transportation networking companies during various phases of the ridesharing service.   |
|                | Allstate Ride for Hire <sup>®</sup> /HostAdvantage <sup>®</sup> | Supplemental personal insurance coverage for those using their vehicle to drive for a transportation network company or their house for peer-to-peer property sharing. |

**Distribution channels**


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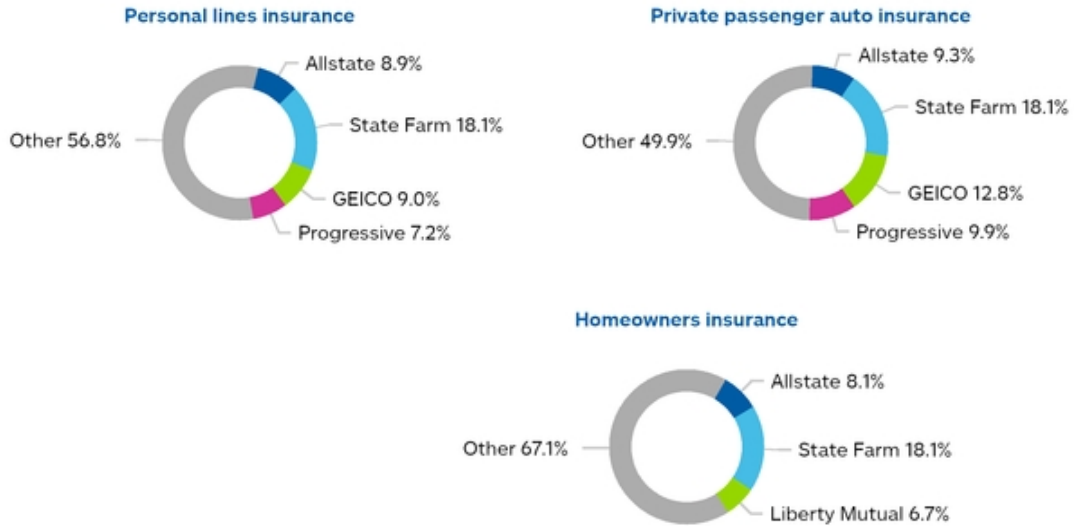
|                  |   |
|------------------|---|
| Allstate brand   | In the U.S., we offer products through 10,700 Allstate exclusive agencies operating in 10,600 locations, supported by 26,900 licensed sales professionals, and 1,100 exclusive financial specialists. We also offer products through 2,700 independent agencies that are primarily in rural areas and through contact centers and online. In Canada, we offer Allstate brand products through 900 employee producers. |
| Esurance brand   | Sold to customers online and through contact centers.   |
| Encompass brand  | Distributed through 2,600 independent agencies.   |
| Answer Financial | Comparison quotes offered to customers online or through contact centers.   |

Allstate exclusive agencies also support the Service Businesses, Allstate Life and Allstate Benefits segments through offering roadside assistance and protection plans, life insurance and voluntary benefits products.

When an Allstate product is not available, we may offer non-proprietary products to consumers through arrangements made with other companies, agencies, and brokers. As of December 31, 2018, Allstate agencies had approximately \$1.6 billion of non-proprietary personal insurance premiums under management, primarily related to property business in hurricane exposed areas, and approximately \$220 million of non-proprietary commercial insurance premiums under management. Additionally, we offer a homeowners product through our subsidiary North Light Specialty Insurance Company in certain areas with higher risk of catastrophes or where customers do not meet the Allstate brand standard underwriting profile.

**Competition**

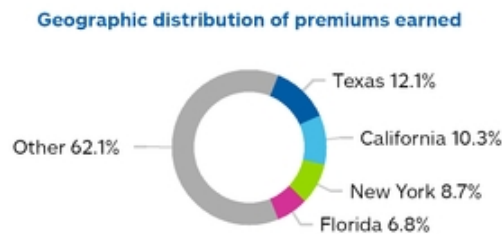
The personal lines insurance markets, including private passenger auto and homeowners insurance, are highly competitive. The following charts provide Allstate Protection’s combined market share compared to our principal competitors in the U.S. using statutory direct written premium for the year ended December 31, 2017, according to A.M. Best.



Esurance is among the top 25 largest providers of personal property and casualty insurance products in the U.S., and Encompass is among the top 20 largest providers of personal property and casualty insurance products through independent agencies in the U.S., based on statutory direct written premium according to A.M. Best for 2017.

**Geographic markets**

Our principal geographic markets are in the U.S. Through various subsidiaries, we are authorized to sell a variety of personal property and casualty products in all 50 states, D.C., Puerto Rico and Canada. The top U.S. geographic markets are reflected below based on 2018 information contained in statements filed with the state insurance departments.



## Service Businesses Segment

Our Service Businesses segment accounted for 3.3% of Allstate's 2018 consolidated total revenue and 65.1% of Allstate's December 31, 2018 PIF. Service Businesses include SquareTrade, Arity, InfoArmor, Allstate Roadside Services and Allstate Dealer Services, which offer a broad range of products and services that expand and enhance customer value propositions. Starting in the fourth quarter of 2018, the Service Businesses segment includes the results of InfoArmor, a leading provider of identity protection to more than 1 million employees and their family members at over 1,400 firms, which was acquired on October 5, 2018.

**Strategy** - To deliver superior value propositions and build strategic platforms to connect and engage with customers and effectively address their changing needs and preferences.

|                             |   |
|-----------------------------|---|
| SquareTrade®                | Expand distribution of consumer protection plan and technical support products through new and existing retail and mobile operator accounts while increasing profitability and returns.   |
| Arity®                      | Build a strategic platform leveraging our analytics and deep understanding of driver risk. The platform will be used by those industries effected most by the changing face of transportation, including insurance companies, shared mobility companies and the automotive ecosystem. |
| InfoArmor®                  | Create a leading position in the identity protection market, offering full identity protection monitoring with proactive alerts, digital exposure reporting, identity theft reimbursement and excellent customer service.   |
| Allstate Roadside Services® | Digitize the roadside assistance business and enhance capabilities to deliver a superior customer experience while lowering costs in the customer assistance centers and optimizing the rescue network.   |
| Allstate Dealer Services®   | Expand distribution of Allstate branded finance and insurance products and services to auto dealerships, while pursuing additional distribution through strategic partnerships.   |

## Products and distribution

### Products and services

|                            |  |
|----------------------------|--|
| SquareTrade                | Provides consumer protection plans and related technical support for mobile phones, consumer electronics and appliances which provide customers protection from mechanical or electrical failure, and in certain cases, accidental damage from handling.   |
| Arity                      | The Arity platform provides data and analytics solutions using automotive telematics information. Customers receive value from our solutions either by using web based software tools, white labeled mobile applications or through embedding our technology in their mobile applications.   |
| InfoArmor                  | Provides identity protection services including monitoring, alerts, remediation and a proprietary indicator of identity health.  |
| Allstate Roadside Services | A leading roadside assistance provider in North America offering towing, jump-start, lockout, fuel delivery and tire change services to retail customers and customers of our wholesale partners. Good Hands Rescue® is a pay-per-use mobile application service that connects users to a select countrywide network of third-party providers and a proprietary crowdsourced network to assist with emergencies. |
| Allstate Dealer Services   | Offers finance and insurance products, including vehicle service contracts, guaranteed asset protection waivers, road hazard tire and wheel protection, and paintless dent repair protection.  |

### Distribution channels

|                            |   |
|----------------------------|---|
| SquareTrade                | Major retailers in the U.S. and mobile operators in Europe.   |
| Arity                      | Sells directly to affiliate and non-affiliate customers and through strategic industry specific partners.   |
| InfoArmor                  | Workplace benefit programs provided to employees with a strategic focus to leverage relationships with our Allstate Benefits segment and expand into other distribution channels. |
| Allstate Roadside Services | Allstate exclusive agencies, wholesale partners, affinity groups and a mobile application.  |
| Allstate Dealer Services   | Independent agencies and brokers through auto dealerships in the U.S. to customers in conjunction with the purchase of a new or used vehicle.                                     |

## Geographic markets

The Service Businesses primarily operate in the U.S., with certain businesses offering services in Europe, Canada and Puerto Rico.

## Competition

We compete on a variety of factors, including product offerings, brand recognition, financial strength, price, distribution and the customer experience. The market for these services is highly fragmented and competitive.

## Allstate Life Segment

### Strategy

Our Allstate Life segment accounted for 4.8% of Allstate's 2018 consolidated total revenue and 1.8% of Allstate's December 31, 2018 PIF. Our overall strategy is to broaden Allstate's customer relationships and value proposition. The Allstate Life segment's product offerings are a part of the Allstate brand trusted advisor strategy. We also distribute non-proprietary retirement products offered by third-party providers. Our target customers are those who prefer local personalized advice and service and are brand-sensitive.

Our product positioning provides solutions to help meet customer needs during various phases of life. Term and whole life insurance products offer basic life protection solutions while universal life and financial planning solutions cover more advanced needs. Many Allstate exclusive agencies partner with exclusive financial specialists to deliver life and retirement solutions. These specialists have expertise with advanced life and retirement cases and other more complex customer needs. Successful partnerships assist agencies with building stronger and deeper customer relationships. Sales producer education and technology improvements are being made to ensure agencies have the tools and information needed to help customers meet their needs and build personal relationships as trusted advisors.

The operating model is being modernized through investments in data and analytics and technology capabilities, tailoring distribution support, product innovation and enhancing the underwriting process.

### Products and distribution

#### Insurance products

|            |                         |
|------------|-------------------------|
| Term life  | Interest-sensitive life |
| Whole life | Variable life           |

#### Distribution channel

Allstate exclusive agencies and exclusive financial specialists.

Allstate exclusive agencies and exclusive financial specialists also sell certain non-proprietary products, including mutual funds, fixed and variable annuities, disability insurance, and long-term care insurance to provide a broad suite of protection and retirement products. As of December 31, 2018, Allstate agencies had approximately \$14.1 billion of non-proprietary mutual funds and fixed and variable annuity account balances under management. New and additional deposits into these non-proprietary products were \$2.2 billion in 2018.

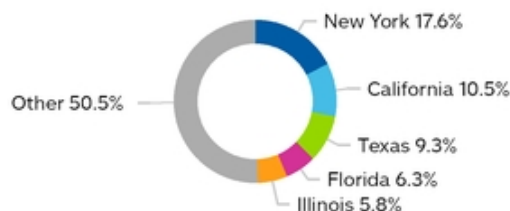
### Competition

We compete on a variety of factors, including product offerings, brand recognition, financial strength and ratings, price, distribution and the level of customer service. The market for life insurance continues to be highly fragmented and competitive. As of December 31, 2017, there were approximately 360 groups of life insurance companies in the United States.

### Geographic markets

Through subsidiaries, we are authorized to sell various types of life insurance products in all 50 states, D.C. and Puerto Rico. Our top geographic markets are reflected below.

Geographic distribution of statutory direct premiums



## Allstate Benefits Segment

### Strategy

Our Allstate Benefits segment accounted for 3.0% of Allstate's 2018 consolidated total revenue and 3.7% of Allstate's December 31, 2018 PIF. The Allstate Benefits segment provides consumers with financial protection against the risk of accidents, illness and mortality. We are an industry leader in the rapidly growing voluntary benefits market, offering a broad range of products through workplace enrollment. The voluntary market continues to grow as voluntary benefits products have become a core component of employer benefit offerings. Our life insurance portfolio includes individual and group term life and permanent life solutions.

Our products are offered through a network of independent agents and Allstate exclusive agencies. A broad product portfolio, flexible enrollment solutions and technology (including significant presence on employer benefit administration systems), our strong national accounts team, and a well-recognized brand differentiates Allstate Benefits.

Our strategy for growth is to become the industry leader in the voluntary benefits market by delivering substantially more value through innovative products and technology, tailored solutions and exceptional service. Initiatives are focused on expanding into non-traditional products and becoming an integrated digital enterprise through investments in future-state technologies and data and analytics capabilities.

### Products and distribution

Our target customers are middle market consumers with family financial protection needs employed by small, medium and large sized firms. Allstate Benefits is well represented in all market segments and is a leader in the large and mega (over 10,000 employees) market segments.

#### Voluntary benefits products

|                  |                       |
|------------------|-----------------------|
| Life             | Short-term disability |
| Accident         | Other health          |
| Critical illness |                       |

#### Distribution channels

Primary distribution continues to be through 6,200 workplace enrolling independent agents.

Allstate exclusive agencies, focusing on small employers, also distribute products.

### Competition

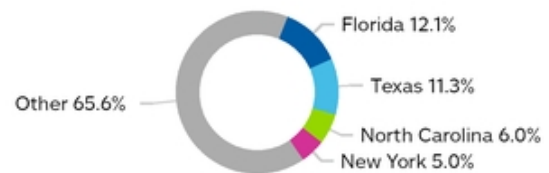
We compete on a wide variety of factors, including product offerings, brand recognition, financial strength and ratings, price, distribution and customer service.

The market for voluntary benefits is growing as these products help employees fill the increasing gaps associated with continued medical cost inflation and the shifting of costs from employers to employees to cover co-pays and deductibles. Favorable industry and economic trends have increased competitive pressure and attracted new traditional and non-traditional entrants to the voluntary benefits market. Recent entrants, including large group medical, life and disability insurance carriers, are leveraging core benefit capabilities by bundling and discounting to capture voluntary market share.

### Geographic markets

We are authorized to sell voluntary benefits products in all 50 states, D.C., Puerto Rico, the U.S. Virgin Islands, Guam and Canada. The top geographic markets are reflected below.

Geographic distribution of statutory direct premiums



## Allstate Annuities Segment

### Strategy

Our Allstate Annuities segment accounted for 2.4% of Allstate's 2018 consolidated total revenue and 0.2% of Allstate's December 31, 2018 PIF. The Allstate Annuities segment consists primarily of deferred fixed annuities and immediate fixed annuities (including standard and sub-standard structured settlements). The segment is in run-off and is focused on increasing lifetime economic value. Both the deferred and immediate annuity businesses have been adversely impacted by the historically low interest rate environment. Our immediate annuity business has also been impacted by medical advancements that have resulted in annuitants living longer than anticipated when many of these contracts were originated.

Allstate Annuities focuses on the distinct risk and return profiles of the specific products when developing investment and liability management strategies. The level of legacy deferred annuities in force has been significantly reduced and the investment portfolio and crediting rates are proactively managed to improve profitability of the business while providing appropriate levels of liquidity.

The investment portfolio supporting our immediate annuities is managed to ensure the assets match the characteristics of the liabilities and provide the long-term returns needed to support this business. To better match the long-term nature of our immediate annuities, we use performance-based investments in which we have ownership interests and a greater proportion of return is derived from idiosyncratic asset or operating performance.

We continue to review strategic options to reduce exposure and improve returns of the business. As a result, we may take additional operational and financial actions that offer return improvement and risk reduction opportunities.

### Products and distribution

We previously offered and continue to have in force deferred fixed annuities and immediate fixed annuities (including standard and sub-standard structured settlements). We exited the continuing sale of annuities over an eight year period from 2006 to 2014, reflecting our expectations of declining returns. In 2006, we disposed of substantially all of the variable annuity business through reinsurance agreements. For discussion of non-proprietary retirement and investment products sold through our Allstate exclusive agencies and exclusive financial specialists, see Part I, Item 1. Allstate Life Segment of this report.

## Other Business Segments

### Discontinued Lines and Coverages Segment

The Discontinued Lines and Coverages segment includes results from property and casualty insurance coverage that primarily relates to policies written during the 1960s through the mid-1980s.

**Strategy** Management of this segment has been assigned to a designated group of professionals with expertise in claims handling, policy coverage interpretation, exposure identification, litigation and reinsurance collection. As part of its responsibilities, this group may at times be engaged in policy buybacks, settlements and reinsurance assumed and ceded commutations.

Development in the reserves established for asbestos, environmental and other discontinued lines losses in the future may continue. Reserve changes can be caused by new information relating to new and additional claims or the impact of resolving unsettled claims based on unanticipated events such as arbitrations, litigation, legislative, judicial or regulatory actions. Environmental losses may also increase as the result of additional funding for environmental site clean-up.

Challenges related to the concentration of insurance and reinsurance claims from companies who specialize in this business continue to be addressed.

### Corporate and Other Segment

Our Corporate and Other segment is comprised of holding company activities and certain non-insurance operations.

## Regulation

Allstate is subject to extensive regulation, primarily at the state level. The method, extent and substance of such regulation vary by state but generally have their source in statutes that establish standards and requirements for conducting the business of insurance and that also delegate regulatory authority to a state agency. These rules have a substantial effect on our business and relate to a wide variety of matters, including insurer solvency and statutory surplus sufficiency, reserve adequacy, insurance company licensing and examination, agent and adjuster licensing, policy forms, rate setting, the nature and amount of investments, claims practices, participation in shared markets and guaranty funds, transactions with affiliates, the payment of dividends, underwriting standards, statutory accounting methods, trade practices, privacy regulation and data security, corporate governance and risk management. In addition, state legislators and insurance regulators continue to examine the appropriate nature and scope of state insurance regulation. For a discussion of statutory financial information, see Note 16 of the consolidated financial statements. For a discussion of regulatory contingencies, see Note 14 of the consolidated financial statements. Notes 14 and 16 are incorporated in this Part I, Item 1 by reference.

As part of an effort to strengthen the regulation of the financial services market, the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank") was enacted in 2010. Dodd-Frank created the Federal Insurance Office ("FIO") within the U.S. Department of the Treasury ("Treasury"). The FIO monitors the insurance industry, provides advice to the Financial Stability Oversight Council ("FSOC"), represents the U.S. on international insurance matters, and studies the current regulatory system.

Additional regulations or new requirements may emerge from the activities of various regulatory entities, including the Federal Reserve Board, FIO, FSOC, the National Association of Insurance Commissioners ("NAIC"), and the International Association of Insurance Supervisors ("IAIS"), that are evaluating solvency and capital standards for insurance company groups. In addition, the NAIC has adopted amendments to its model holding company law that have been adopted by some jurisdictions. The outcome of these actions is uncertain; however, these actions may result in an increase in the level of capital and liquidity required by insurance holding companies.

We cannot predict whether any specific state or federal measures will be adopted to change the nature or scope of the regulation of insurance or what effect any such measures would have on Allstate. We are working for changes in the regulatory environment to make insurance more available and affordable for customers, encourage market innovation, improve driving safety, strengthen cybersecurity, and promote better catastrophe preparedness and loss mitigation.

**Agent and Broker Compensation.** In recent years, several states considered new legislation or regulations regarding the compensation of agents and

brokers by insurance companies. The proposals ranged in nature from new disclosure requirements to new duties on insurance agents and brokers in dealing with customers.

**Limitations on Dividends by Insurance Subsidiaries.** As a holding company with no significant business operations of its own, The Allstate Corporation relies on dividends from Allstate Insurance Company as one of the principal sources of cash to pay dividends and to meet its obligations, including the payment of principal and interest on debt or to fund non-insurance-related businesses. Allstate Insurance Company is regulated as an insurance company in Illinois, and its ability to pay dividends is restricted by Illinois law. For additional information regarding those restrictions, see Part II, Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations of this report. The laws of the other jurisdictions that generally govern our other insurance subsidiaries contain similar limitations on the payment of dividends. However, such laws in some jurisdictions may be more restrictive.

**Insurance Holding Company Regulation – Change of Control.** The Allstate Corporation and Allstate Insurance Company are insurance holding companies subject to regulation in the jurisdictions in which their insurance subsidiaries do business. In the U.S., these subsidiaries are organized under the insurance codes of Florida, Illinois, Massachusetts, New Jersey, New York, Texas, and Wisconsin. Additionally, some of these subsidiaries are considered commercially domiciled in California and Florida.

Generally, the insurance codes in these states provide that the acquisition or change of "control" of a domestic or commercially domiciled insurer or of any person that controls such an insurer cannot be consummated without the prior approval of the relevant insurance regulator. In general, a presumption of "control" arises from the ownership, control, possession with the power to vote, or possession of proxies with respect to ten percent or more of the voting securities of an insurer or of a person who controls an insurer. In addition, certain state insurance laws require pre-acquisition notification to state agencies of a change in control with respect to a non-domestic insurance company licensed to do business in that state. While such pre-acquisition notification statutes do not authorize the state agency to disapprove the change of control, such statutes do authorize certain remedies, including the issuance of a cease-and-desist order with respect to the non-domestic insurer if certain conditions exist, such as undue market concentration.

Thus, any transaction involving the acquisition of ten percent or more of The Allstate Corporation's common stock would generally require prior approval by the state insurance departments in California, Florida, Illinois, Massachusetts, New Jersey, New York, Texas and Wisconsin. Moreover, notification would be required in those other states that have adopted pre-acquisition notification provisions and where the

insurance subsidiaries are admitted to transact business. Such approval requirements may deter, delay or prevent certain transactions affecting the ownership of The Allstate Corporation's common stock.

**Rate Regulation.** Nearly all states have insurance laws requiring personal property and casualty insurers to file rating plans, policy or coverage forms, and other information with the state's regulatory authority. In many cases, such rating plans, policy forms, or both must be approved prior to use.

The speed with which an insurer can change rates in response to competition or increasing costs depends, in part, on whether the rating laws are (i) prior approval, (ii) file-and-use or (iii) use-and-file laws. In states having prior approval laws, the regulator must approve a rate before the insurer may use it. In states having file-and-use laws, the insurer does not have to wait for the regulator's approval to use a rate, but the rate must be filed with the regulatory authority prior to being used. A use-and-file law requires an insurer to file rates within a certain period of time after the insurer begins using them. Eighteen states, including California and New York, have prior approval laws. Under all three types of rating laws, the regulator has the authority to disapprove a rate filing.

An insurer's ability to adjust its rates in response to competition or to changing costs is dependent on an insurer's ability to demonstrate to the regulator that its rates or proposed rating plan meets the requirements of the rating laws. In those states that significantly restrict an insurer's discretion in selecting the business that it wants to underwrite, an insurer can manage its risk of loss by charging a rate that reflects the cost and expense of providing the insurance. In those states that significantly restrict an insurer's ability to charge a rate that reflects the cost and expense of providing the insurance, the insurer can manage its risk of loss by being more selective in the type of business it underwrites. When a state significantly restricts both underwriting and pricing, it becomes more difficult for an insurer to maintain its profitability.

From time to time, the personal lines insurance industry comes under pressure from state regulators, legislators, and special-interest groups to reduce, freeze, or set rates at levels that do not correspond with our analysis of underlying costs, catastrophe loss exposure, and expenses. We expect this kind of pressure to persist. Allstate and other insurers are using increasingly sophisticated pricing models and rating plans that are reviewed by regulators and special-interest groups. State regulators may interpret existing law or rely on future legislation or regulations to impose new restrictions that adversely affect profitability or growth. We cannot predict the impact on our business of possible future legislative and regulatory measures regarding insurance rates.

**Involuntary Markets.** As a condition of maintaining our licenses to write personal property and casualty insurance in various states, we are required to participate in assigned risk plans, reinsurance facilities, and joint underwriting associations that provide various types of 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 our results of operations.

For a discussion of these items see Note 14 of the consolidated financial statements. Note 14 is incorporated in this Part I, Item 1 by reference.

**Indemnification Programs.** We are a participant in state-based industry pools, facilities or associations, mandating participation by insurers offering certain coverage in their state, including the Michigan Catastrophic Claims Association, the New Jersey Property-Liability Insurance Guaranty Association, the North Carolina Reinsurance Facility and the Florida Hurricane Catastrophe Fund. We also participate in the Federal Government National Flood Insurance Program.

For a discussion of these items see Note 10 of the consolidated financial statements. Note 10 is incorporated in this Part I, Item 1 by reference.

**Guaranty Funds.** Under state insurance guaranty fund laws, insurers doing business in a state can be assessed, up to prescribed limits, in order to cover certain obligations of insolvent insurance companies. We do not anticipate any material adverse financial impact on Allstate from these assessments.

**Investment Regulation.** Our insurance subsidiaries are subject to regulations that require investment portfolio diversification and that limit the amount of investment in certain categories. Failure to comply with these rules leads to the treatment of non-conforming investments as non-admitted assets for purposes of measuring statutory surplus. Further, in some instances, these rules require divestiture of non-conforming investments.

**Exiting Geographic Markets; Canceling and Non-Renewing Policies.** Most states regulate an insurer's ability to exit a market. For example, states may limit, to varying degrees, an insurer's ability to cancel and non-renew policies. Some states restrict or prohibit an insurer from withdrawing one or more types of insurance business from the state, except pursuant to a plan that is approved by the state insurance department. Regulations that limit cancellation and non-renewal and that subject withdrawal plans to prior approval requirements may restrict an insurer's ability to exit unprofitable markets.

**Variable Life Insurance and Registered Fixed Annuities.** The sale and administration of variable life insurance and registered fixed annuities with market value adjustment features are subject to extensive regulatory oversight at the federal and state level, including regulation and supervision by the Securities and Exchange Commission ("SEC") and the Financial Industry Regulatory Authority ("FINRA").

**Broker-Dealers, Investment Advisors and Investment Companies.** The Allstate entities that operate as broker-dealers, registered investment advisors, and investment companies are subject to



regulation and supervision by the SEC, FINRA and/or, in some cases, state securities administrators. Certain state and federal regulators, such as the SEC, are considering implementation of best interest standards. Such proposals, if effective, could impact products provided by Allstate agencies and Allstate's broker-dealers, their sales processes, volumes, and producer compensation arrangements.

**Dodd-Frank: Covered Agreement.** The Secretary of the Treasury (operating through FIO) and the Office of the U.S. Trade Representative ("USTR") are jointly authorized, pursuant to the Dodd-Frank, to negotiate Covered Agreements. A Covered Agreement is a bilateral or multilateral agreement that "relates to the recognition of prudential measures with respect to the business of insurance or reinsurance that achieves a level of protection for insurance or reinsurance consumers that is substantially equivalent to the level of protection achieved under State insurance or reinsurance regulation."

On September 22, 2017, the U.S. and European Union ("EU") signed a Covered Agreement. In addition to signing the Covered Agreement, Treasury and the USTR jointly issued a policy statement clarifying how the U.S. views implementation of certain provisions of the Covered Agreement. The policy statement affirms the U.S. system of insurance regulation, including the role of state insurance regulators as the primary supervisors of the business of insurance and addresses several other key provisions of the Covered Agreement for which constituents sought clarity, including prospective application to reinsurance agreements and an affirmation that the Covered Agreement does not require development of a group capital standard or group capital requirement in the U.S.

The U.S. has five years from the date of signing to amend its credit for reinsurance laws and regulations to conform with the requirements of the Covered Agreement or face federal preemption determinations by the FIO. To address the requirements of the Covered Agreement, the NAIC has formally adopted plans to revise the existing credit for reinsurance model law and model regulation to conform with the requirements of the Covered Agreement with the expectation that states will adopt and implement the modified model law and regulation. In addition, the NAIC plans to adopt reinsurance collateral requirements for reinsurers domiciled in NAIC qualified jurisdictions, other than those in the EU, consistent with those in the Covered Agreement provided the qualified jurisdictions also comply with the group capital mutual recognition and information sharing provisions of the Covered Agreement.

On December 18, 2018, the U.S. and the United Kingdom ("UK") signed a separate Covered Agreement consistent with the U.S.-EU Covered Agreement to coordinate regulation of the insurance industry doing business in the U.S. and UK in the event the UK leaves the EU in March 2019. Consistent with steps taken when the U.S. signed the U.S.-EU Covered Agreement in 2017, Treasury and the USTR also issued a policy statement regarding implementation of the U.S.-UK Covered Agreement affirming the role that state

insurance regulators play as the primary supervisors of the insurance industry. The signing begins a review period in the UK that lasts for 21 legislative days. The Covered Agreement has also been submitted to Congress on December 11, 2018 for a period of 90 calendar days after which the U.S.-UK Covered Agreement may become effective without further congressional approval.

**Division Statute.** On November 27, 2018, the Illinois General Assembly passed legislation authorizing a statute that makes available a process by which a domestic insurance company may divide into two or more domestic insurance companies. The statute could be used to isolate an existing block of life, health, annuity or property-casualty business for sale to a third party or to manage risks associated with indemnification programs. The statute could also be used to divide continuing blocks of insurance business from insurance business that is no longer marketed, or otherwise has been discontinued, into separate companies with separate capital. Before a plan of division can be effected, it must be approved according to the organizational documents of the dividing insurer and submitted for approval by the Illinois Department of Insurance. The bill was effective January 1, 2019. The Illinois Department of Insurance will likely promulgate rules and the rule-making process will take several months once filed.

**Privacy Regulation and Data Security.** Federal law and the laws of many states require financial institutions to protect the security and confidentiality of customer information and to notify customers about their policies and practices relating to collection and disclosure of customer information and their policies relating to protecting the security and confidentiality of that information. Federal law and the laws of many states also regulate disclosures and disposal of customer information. Congress, state legislatures, and regulatory authorities are expected to consider additional regulation relating to privacy and other aspects of customer information.

**Asbestos.** Congress has repeatedly considered legislation to address asbestos claims and litigation in the past. In February 2017, legislation was introduced in the House titled the Furthering Asbestos Claims Transparency Act of 2017 (the "FACT Act"). The FACT Act requires transparency of asbestos trust funds that are formed under a reorganization plan following the discharge in bankruptcy of a debtor corporation, quarterly reports on claims made to the trusts, and the release of information sought by defendants in asbestos lawsuits. The House Judiciary Committee approved the FACT Act, but a full House vote has not occurred. In 2017, the House introduced an additional bill called the Fairness in Class Action Litigation Act of 2017. This legislation passed the House and is with the Senate Judiciary Committee. We cannot predict the impact on our business of possible future legislative measures regarding asbestos.

**Environmental.** Environmental pollution and clean-up of polluted waste sites is the subject of federal and state regulation. The Comprehensive Environmental Response Compensation and Liability

Act of 1980 (the “Superfund”) and comparable state statutes (the “mini-Superfunds”) govern the clean-up and restoration of waste sites by Potentially Responsible Parties (“PRPs”). The Superfund and the mini-Superfunds (collectively, the “Environmental Clean-up Laws” or “ECLs”) establish a mechanism to assign liability to PRPs or to fund the clean-up of waste sites if PRPs fail to do so. The extent of liability to be allocated to a PRP depends on a variety of factors. The insurance industry is involved in extensive litigation regarding coverage issues arising out of the clean-up of waste sites by insured PRPs and the insured parties’ alleged liability to third parties responsible for the clean-up. The insurance industry, including Allstate, has disputed and is disputing many such claims. Key coverage issues include whether the Superfund response, investigation, and clean-up costs are considered damages under the policies; whether coverage has been triggered; whether any pollution exclusion applies; whether there has been proper notice of claims; whether administrative liability triggers the duty to defend; whether there is an appropriate allocation of liability among triggered insurers; and whether the liability in question falls within the definition of an “occurrence.” Identical coverage issues exist for clean-up and waste sites not covered under the Superfund. To date, courts have been inconsistent in their rulings on these issues.

Allstate’s exposure to liability with regard to its insureds that have been, or may be, named as PRPs is uncertain. While comprehensive Superfund reform proposals have been introduced in Congress, only modest reform measures have been enacted. In May 2017, the Environmental Protection Agency created a Superfund Task Force that issued proposed reforms in a July 2018 report. These recommendations address expediting clean-up and remediation processes, reducing the financial burden of the clean-up process, encouraging private investment, promoting redevelopment and community revitalization, and building and strengthening partnerships. We cannot predict which, if any, of these reforms will be enacted.

## Website

Our website is [allstate.com](http://allstate.com). The Allstate Corporation’s annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to such reports that we file or furnish pursuant to Section 13(a) of the Securities Exchange Act of 1934 are available on the Investor Relations section of our website ([www.allstateinvestors.com](http://www.allstateinvestors.com)), free of charge, as soon as reasonably practicable after they are electronically filed or furnished to the SEC. In addition, our Corporate Governance Guidelines, our Global Code of Business Conduct, and the charters of our Audit Committee, Compensation and Succession Committee, Executive Committee, Nominating and Governance Committee, and Risk and Return Committee are available on the Investor Relations section of our website and in print to any stockholder who requests copies by contacting Investor Relations, The Allstate Corporation, 2775 Sanders Road, Northbrook, Illinois 60062-6127, 1-847-402-2800. The information found on our website is not incorporated by reference into this Annual Report on Form 10-K or in any other report or document filed with the SEC.

## Other Information About Allstate

- As of December 31, 2018, Allstate had approximately 45,140 full-time employees and 560 part-time employees.
- Allstate’s seven reportable segments use shared services, including human resources, investment, finance, information technology and legal services, provided by Allstate Insurance Company and other affiliates.
- Although the insurance business generally is not seasonal, claims and claims expense for the Allstate Protection segment tend to be higher for periods of severe or inclement weather.
- “Allstate” is a very well-recognized brand name in the United States. We use the “Allstate,” “Esurance,” “Encompass” and “Answer Financial” brands extensively in our business. We also provide additional protection products and services through “SquareTrade,” “Arity,” “InfoArmor,” “Allstate Roadside Services,” “Allstate Dealer Services” and “Allstate Benefits”. These brands, products and services are supported with the related service marks, logos, and slogans. Our rights in the United States to these names, service marks, logos and slogans continue as long as we continue to use them in commerce. Many service marks used by Allstate are the subject of renewable U.S. and/or foreign service mark registrations. We believe that these service marks are important to our business and we intend to maintain our rights to them.

## Executive Officers of the Registrant

The following table sets forth the names of our executive officers, their ages as of February 1, 2019, their positions, business experience, and the years of their first election as officers. "AIC" refers to Allstate Insurance Company. Each of the officers named below may be removed from office at any time, with or without cause, by the board of directors of the relevant company.

| Name               | Age | Position with Allstate and Business Experience   | Year First Elected Officer |
|--------------------|-----|--|----------------------------|
| Thomas J. Wilson   | 61  | Chair of the Board (May 2008 to present), President (June 2005 to January 2015 and February 2018 to present), and Chief Executive Officer (January 2007 to present) of The Allstate Corporation and AIC.   | 1995                       |
| Elizabeth A. Brady | 54  | Executive Vice President and Chief Marketing, Innovation and Corporate Relations Officer of AIC (August 2018 to present); Senior Vice President, Global Brand Management, at Kohler Co. (November 2013 to July 2018).  | 2018                       |
| Don Civgin         | 57  | President, Service Businesses of AIC (January 2018 to present); President, Emerging Businesses of AIC (February 2015 to January 2018); President and Chief Executive Officer, Allstate Financial of AIC (March 2012 to February 2015).   | 2008                       |
| John E. Dugenske   | 52  | Executive Vice President and Chief Investment and Corporate Strategy Officer of AIC (January 2018 to present); Executive Vice President and Chief Investment Officer of AIC (March 2017 to January 2018); Group Managing Director and Global Head of Fixed Income at UBS Global Asset Management (December 2008 to February 2017).   | 2017                       |
| Eric K. Ferren     | 45  | Senior Vice President, Controller, and Chief Accounting Officer of The Allstate Corporation (May 2017 to present) and of AIC (December 2017 to present); Senior Vice President of External Reporting and Corporate Accounting of AIC (April 2014 to December 2017); Chief Financial Officer of HSBC Bank USA, N.A. (January 2014 to April 2014); Chief Accounting Officer of HSBC North America Holdings Inc. (July 2010 to April 2014). | 2014                       |
| Mary Jane Fortin   | 54  | President, Allstate Financial Businesses of AIC (February 2017 to present); President, Allstate Life and Retirement of AIC (October 2015 to February 2017); Executive Vice President and Chief Financial Officer, Global Consumer Insurance of AIG (April 2012 to September 2015).   | 2015                       |
| Suren Gupta        | 57  | Executive Vice President, Enterprise Technology and Strategic Ventures of AIC (February 2015 to present); Executive Vice President, Allstate Technology and Operations of AIC (April 2011 to February 2015).   | 2011                       |
| Susan L. Lees      | 61  | Executive Vice President, General Counsel, and Secretary of The Allstate Corporation (May 2013 to present) and of AIC (June 2013 to present); Executive Vice President and General Counsel of The Allstate Corporation (June 2012 to May 2013) and of AIC (June 2012 to June 2013).  | 2008                       |
| Jesse E. Merten    | 44  | Executive Vice President and Chief Risk Officer of AIC (December 2017 to present) and Treasurer of The Allstate Corporation (January 2015 to present) and of AIC (February 2015 to present); Senior Vice President and Chief Financial Officer, Allstate Financial of AIC (January 2012 to February 2015).   | 2012                       |
| Mario Rizzo        | 52  | Executive Vice President and Chief Financial Officer of The Allstate Corporation and AIC (January 2018 to present); Senior Vice President and Chief Financial Officer, Allstate Personal Lines of AIC (February 2015 to January 2018); Senior Vice President and Treasurer of The Allstate Corporation (November 2010 to January 2015) and of AIC (November 2010 to February 2015).  | 2010                       |
| Glenn T. Shapiro   | 53  | President, Allstate Personal Lines of AIC (January 2018 to present); Executive Vice President, Claims of AIC (April 2016 to January 2018); Executive Vice President and Chief Claims Officer of Liberty Mutual Commercial Insurance (May 2011 to March 2016).  | 2016                       |
| Steven E. Shebik   | 62  | Vice Chair of The Allstate Corporation and AIC (January 2018 to present); Executive Vice President and Chief Financial Officer of The Allstate Corporation (February 2012 to January 2018) and of AIC (March 2012 to January 2018).  | 1999                       |

## Forward-Looking Statements

This report contains "forward-looking statements" that anticipate results based on our estimates, assumptions and plans that are subject to uncertainty. These statements are made subject to the safe-harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements do not relate strictly to historical or current facts and may be identified by their use of words like "plans," "seeks," "expects," "will," "should," "anticipates," "estimates," "intends," "believes," "likely," "targets" and other words with similar meanings. These statements may address, among other things, our strategy for growth, catastrophe exposure management, product development, investment results, regulatory approvals, market position, expenses, financial results, litigation and reserves. We believe that these statements are based on reasonable estimates, assumptions and plans. Forward-looking statements speak only as of the date on which they are made, and we assume no obligation to update any forward-looking statements as a result of new information or future events or developments. In addition, forward-looking statements are subject to certain risks or uncertainties that could cause actual results to differ materially from those communicated in these forward-looking statements. These risks and uncertainties include, but are not limited to, those described in Part 1, "Item 1A. Risk Factors" and elsewhere in this report and those described from time to time in our other reports filed with the Securities and Exchange Commission.

## Item 1A. Risk Factors

In addition to the normal risks of business, significant risks and uncertainties, including those listed below, apply to us as an insurer, investor and provider of other products and financial services. Risks have been categorized as follows:

- *Insurance Industry*
- *Financial*
- *Investment*
- *Operational*
- *Regulatory and Legal*
- *Strategic*

These cautionary statements should be considered carefully together with other factors discussed elsewhere in this document, in filings with the Securities and Exchange Commission ("SEC") or in materials incorporated therein by reference.

### Insurance Industry Risks

#### *Catastrophes and severe weather events may subject property and casualty businesses to significant losses*

Our property and casualty business may be exposed to catastrophic events caused by various events, some of which may be exacerbated by climate change, such as wildfires, tornadoes, tsunamis, hurricanes, tropical storms, earthquakes, volcanic eruptions, solar flares, terrorism or industrial accidents which could cause operating results to vary significantly from one period to the next, despite our catastrophe management programs. Our auto and property insurance business may incur catastrophe losses in excess of: (1) those experienced in prior years, (2) the average expected level used in pricing, (3) current reinsurance coverage limits or (4) loss estimates from external hurricane and earthquake models at various levels of probability. For example, historical catastrophe experience includes losses relating to named storm Sandy in 2012 totaling \$1.2 billion, Hurricane Katrina in 2005 totaling \$3.6 billion and the Northridge earthquake of 1994 totaling \$2.1 billion. We are also exposed to assessments from the California Earthquake Authority, Texas Windstorm Insurance Association, various state-created insurance facilities, and to losses that could surpass the capitalization of these facilities. Settlement of catastrophes have historically been financed from operating cash flows, including very large catastrophes that had complicated issues resulting in settlement delays, however, our liquidity could be constrained by a catastrophe, or multiple catastrophes, which could result in extraordinary losses or a downgrade of our debt or financial strength ratings.

Property and casualty businesses are subject to claims arising from weather events such as winter storms, rain, hail and high winds. The incidence and severity of weather conditions are largely unpredictable. There is generally an increase in the frequency and severity of auto and property claims when severe weather conditions occur.

The extent of losses from a catastrophe is a function of the total amount of insured exposure

affected by the event, the severity of the event and the coverage provided, which can be both property and casualty coverages. Increases in the value and geographic concentration of insured property, the number of policyholders exposed to certain events and the effects of inflation could increase the severity of claims from catastrophic events in the future. For example, the specific geographic location impacted by tornadoes is inherently random and unpredictable and the specific location impacted by a tornado may or may not be highly populated and may or may not have a high concentration of our insured exposures.

#### *Property and casualty results of operations and financial condition may be adversely affected due to limitations in the analytical models used to assess and predict the exposure to catastrophe losses*

Along with others in the insurance industry, models developed internally and by third party vendors are used along with our own historical data in assessing property insurance exposure to catastrophe losses. These models assume various conditions and probability scenarios. Such models do not necessarily accurately predict future losses or measure losses currently incurred. Further, the accuracy of such models may be negatively impacted by changing climate conditions. Catastrophe models use historical information and scientific research about natural events, such as hurricanes and earthquakes, as well as detailed information about our in-force business. This information is used in connection with pricing and risk management activities. However, since actual catastrophic events vary considerably, there are limitations with respect to its usefulness in predicting losses in any reporting period. Other limitations are evident in significant variations in estimates between models, material increases and decreases in results due to model changes and refinements of the underlying data elements and actual conditions that are not yet well understood or may not be properly incorporated into the models.

#### *Our catastrophe management strategy may adversely affect premium growth*

Due to catastrophe risk management efforts, the size of our homeowners business has been negatively impacted in the past and may be negatively impacted if further actions are taken. Homeowners premium growth rates and retention could be adversely impacted by adjustments to our business structure, size and underwriting practices in markets with significant severe weather and catastrophe risk exposure.

#### *Unexpected increases in the frequency or severity of property and casualty claims may adversely affect our results of operations and financial condition*

The property and casualty businesses may experience volatility in claim frequency from time to time, and short-term trends may not continue over the longer term. Changes in auto claim frequency may result from changes in mix of business, miles driven, weather, distracted driving or other macroeconomic

factors. A significant increase in claim frequency could have an adverse effect on our results of operations and financial condition.

Changes in bodily injury claim severity are impacted by inflation in medical costs, litigation trends and precedents, regulation and the overall safety of automobile travel. Changes in auto property damage claim severity are driven primarily by inflation in the cost to repair vehicles, including parts and labor rates, the mix of vehicles that are declared total losses, model year mix as well as used car values. Changes in homeowners claim severity are driven by inflation in the construction industry, building materials and home furnishings, changes in the mix of loss type, and by other economic and environmental factors, including short-term supply imbalances for services and supplies in areas affected by catastrophes. Increases in claim severity can arise from unexpected events that are inherently difficult to predict. Although various loss management initiatives are pursued to mitigate future increases in claim severity, there can be no assurances that these initiatives will successfully identify or reduce the effect of future increases in claim severity.

*Changes in the level of price competition and the use of underwriting standards in the property and casualty businesses may adversely affect our results of operations and financial condition*

The personal property-liability market is highly competitive with carriers competing through advertising, price and customer service and distribution. Companies can choose to alter underwriting standards, lower prices and increase advertising, which could result in diminished growth or profitability for Allstate. In addition, external factors such as weather or macro-economic conditions can impact the frequency or cost of losses, which impact market dynamics. A downturn in the growth or profitability of the property and casualty businesses could have a material effect on our results of operations and financial condition.

Pricing for our products is subject to our ability to adequately assess risks, estimate losses and comply with state insurance regulations. Inadequate pricing could have a material adverse effect on our results of operations and financial condition. Additionally, we may increase premium rates and adopt tighter underwriting standards, which may result in a decline in new business and renewals. We may offer discounts for new customers and adopt less restrictive underwriting standards, which may lead to increased new business and renewals and higher losses. In either event, our competitive position, results of operations and financial condition could be adversely impacted.

*Reinsurance may be unavailable at current levels and prices, which may limit our ability to write new business*

Market conditions beyond our control impact the availability and cost of the reinsurance we purchase. No assurances can be made that reinsurance will remain continuously available to us to the same extent and on the same terms and rates as is currently available. Our personal lines catastrophe reinsurance program was designed, utilizing our risk management

methodology, to address our exposure to catastrophes nationwide. For example, our ability to afford reinsurance to reduce our catastrophe risk in designated areas may be dependent upon our ability to adjust premium rates for its cost, and there are no assurances that the terms and rates for our current reinsurance program will continue to be available in future years. If we were unable to maintain our current level of reinsurance or purchase new reinsurance protection in amounts that we consider sufficient at acceptable prices, we would have to either accept an increase in our catastrophe exposure, reduce our insurance writings, or develop or seek other alternatives.

*Reinsurance subjects us to counterparty risk and may not be adequate to protect us against losses arising from ceded insurance, which could have a material effect on our results of operations and financial condition*

The collectability of reinsurance recoverables is subject to uncertainty arising from a number of factors, including changes in market conditions, whether insured losses meet the qualifying conditions of the reinsurance contract, duration of the collections and whether reinsurers, their affiliates, or certain regulatory bodies have the financial capacity and willingness to make payments under the terms of a reinsurance treaty or contract. Additionally, reinsurance placed in the catastrophe bond market may not provide the same level of coverage as reinsurance placed in the traditional market. Any disruption, volatility and uncertainty in the financial markets may decrease our ability to access such market on favorable terms or at all. Our inability to recover from a reinsurer could have a material effect on our results of operations and financial condition.

*Changing climate and weather conditions may adversely affect our financial condition, profitability or cash flows*

Climate change may affect the occurrence of certain natural events, such as an increase in the frequency or severity of wind and thunderstorm events, eruptions of volcanoes and tornado or hailstorm events due to increased convection in the atmosphere; more frequent wildfires in certain geographies; higher incidence of deluge flooding and the potential for an increase in severity of the hurricane events due to higher sea surface temperatures. Additionally, there may be an impact on the demand, price and availability of automobile and homeowners insurance, reinsurance coverages as well as the value of our investment portfolio. Due to significant variability associated with future changing climate conditions we are unable to predict the impact climate change will have on our businesses.

*Underwriting changes and actual experience could materially affect profitability and financial condition of our life, voluntary benefits and annuity businesses*

Our product pricing includes long-term assumptions regarding investment returns, mortality, morbidity, persistency and operating costs and expenses of the business. We establish target returns

for each product based upon these factors and the average amount of capital we must hold to support in-force contracts taking into account rating agencies and regulatory requirements. We monitor and manage pricing and overall sales mix to achieve target new business returns on a portfolio basis, which could result in the discontinuation or de-emphasis of products and a decline in sales. Profitability from new business emerges over a period of years depending on the nature and life of the product and is subject to variability as actual results may differ from pricing assumptions. Additionally, many of our products have fixed or guaranteed terms that limit our ability to increase revenues or reduce benefits, including credited interest, once the product has been issued.

Many voluntary benefits employer contracts are renewed annually. There is a risk that employers may be able to obtain more favorable terms from competitors than they could by renewing coverage with us. These competitive pressures may adversely affect the persistency of these products, as well as our ability to sell products.

Profitability depends on the sufficiency of premiums and contract charges to cover mortality and morbidity benefits, the adequacy of investment spreads, the persistency of policies, the management of market and credit risks associated with investments, and the management of operating costs and expenses within anticipated pricing allowances. Legislation and regulation of the insurance marketplace and products could also affect our profitability and financial condition.

*Actual claims incurred may exceed current reserves established for claims including claims relating to asbestos, environmental and other discontinued lines, which may adversely affect our results of operations and financial condition*

Recorded claim reserves, including case reserves and incurred but not reported claims reserves ("IBNR"), are based on our best estimates of losses after considering known facts and interpretations of the circumstances, including settlement agreements. Additionally, models that rely on the assumption that past loss development patterns will persist into the future are used. Internal factors are considered including our experience with similar cases, actual claims paid, historical trends involving claim payment patterns, pending levels of unpaid claims, loss management programs, product mix, contractual terms and changes in claim reporting and settlement practices. External factors are also considered, such as court decisions, changes in law and litigation imposing unintended coverage. We also consider benefits, such as disallowing the use of benefit payment schedules, requiring coverage designed to cover losses that occur in a single policy period to losses that develop continuously over multiple policy periods or requiring the availability of multiple limits. Regulatory requirements and economic conditions are also considered.

Since reserves are estimates of the unpaid portion of losses that have occurred, including IBNR losses, the

establishment of appropriate reserves, including reserves for catastrophes, is an inherently uncertain and complex process that is continually refined to reflect current estimation processes and practices. The ultimate cost of losses may vary materially from recorded reserves and such variance may adversely affect our results of operations and financial condition as the reserves and reinsurance recoverables are reestimated.

Furthermore, the process of estimating asbestos, environmental and other discontinued lines liabilities is inherently uncertain. The process is complicated by legal issues concerning, among other things, the interpretation of various insurance policy provisions, whether losses are covered or were intended to be covered and whether losses could be recoverable through retrospectively determined premium, reinsurance or other contractual agreements. Asbestos-related bankruptcies and litigation are complex, lengthy proceedings that involve substantial uncertainty for insurers. Actuarial techniques, databases and reinsurance assumptions used in estimating asbestos, environmental and other discontinued lines net loss reserves may prove to be inadequate indicators of the extent of probable loss. Ultimate net losses from these discontinued lines could materially exceed established loss reserves and expected recoveries and have a material effect on our results of operations and financial condition as the reserves are reestimated.

*Changes in reserve estimates for our life, voluntary benefits and annuity businesses may adversely affect our results of operations*

The reserve for life-contingent contract benefits payable under insurance policies, including traditional life insurance, life-contingent immediate annuities and voluntary accident and health insurance products, is computed on the basis of long-term actuarial assumptions of future investment yields, mortality, morbidity, persistency and expenses. Future investment yields may be lower than our current projections. Mortality may continue to improve due to medical advancements, resulting in policyholders living longer than anticipated. We periodically review the adequacy of these reserves and if future experience differs significantly from assumptions, adjustments to reserves and amortization of deferred policy acquisition costs ("DAC") may be required that could have a material effect on our results of operations. We also review these policies for circumstances where projected profits would be recognized in early years followed by projected losses in later years. If this circumstance exists, we will be required to accrue a liability during the period of profits to offset the losses at such time as the future losses are expected to commence. Prior to fourth quarter 2017, we evaluated our traditional life insurance products and immediate annuities with life contingencies on an aggregate basis. In conjunction with the segment changes that occurred in the fourth quarter of 2017, traditional life insurance products, immediate annuities with life contingencies, and voluntary accident and health insurance products are reviewed individually. This increases the risk that

we will have to record a premium deficiency adjustment in the future for immediate annuities with life contingencies. Changes to accounting guidance for long-duration insurance contracts such as traditional life, life-contingent immediate annuities and certain voluntary accident and health insurance products may have a material effect on reserves and shareholders' equity and could adversely impact financial strength ratings. For a description of changes in accounting standards see Note 2 of the consolidated financial statements.

*Changes in estimates of profitability on interest-sensitive life products may adversely affect our profitability and financial condition*

DAC related to interest-sensitive life contracts is amortized in proportion to actual historical gross profits and estimated future gross profits ("EGP") over the estimated lives of the contracts. The principal assumptions for determining the amount of EGP are mortality, persistency, expenses, investment returns, including capital gains and losses on assets supporting contract liabilities, interest crediting rates to contractholders, and the effects of any hedges. Updates to these assumptions, commonly referred to as "DAC unlocking," could result in accelerated amortization of DAC and thereby adversely affect our profitability and financial condition. In addition, assumption changes impact the reserve for secondary guarantees on interest-sensitive life insurance and could also lead to volatility in net income.

### Financial Risks

*Conditions in the global economy and capital markets could adversely affect our business and results of operations*

Conditions in the global economy and capital markets could have an adverse effect on our business and results of operations. This includes high and sustained unemployment in certain regions and lower labor participation rates in others, reduced consumer spending, low economic growth, lower residential and commercial real estate prices, substantial increases in delinquencies on consumer debt, the relatively low availability of credit and ineffective central bank monetary policies.

Stressed conditions, volatility and disruptions in global capital markets, particular markets or financial asset classes could adversely affect our investment portfolio. Disruptions in one market or asset class can also spread to other markets or asset classes. In addition, events in the U.S. or foreign markets, such as the United Kingdom's planned exit from the European Union ("EU") in March 2019, can impact the global economy and capital markets. The impact of such events is difficult to predict.

In the years since the financial crisis, the central banks of most developed countries have pursued highly accommodative monetary policies. Higher volatility and less certainty in capital markets may continue as the U.S. Federal Reserve, through the Federal Open Market Committee, raises interest rates and as global monetary policies diverge.

On July 27, 2017, the U.K. Financial Conduct Authority (the "FCA"), which regulates the London interbank offered rate ("LIBOR"), announced that the FCA will no longer persuade or compel banks to submit rates for the calculation of LIBOR after 2021. This announcement indicates that the continuation of LIBOR on the current basis is not guaranteed after 2021, and LIBOR may be discontinued or modified by 2021.

The Federal Reserve Bank of New York began publishing the Secured Overnight Financing Rate ("SOFR") in April 2018 as an alternative for LIBOR. SOFR is a broad measure of the cost of borrowing cash overnight collateralized by U.S. Treasury securities. A transition away from the widespread use of LIBOR to SOFR or another benchmark rate may occur over the course of the next few years.

We have exposure to LIBOR-based financial instruments, such as securities we have issued or may issue in the future, including our floating rate senior notes and subordinated debentures, and LIBOR-based securities and derivatives held in our investment portfolio. Certain of our contracts allow for the use of an alternative benchmark rate if LIBOR is no longer available. At this time, we cannot predict the overall effect of the modification or discontinuation of LIBOR or the establishment of alternative benchmark rates.

Protectionist trade policy actions, such as tariffs and quotas, could have an adverse effect on our results of operations and financial condition through an increase in claim severity. Such trade policy actions could also adversely affect our investment results, as an increase in the scope and size of tariffs could disrupt global supply chains and increase inflationary pressures which may have an adverse effect on economic activity.

General economic conditions could adversely affect us by impacting consumer behavior and pressuring investment results. Consumer behavior changes may include decreased demand for our products; for example, if consumers purchase fewer automobiles, sales of auto insurance may decline. Also, if consumers become more cost conscious, they may choose lower levels of auto and homeowners insurance. In addition, holders of interest-sensitive life insurance and annuity products may engage in an elevated level of discretionary withdrawals of contractholder funds. Investment results could be adversely affected as deteriorating financial and business conditions affect the issuers of the securities in the investment portfolio.

*A downgrade in financial strength ratings may have an adverse effect on our competitive position, the marketability of our product offerings, liquidity, access to and cost of borrowing, results of operations and financial condition*

Financial strength ratings are important factors in establishing the competitive position of insurance companies and generally have an effect on an insurance company's business. Rating agencies continuously review our financial performance and condition. They could downgrade or change the

outlook on our ratings due to a change in the financial profile of one of our insurance companies, a change in a rating agency's determination of the amount of risk-adjusted capital required to maintain a particular rating, an increase in the perceived risk of our investment portfolio, a reduced confidence in management or our business strategy, as well as a number of other considerations that may or may not be under our control. The insurance financial strength ratings of Allstate Insurance Company, Allstate Life Insurance Company, Allstate Assurance Company and The Allstate Corporation's senior debt ratings from A.M. Best, S&P Global Ratings and Moody's are subject to continuous review and the retention of current ratings cannot be assured. A downgrade in any of these ratings could have a material effect on our sales, competitiveness, retention, the marketability of our product offerings, liquidity, access to and cost of borrowing, results of operations and financial condition.

*Adverse capital and credit market conditions may significantly affect our ability to meet liquidity needs or obtain credit on acceptable terms*

In periods of extreme volatility and disruption in the capital and credit markets, liquidity and credit capacity may be severely restricted. In such circumstances, our ability to obtain capital to fund operating expenses, financing costs, capital expenditures or acquisitions may be limited, and the cost of any such capital may be significant. Our access to additional financing depends on a variety of factors such as market conditions, the general availability of credit, the overall availability of credit to our industry, our credit ratings and credit capacity, as well as lenders' perception of our long- or short-term financial prospects. Similarly, our access to funds may be impaired if regulatory authorities or rating agencies take negative actions. If a combination of these factors were to occur, our internal sources of liquidity may prove to be insufficient, and in such case, we may not be able to successfully obtain additional financing on favorable terms.

*We may be required to recognize impairments in the value of our goodwill, which may adversely affect our results of operations and financial condition*

Goodwill represents the excess of amounts paid for acquiring businesses over the fair value of the net assets acquired. Goodwill is evaluated for impairment annually, or more frequently if conditions warrant, by comparing the carrying value, attributed equity, of a reporting unit to its estimated fair value. Market declines or other events impacting the fair value of a reporting unit could result in a goodwill impairment, resulting in a charge to income. Such a charge could have an adverse effect on our results of operations or financial condition.

*The realization of deferred tax assets is subject to uncertainty*

The realization of our deferred tax assets, net of valuation allowance, if any, is based on the assumption that we will be able to fully utilize the deductions that are ultimately recognized for tax purposes. However, actual results may differ from our assumptions if adequate levels of taxable income are not attained.

*The ability of our subsidiaries to pay dividends may affect our liquidity and ability to meet our obligations*

The Allstate Corporation is a holding company with no significant operations. Its principal assets are the stock of its subsidiaries and its directly held short-term cash and securities portfolios. Its liabilities include debt and pension and other postretirement benefit obligations related to Allstate Insurance Company employees. State insurance regulatory authorities limit the payment of dividends by insurance subsidiaries, as described in Note 16 of the consolidated financial statements. The limitations are based on statutory income and surplus. In addition, competitive pressures generally require the subsidiaries to maintain insurance financial strength ratings. These restrictions and other regulatory requirements affect the ability of the subsidiaries to make dividend payments. Limits on the ability of the subsidiaries to pay dividends could adversely affect holding company liquidity, including the ability to pay dividends to shareholders, service debt or complete share repurchase programs in the timeframe expected.

Management views enterprise capital as a combination of statutory surplus and invested assets at the parent holding company level. Deterioration in statutory surplus or earnings, from developments such as catastrophe losses, or changes in market conditions or interest rates, could adversely affect holding company liquidity by impacting the amount of dividends from subsidiaries or the utilization of invested assets at the holding company to increase statutory surplus or for other corporate purposes.

Following the reduction in the federal corporate income tax rate from 35% to 21% effective January 1, 2018 related to the Tax Cuts and Jobs Act of 2017 ("Tax Legislation"), the National Association of Insurance Commissioners ("NAIC") approved a change in the risk-based capital ("RBC") formula on June 28, 2018, to reflect the impact of the Tax Legislation on year-end 2018 RBC calculations for life insurers. Since RBC requirements are determined net of tax, the decrease in the federal tax rate results in an increase in the amount of after-tax RBC required to be held by our insurance subsidiaries. Changes in capital requirements could decrease deployable capital and potentially reduce future dividends paid by our life subsidiary companies. In addition, the NAIC has formed a working group for the development of a group capital calculation covering all entities of the insurance company group using a methodology based on aggregated risk-based capital. Although we do not expect potential revisions to impact our current dividend plans, any increase in the amount of capital or reserves our insurance subsidiaries are required to hold



could reduce the amount of future dividends such subsidiaries are able to distribute to the holding company. Any reduction in the RBC ratios of our insurance subsidiaries could also adversely affect their financial strength ratings as determined by statistical rating agencies.

*Our ability to pay dividends or repurchase stock is subject to limitations under terms of certain of our securities*

The terms of the outstanding subordinated debentures prohibit us from declaring or paying any dividends or distributions on our common or preferred stock or redeeming, purchasing, acquiring, or making liquidation payments on our common stock or preferred stock if we have elected to defer interest payments on the subordinated debentures, subject to certain limited exceptions.

We are prohibited from declaring or paying dividends on preferred stock if we fail to meet specified capital adequacy, net income or shareholders' equity levels. The prohibition is subject to an exception permitting us to declare dividends out of the net proceeds of common stock issued by us during the 90 days prior to the date of declaration even if we fail to meet such levels.

We may not repurchase or pay dividends on common stock during any dividend period while our preferred stock is outstanding, unless the full preferred stock dividends for the preceding dividend period have been declared and paid or declared and a sum sufficient for the payment thereof has been set aside and any declared but unpaid preferred stock dividends for any prior period have been paid, subject to certain limited exceptions. The authorized number of directors then constituting the board of directors will be increased by two, to be elected by the holders of preferred stock together with the holders of all other affected classes and series of voting parity stock, voting as a single class, if and when dividends on preferred stock have not been declared and paid in full for at least six quarterly dividend periods, subject to certain conditions.

#### Investment Risks

*Our investment portfolios are subject to market risk and declines in credit quality, which may adversely affect investment income and cause realized and unrealized losses*

We continually reevaluate investment management strategies since we are subject to the risk of loss due to adverse changes in interest rates, credit spreads, equity prices, currency exchange rates and the liquidity of investments. Such adverse changes may occur due to changes in monetary policy and the economic climate, the liquidity of a market or market segment, investor return expectations and/or risk tolerance, insolvency or financial distress of key market makers or participants, or changes in market perceptions of credit worthiness. The performance and value of our investment portfolios are also subject to market risk related to investments in real estate, loans and securities collateralized by real estate.

Moreover, some of our investment strategies target individual investments with unique risks that are less highly correlated with broad market risks. Although we expect these investments to increase total portfolio returns over time, their performance may vary from and under-perform relative to the market.

Our investment portfolios are subject to risks associated with potential declines in credit quality related to specific issuers or specific industries and a general weakening of the economy, which are typically reflected through credit spreads. Credit spread is the additional yield on fixed income securities and loans above the risk-free rate, typically referenced as the yield on U.S. Treasury securities, that market participants require to compensate them for assuming credit, liquidity and/or prepayment risks. Credit spreads vary in response to the market's perception of risk and liquidity in a specific issuer or specific sector. Additionally, credit spreads are influenced by the credit ratings, and the reliability of those ratings, published by external rating agencies. Although we have the ability to use derivative financial instruments to manage these risks, the effectiveness of such instruments varies with liquidity and other conditions that may impact derivative and bond markets. Adverse economic conditions or other factors could cause declines in the quality and valuation of our investment portfolios that would result in realized and unrealized losses. The concentration of our investment portfolios in any particular issuer, industry, collateral type, group of related industries, geographic sector or risk type could have an adverse effect on our investment portfolios and consequently on our results of operations and financial condition.

A decline in market interest rates or credit spreads could have an adverse effect on investment income as we invest cash in new investments that may earn less than the portfolio's average yield. In a low interest rate environment, borrowers may prepay or redeem securities more quickly than expected as they seek to refinance at lower rates. Sustained low interest rates could also lead to purchases of longer-term or riskier assets in order to obtain adequate investment yields, which could also result in a duration gap when compared to the duration of liabilities. Alternatively, longer-term assets may be sold and reinvested in shorter-term assets that may have lower yields in anticipation of rising interest rates. An increase in market interest rates or credit spreads could also cause the value of the investments in our pension plans to decrease. Declines in interest rates could cause the funding ratio to decline and the value of the obligations for our pension and postretirement plans to increase. These factors could decrease the funded status of our pension and postretirement plans, increasing the likelihood or magnitude of future benefit expense and contributions.

The amount and timing of net investment income from our performance-based investments, which primarily includes limited partnership interests, can fluctuate significantly as a result of the underlying investments' performance. Additionally, the timing of capital contributions and distributions depends on particular events, schedules for making distributions, and cash needs related to the investments. As a result, the amount of net investment income recognized and cash contributed to or received from these investments can vary substantially from quarter to quarter. Significant volatility or market downturns could adversely impact net investment income, valuation and returns on these investments. Additionally, these investments are less liquid than similar, publicly-traded investments. A decline in market liquidity could impact our ability to sell these investments.

*The determination of the amount of realized capital losses recorded for impairments of our investments includes subjective judgments and could materially impact our results of operations and financial condition*

The determination of the amount of realized capital losses recorded for impairments vary by investment type and is based upon our ongoing evaluation and assessment of known and inherent risks associated with the respective asset class. Such evaluations and assessments are revised as conditions change and new information becomes available. We update our evaluations regularly and reflect changes in other-than-temporary impairments in our results of operations. The assessment of whether other-than-temporary impairments have occurred is based on our case-by-case evaluation of the underlying reasons for the decline in fair value. Our conclusions on such assessments are judgmental and include assumptions and projections of future cash flows and price recovery which may ultimately prove to be incorrect as assumptions, facts and circumstances change. Furthermore, historical trends may not be indicative of future impairments and additional impairments may need to be recorded in the future.

*The determination of the fair value of our fixed income and equity securities includes subjective judgments and could materially impact our results of operations and financial condition*

In determining fair values, we principally use the market approach which utilizes market transaction data for the same or similar instruments. The degree of judgment involved in determining fair values is inversely related to the availability of market observable information. The fair value of assets may differ from the actual amount received upon the sale of an asset in an orderly transaction between market participants at the measurement date. Moreover, the use of different valuation assumptions may have a material effect on the assets' fair values. The difference between amortized cost and fair value for fixed income securities, net of deferred income taxes and related life and annuity DAC, deferred sales inducement costs and reserves for life-contingent contract benefits, is reflected as a component of accumulated other comprehensive income in

shareholders' equity. Changing market conditions could materially affect the determination of the fair value of securities and, as a result, unrealized net capital gains and losses associated with fixed income securities and realized capital gains and losses associated with equity securities recorded in net income could vary significantly.

*Changes in market interest rates or performance-based investment returns may lead to a significant decrease in the profitability of our annuity business*

Our ability to manage the in force spread-based products, such as fixed annuities, is dependent upon maintaining profitable spreads between investment returns and interest crediting rates. When market interest rates decrease or remain at low levels, proceeds from investments that have matured or have been prepaid or sold may be reinvested at lower yields, reducing investment spread. Lowering interest crediting rates on some products in such an environment can partially offset decreases in investment yield. However, these changes could be limited by regulatory minimum rates or contractual minimum rate guarantees on many contracts and may not match the timing or magnitude of changes in investment yields. Increases in market interest rates can have negative effects, for example by increasing the attractiveness of other investments to our customers, which can lead to increased surrenders at a time when fixed income investment asset values are lower as a result of the increase in interest rates. This could lead to the sale of fixed income securities at a loss. In addition, changes in market interest rates impact the valuation of derivatives embedded in equity-indexed annuity contracts that are not hedged, which could lead to volatility in net income. Additionally, the amount of net investment income from performance-based investments backing the immediate annuity liabilities can vary substantially from quarter to quarter. Significant volatility or market downturns could adversely impact net investment income, valuation, returns, and collectability of undistributed appreciation. We have certain international limited partnership investments that could be impacted by investment, economic, regulatory and legal risks that could adversely affect our operating results.

#### Operational Risks

*New or changing technologies could cause a disruption in our business model that may materially impact our results of operations and financial condition*

Investments are being made in data analytics and telematics to broaden the customer value proposition for the personal automobile transportation system. If we are not effective in anticipating the impact on our business of changing technology, including automotive technology, and the regulatory impacts of such technology, our ability to successfully operate may be impaired. We may not be able to respond effectively to changing technology, which could have a material effect on our results of operations and financial condition.

Telematics on-board diagnostic devices have been

identified as a potential means for an unauthorized person to interact with a vehicle's computer system resulting in theft or damage, which could affect our ability to use and sell these technologies successfully.

*The failure in cyber or other information security controls, as well as the occurrence of events unanticipated in our disaster recovery systems and business continuity planning, could result in a loss or disclosure of confidential information, damage to our reputation, additional costs and impairment of our ability to conduct business effectively*

We depend heavily on computer systems, mathematical algorithms and data to perform necessary business functions. We collect, use, store or transmit an increasingly large amount of confidential, proprietary, and other information (including personal information of customers, claimants or employees) in connection with the operation of our business. Despite our implementation of a variety of security measures, we are increasingly exposed to the risk that our computer systems could be subject to cyberattacks and unauthorized access, such as physical and electronic break-ins or unauthorized tampering. We have experienced threats to our data and systems, including malware and computer virus attacks, unauthorized access, system failures and disruptions. Events such as these could jeopardize the information processed and stored in, and transmitted through, our computer systems and networks, or otherwise cause interruptions or malfunctions in our operations, which could result in damage to our reputation, financial losses, litigation, increased costs, regulatory penalties and/or customer dissatisfaction or loss. These risks may increase in the future as we continue to expand internet and mobile strategies, develop additional remote connectivity solutions to serve our employees and customers, develop and expand products and services designed to protect our customers' digital footprint, and build and maintain an integrated digital enterprise.

Third parties to whom we outsource certain of our functions are also subject to these risks. While we review and assess our third party providers' cybersecurity controls, as appropriate, and make changes to our business processes to manage these risks, we cannot assure that our attempts to keep such information confidential will always be successful.

Our increased use of third party services (e.g. cloud technology and software as a service) can make it more difficult to identify and respond to cyberattacks in any of the above situations due to the dynamic nature of these technologies. These risks could increase as vendors adopt and use more cloud-based software services rather than software services which can be run within our data centers.

Personal information, as described above, is subject to an increasing number of federal, state, local and international laws and regulations regarding privacy and data security, as well as contractual commitments. The European Commission adopted the General Data Protection Regulation, which greatly increases the jurisdictional reach of its laws and adds a

broad array of requirements for handling personal data, such as the public disclosure of significant data breaches, privacy impact assessments, data portability and the appointment of data protection officers. Further, the New York State Department of Financial Services has issued cybersecurity regulations for financial services institutions, including banking and insurance entities, that impose a variety of detailed security measures on covered entities. The NAIC has also adopted the Insurance Data Security Model Law, which, if adopted as state legislation, would establish standards for data security and for the investigation of and notification to insurance commissioners of cybersecurity events. See the Regulation section, Privacy Regulation and Data Security, for additional information. Any failure or perceived failure by us to comply with such obligations may result in governmental enforcement actions and fines, litigation, or public statements against us by consumer advocacy groups or others, and could cause our employees and customers to lose trust in us, which could have an adverse effect on our reputation and business.

Our cyber and information security program is continually enhanced in order to be resilient against emerging threats and improve our ability to detect and respond to attempts to gain unauthorized access to our data and systems. Cybersecurity system changes we implement that are designed to update and enhance our protective measures to address new threats may increase the risk of a system or process failure or the creation of a gap in our security measures due to the complexity and interconnectedness of our systems and processes. Any such failure or gap could adversely affect our business, reputation, results of operations or financial condition.

From time to time, the Company and the Audit Committee engage independent advisors to assess and consult on cybersecurity matters. We also perform an on-going assessment of the quality of our program and identify opportunities to strengthen our cybersecurity controls. However, due to the increasing frequency and sophistication of such cyberattacks and changes in technology, there can be no assurance that a cyberattack will not take place with negative consequences, including an adverse effect to our business, results of operations and financial condition.

The occurrence of a disaster, such as a natural catastrophe, pandemic, industrial accident, blackout, terrorist attack, war, cyberattack, computer virus, insider threat, unanticipated problems with our disaster recovery systems, or a support failure from external providers, could have an adverse effect on our ability to conduct business and on our results of operations and financial condition, particularly if those events affect our computer-based data processing, transmission, storage, and retrieval systems or destroy data. If a significant number of employees were unavailable in the event of a disaster, our ability to effectively conduct business could be severely compromised. Our systems are also subject to compromise from internal threats. Our policies, procedures and technical safeguards may be insufficient to prevent or detect improper access to

confidential, personal or proprietary information by employees, vendors and other third parties who may have otherwise legitimate access to our systems.

We also have business process and information technology operations in Canada, India and the United Kingdom that are subject to operating, regulatory and political risks in those countries. Any of these may result in our incurring substantial costs and other negative consequences, including an adverse effect on our business, results of operations and financial condition.

*Misconduct or fraudulent acts by employees, agents and third parties may adversely affect our profitability and financial condition*

The insurance industry is inherently susceptible to both past and future misconduct or fraudulent activities by its employees, representative agents, vendors, customers and other third parties. These activities could include, but are not limited to, fraud against the company, its employees and its customers through illegal or prohibited activities, unauthorized acts or representations, unauthorized use or disclosure of personal or proprietary information, deception, and misappropriation of funds or other benefits.

Management has implemented a risk management framework and a supporting system of internal controls that seeks to provide oversight and monitoring of key activities, designed control and technology systems to mitigate such exposures, and regularly conducts assessments and measurements of certain, key supporting controls. However, the system of controls may not sufficiently contemplate all potential exposures and the performance of these controls may not be consistently executed in a manner necessary to sufficiently mitigate these risks. As a result, we could be exposed to financial loss, disruption of business, regulatory assessments and reputational harm. These impacts have the potential to have a material adverse effect on our profitability and financial condition.

*A large-scale pandemic, the continued threat or occurrence of terrorism or military actions may have an adverse effect on the level of claim losses we incur, the value of our investment portfolio, our competitive position, marketability of product offerings, liquidity and results of operations*

A large-scale pandemic, the continued threat or occurrence of terrorism, within the U.S. and abroad, or military and other actions, and heightened security measures in response to these types of threats may cause significant volatility and losses in our investment portfolio from declines in the equity markets and from interest rate changes in the U.S., Europe and elsewhere, and result in loss of life, property damage, disruptions to commerce and reduced economic activity. Some of the assets in our investment portfolio may be adversely affected by declines in the equity markets and reduced economic activity caused by a large-scale pandemic or the continued threat of terrorism. Additionally, a large-scale pandemic or terrorist act could have a material effect on sales, profitability, competitiveness, marketability of product

offerings, liquidity and operating results.

*Loss of key vendor relationships or failure of a vendor to protect our data, confidential and proprietary information, or personal information of our customers, claimants or employees could affect our operations*

We rely on services and products provided by many vendors in the U.S. and abroad. These include, for example, vendors of computer hardware and software, and vendors and/or outsourcing of services such as claim adjustment services, human resource benefits management services and investment management services. In the event that any vendor suffers a bankruptcy or otherwise becomes unable to continue to provide products or services, or fails to protect our confidential, proprietary, and other information (including personal information of customers, claimants or employees), we may suffer operational impairments and financial losses.

*We may be subject to the risks and costs associated with intellectual property infringement, misappropriation and third party claims*

We rely on a combination of contractual rights and copyright, trademark, patent and trade secret laws to establish and protect our intellectual property. Although we use a broad range of measures to protect intellectual property rights, third parties may infringe or misappropriate intellectual property. We may have to litigate to enforce and protect intellectual property and to determine its scope, validity or enforceability, which could divert significant resources and prove unsuccessful. An inability to protect intellectual property could have a material effect on our business.

We may be subject to claims by third parties for patent, trademark or copyright infringement or breach of usage rights. Any such claims and any resulting litigation could result in significant expense and liability. If third party providers or we are found to have infringed a third-party intellectual property right, either of us could be enjoined from providing certain products or services or from utilizing and benefiting from certain methods, processes, copyrights, trademarks, trade secrets or licenses. Alternatively, we could be required to enter into costly licensing arrangements with third parties or implement a costly work-around. Any of these scenarios could have a material effect on our business and results of operations.

#### Regulatory and Legal Risks

*A regulatory environment that requires rate increases to be approved and that can dictate underwriting practices and mandate participation in loss sharing arrangements may adversely affect our results of operations and financial condition*

From time to time, political events and positions affect the insurance market, including efforts to suppress rates to a level that may not allow us to reach targeted levels of profitability. For example, if our loss ratio compares favorably to that of the industry, state or provincial regulatory authorities may impose rate rollbacks, require us to pay premium refunds to policyholders, or challenge or otherwise delay our

efforts to raise rates even if the property and casualty industry generally is not experiencing regulatory challenges to rate increases. Such challenges affect approval for rate changes that may be required to achieve targeted levels of profitability and returns on equity. Moreover, our ability to purchase reinsurance required to reduce catastrophe risk in designated areas may be dependent upon the ability to adjust rates for its cost. If we are unsuccessful, our results of operations could be negatively impacted.

In addition, certain states have enacted laws that require an insurer conducting business in that state to participate in assigned risk plans, reinsurance facilities and joint underwriting associations. Certain states also require the insurer to offer coverage to all consumers, often restricting an insurer's ability to charge the price it might otherwise charge. In these markets, we may be compelled to underwrite significant amounts of business at lower-than-desired rates, possibly leading to an unacceptable return on equity. Alternatively, as the facilities recognize a financial deficit, they could have the ability to assess participating insurers, adversely affecting our results of operations and financial condition. Laws and regulations of many states also limit an insurer's ability to withdraw from one or more lines of insurance, except pursuant to a plan that is approved by the state insurance department. Certain states require an insurer to participate in guaranty funds for impaired or insolvent insurance companies. These funds periodically assess losses against all insurance companies doing business in the state. Our results of operations and financial condition could be adversely affected by any of these factors.

*Regulatory reforms, and the more stringent application of existing regulations, may make it more expensive for us to conduct our business*

The federal government has enacted comprehensive regulatory reforms for financial services entities. As part of a larger effort to strengthen the regulation of the financial services market, certain reforms are applicable to the insurance industry.

The Federal Insurance Office ("FIO") and Financial Stability Oversight Council were established and the federal government may enact reforms that affect the state insurance regulatory framework. We can make no assurances regarding the potential impact of state or federal measures that change the nature or scope of insurance and financial regulation.

Such regulatory reforms, additional legislative or regulatory requirements and any further stringent enforcement of existing regulations, including increased privacy and cybersecurity regulations, may make it more expensive for us to conduct business and limit our ability to grow or to achieve profitability.

*Changes in tax laws may affect our operations, decrease sales and profitability of products and adversely affect our financial condition*

Under current federal and state income tax law, certain products, primarily life insurance, receive beneficial tax treatment. This favorable treatment may

give some products a competitive advantage over noninsurance products. Congress and various state legislatures occasionally consider legislation that could reduce or eliminate the beneficial policyholder tax treatment currently applicable to life insurance. Congress and state legislatures also consider proposals to reduce the taxation of certain products or investments that may compete with life insurance. Legislation that increases the taxation on insurance products or reduces the taxation on competing products could lessen the advantage or create a disadvantage for some products by making them less competitive. Such proposals, if adopted, could impact the demand for certain of our life insurance products that offer income tax deferrals and may have a material effect on our profitability and financial condition and could result in the surrender of some existing contracts and policies.

*We may not be able to mitigate the capital impact associated with statutory reserving and capital requirements, potentially resulting in a need to increase prices, reduce sales of certain products, and/or accept a return on equity below original levels assumed in pricing*

Regulatory capital and reserving requirements affect the amount of capital required to be maintained by our subsidiary insurance companies. Changes to capital or reserving requirements or regulatory interpretations may result in additional capital held in our insurance companies. To support statutory reserves for certain life insurance products, we currently utilize reinsurance and captive reserve financing solutions for financing a portion of our statutory reserve requirements deemed to be non-economic. Changes to capital or reserving requirements or an inability to continue existing financing as a result of market conditions or otherwise could require us to increase prices, reduce our sales of certain products, and/or accept a return on equity below original levels assumed in pricing.

*Changes in accounting standards issued by the Financial Accounting Standards Board or other standard-setting bodies may adversely affect our results of operations and financial condition*

Our financial statements are subject to the application of generally accepted accounting principles, which are periodically revised, interpreted and/or expanded. Accordingly, we may be required to adopt new guidance or interpretations, which may have a material effect on our results of operations and financial condition that is either unexpected or has a greater impact than expected and could adversely impact financial strength ratings. For a description of changes in accounting standards that are currently pending and, if known, our estimates of their expected impact, see Note 2 of the consolidated financial statements.

*Losses from legal and regulatory actions may be material to our results of operations, cash flows and financial condition*

We are involved in various legal actions, including class action litigation challenging a range of company

practices and coverage provided by our insurance products, some of which involve claims for substantial or indeterminate amounts. We are also involved in various regulatory actions and inquiries, including market conduct exams by state insurance regulatory agencies. In the event of an unfavorable outcome in any of these matters, the ultimate liability may be in excess of amounts currently accrued, if any, and may be material to our results of operations, cash flows and financial condition. The aggregate estimate of the range of reasonably possible loss in excess of the amount accrued, if any, disclosed in Note 14 of the consolidated financial statements is not an indication of expected loss, if any.

*We are subject to extensive regulation and potential further restrictive regulation may increase operating costs and limit growth*

As insurance companies, broker-dealers, investment advisers, investment companies and other types of companies, many of our subsidiaries are subject to extensive laws and regulations that are complex and subject to change. Changes may lead to additional expenses, increased legal exposure, increased required reserves or capital, and limit our ability to grow or to achieve targeted profitability. Moreover, laws and regulations are administered and enforced by a number of governmental authorities, each of which exercises a degree of interpretive latitude, including state insurance regulators; state securities administrators; state attorneys general as well as federal agencies including the SEC, the Financial Industry Regulatory Authority, the Department of Labor, the U.S. Department of Justice and the National Labor Relations Board. Consequently, we are subject to the risk that compliance with any particular regulator's or enforcement authority's interpretation of a legal issue may not result in compliance with another's interpretation of the same issue, particularly when compliance is judged in hindsight.

In addition, there is risk that any particular regulator's or enforcement authority's interpretation of a legal issue may change over time to our detriment. There is also a risk that changes in the overall legal environment may cause us to change our views regarding the actions we need to take from a legal risk management perspective. This would necessitate changes to our practices that may adversely impact our business. Furthermore, in some cases, these laws and regulations are designed to protect or benefit the interests of a specific constituency rather than a range of constituencies. For example, state insurance laws and regulations are generally intended to protect or benefit purchasers or users of insurance products, not holders of securities that we issue. These laws and regulations may limit our ability to grow or to improve the profitability of our business.

*Our participation in indemnification programs, including certain state-mandated industry pools and facilities, subjects us to the risk that reimbursement for qualifying claims and claims expenses may not be received, which could have a material effect on our results of operations and financial condition*

We have exposure associated with the Michigan Catastrophic Claim Association ("MCCA"), a state-mandated indemnification mechanism for qualified personal injury protection losses that exceed a retention level which is adjusted upward every other MCCA fiscal year based on a formula. We have exposure associated with the New Jersey Property-Liability Insurance Guaranty Association ("PLIGA"), which provides indemnification to insurers for certain qualifying medical benefits portion of personal injury protection coverage paid in excess of certain levels. We have exposure associated with the North Carolina Reinsurance Facility ("NCRF"), which provides automobile liability indemnification protection to insurers providing coverage to drivers that insurers in the private market are not otherwise willing to insure. The MCCA and NCRF are currently operating with a statutory surplus deficit. Our indemnification recoverables on paid and unpaid claims from the MCCA, PLIGA and NCRF was \$5.40 billion, \$461 million and \$86 million, respectively, as of December 31, 2018.

The MCCA is funded by annually assessing participating member companies actively writing motor vehicle coverage in Michigan on a per vehicle basis. The MCCA's calculation of the annual assessment is based upon the total of members' actuarially determined present value of expected payments on lifetime claims by all persons expected to be catastrophically injured in that year and ultimately qualify for MCCA reimbursement, its operating expenses, and adjustments for the amount of excesses or deficiencies in prior assessments. The MCCA indemnifies qualifying claims of all current and former member companies (whether or not actively writing motor vehicle coverage in Michigan) for qualifying claims and claims expenses incurred while the member companies were actively writing the mandatory personal injury protection coverage in Michigan.

The MCCA annual assessments fund current operations and member company reimbursements. The MCCA is permitted by law to fund on a discounted basis and continues to choose to use this approach, although, the MCCA has an obligation to indemnify its members for 100% of the loss sustained under personal injury protection. There is currently no method by which insurers are able to obtain the benefit of managed care programs to reduce claims costs through the MCCA. Member companies actively writing automobile coverage in Michigan include the MCCA annual assessments in determining the level of premiums to charge insureds in the state.

The MCCA is financially structured to meet its future indemnification obligations as its cash and invested assets at June 30, 2018 were \$20.54 billion or 90% of its discounted loss and loss adjustment expense reserves of \$22.86 billion and it continues to be authorized to annually assess member companies

for their incurred indemnifiable claims, the MCCA's annual operating expenses, and any amounts necessary to recoup prior year assessment differences. The MCCA's current fiscal year private passenger per vehicle assessment is \$192 comprising \$161 for current fiscal year claims and expenses and \$31 for deficit recoupment. The MCCA has a statutory accounting permitted practice that has been granted by the Michigan Department of Insurance to discount its liabilities for loss and loss adjustment expense. As of June 30, 2018, the date of the most recent statutory financial reports, the permitted practice reduced the MCCA's accumulated deficit of \$50.17 billion by \$47.25 billion to \$2.92 billion. Calculation of the pre-funding discount is dependent on actuarial estimates and investment funding decisions. As of December 31, 2017, our auto market share in Michigan was 8.2%.

On May 17, 2018, member companies of the MCCA were notified of the ratification of amendments to the MCCA's Plan of Operation. The amendments were designed to clarify the MCCA's preapproval requirements for certain actions and activities involving benefits provided to covered claimants, including the preapproval of any agreement that sets attendant care rates or residential care facility rates and the preapproval of all nonemergency medical flights. The amendments also require timely notification to the MCCA by member companies of the filing of a lawsuit by claimants. In addition, the amendments address members' filing inadequate or untimely claim reports, requests for reimbursement payments without required documentation, and the treatment of recoveries obtained from third-parties involving claims for which members have received reimbursement from the MCCA. The amendments became effective on October 1, 2018. At this time, we are unable to determine whether, or to what extent, the amendments, or the exercise of the amendments, will delay or result in denials of the indemnification of members' ultimate loss and therefore whether or to what extent there could be a material effect on our results of operations and financial condition. Other legislative proposals to change the MCCA operation in the future are put forth periodically.

Technological changes such as autonomous or partially autonomous vehicles or technologies that facilitate ride sharing could significantly impact the number of vehicles in use or the extent of customer needs for vehicle insurance. Although the timing and extent of the technology changes and their impact on the numbers of motor vehicle insurance policies and the extent of their coverage in Michigan are uncertain, these changes may result in a diminished number of insured vehicles over which MCCA assessments can be recovered. To the extent the MCCA assessment to members results in a premium insufficient to reimburse its ultimate obligation on existing claims to member companies, our ability to obtain the 100% indemnification of ultimate loss could be impaired. This could have a material effect on our results of operations and financial condition.

*Impacts from the Covered Agreement may involve changes in state insurance laws that may adversely affect our results of operations and financial condition*

Existing laws in 15 states require some form of collateral to be posted for the benefit of the ceding insurer when an assuming reinsurer is not domiciled in the ceding company's state of domicile. In the remaining states, laws governing reinsurance typically require an assuming reinsurer to post an amount of collateral, based on an independently determined financial strength rating and other factors including whether a particular reinsurer has achieved certified status. Under Dodd-Frank, a Covered Agreement may pre-empt state insurance laws that are inconsistent with its terms. The Covered Agreement signed by the U.S. and EU on September 22, 2017, provides states with five years to conform their laws with its terms to avoid preemption. The Covered Agreement between the U.S. and EU will eliminate the requirement for all EU reinsurers that meet certain minimum requirements to post collateral. The elimination of existing collateral requirements could adversely affect our results of operations and financial condition for reinsurance agreements recorded after the effective date of the Covered Agreement if reinsurers fail to pay our ceded reinsurance claims.

**Strategic Risks**

*Our future growth and profitability are dependent in part on our ability to successfully operate in an industry that is highly competitive and that may be impacted by new or changing technologies*

Many of our primary competitors have well-established national reputations and market similar products.

We have invested in growth strategies by utilizing unique customer value propositions and business models for each of our market facing businesses. If we are unsuccessful in generating new business, retaining a sufficient number of customers, retaining or acquiring key relationships or renewing contracts within our voluntary benefits or service businesses, our ability to maintain or increase premiums written or the ability to sell our products could be adversely impacted. In addition, if we experience unexpected increases in underlying costs, such as the frequency or severity of claims costs, it could result in decreases in profitability and lead to price increases. This, in turn, could negatively impact our competitive position leading to a decline in new and renewal business.

Further, technological advancements and innovation are occurring in distribution, underwriting and operations at a rapid pace. If we are unable to timely adapt to or bring such advancements and innovations to market, the quality of our products, our relationships with customers and agents, and our business prospects may be materially affected. The additional information that we obtain as a result of such advancements and innovation may require us to modify our assumptions, models, or reserves. Changes in technology related to collection and analysis of data regarding customers could, in these ways or others, expose us to regulatory or legal actions and may have

a material adverse effect on our business, reputation, results of operations, and financial condition. Many of our competitors are also using analytics to improve pricing accuracy, be more targeted in marketing, strengthen customer relationships and provide more customized services. They may obtain a competitive advantage if they are able to use analytics more effectively than us.

Our ability to adequately and effectively price our products and services is affected by, among other things, the evolving nature of consumer needs and preferences, pricing surcharges and discounts, market dynamics and the broader use of telematics-based rate segmentation and changes in consumer demand due to improvements in telematics technology. Also, our business could be affected by potential technological changes, such as autonomous or partially autonomous vehicles or technologies that facilitate ride, car or home sharing. Such changes could disrupt the demand for products from current customers, create coverage issues or impact the frequency or severity of losses, or reduce the size of the automobile insurance market, causing our auto insurance business to decline. Since auto insurance constitutes a significant portion of our overall business, we may be more sensitive than other insurers and more adversely affected by trends that could decrease auto insurance rates or reduce demand for auto insurance over time. Technological changes may also impact the ways in which we interact and do business with our customers. For example, changing customer preferences may drive a need to redesign our products or distribution model and the way we interact with customers. We may not be able to respond effectively to these changes, which could have a material effect on our results of operations and financial condition.

Because of the competitive nature of the markets in which we operate, there can be no assurance that we will continue to compete effectively within the industry, or that competitive pressures will not have a materially unfavorable effect on our business, results of operations or financial condition. This includes competition for producers such as exclusive and independent agents and their licensed sales professionals. Growth and retention may be materially affected if we are unable to attract and retain effective producers or if those producers are unable to attract and retain their licensed sales professionals or customers. Similarly, growth and retention may be impacted if customer preferences change, including customer demand for direct distribution channels or an increase in point-of-sale distribution channels. Furthermore, certain competitors operate using a different company structure and therefore may have dissimilar profitability and return targets.

Our ability to successfully operate may also be impaired if we are not effective in developing the talent and skills of our human resources, attracting and assimilating new executive talent into our organization, retaining experienced and qualified employees or deploying human resource talent consistently to achieve our business goals. Factors that affect our ability to attract and retain such employees include our

compensation and benefits and our reputation as a successful business with a culture of fairly hiring, training and promoting qualified employees.

Competition from within the insurance industry and from businesses outside the insurance industry, including the technology industry, for qualified employees has often been intense and we have experienced increased competition in hiring and retaining employees. The unexpected loss of key personnel in business units, control functions, information technology, operations or other areas could have a material adverse impact on our business because of the loss of their skills, knowledge of our products and offerings and years of industry experience and, in some cases, the difficulty of promptly finding qualified replacement personnel.

*The potential benefits of our sophisticated risk segmentation process may not be fully realized*

Sophisticated pricing and underwriting methods have allowed us to offer competitive pricing to attract and retain more customers while continuing to operate profitably. However, because many of our competitors seek to adopt underwriting criteria and sophisticated pricing models similar to those we use, our competitive advantage could decline or be lost. The review of such pricing models by regulators and special interest groups may require changes to such models. In addition, competitive pressures could force us to modify these sophisticated pricing models. We cannot be assured that these sophisticated pricing models will accurately reflect the level of losses that we will ultimately incur.

*Acquisitions or divestitures of businesses may not produce anticipated benefits resulting in operating difficulties, unforeseen liabilities or asset impairments, which may adversely affect our results of operations and financial condition*

The ability to achieve certain anticipated financial benefits from the acquisition of SquareTrade Holding Company, Inc., InfoArmor, Inc. or other businesses depends in part upon our ability to successfully grow the businesses consistent with our anticipated acquisition economics. Financial results could be adversely affected by unanticipated performance issues, unforeseen liabilities, transaction-related charges, diversion of management time and resources to acquisition integration challenges or growth strategies, loss of key employees, amortization of expenses related to intangibles, charges for impairment of long-term assets or goodwill and indemnifications. In addition, acquired businesses may not perform as projected, cost savings anticipated from the acquisition may not materialize, and costs associated with the integration may be greater than anticipated. As a result, if we do not manage these transitions effectively and bring innovations to market with the requisite speed, the quality of our products as well as our relationships with customers and agents may result in the company not achieving returns on its investment at the level projected at acquisition.

We also may divest businesses from time to time. These transactions may result in continued financial



involvement in the divested businesses, such as through reinsurance, guarantees or other financial arrangements, following the transaction. Nonperformance or decline in the financial strength ratings by those divested businesses could affect our future financial results through an increase in policy lapses, decreased future premiums, additional payment obligations, higher costs or asset write-downs. We reinsure life insurance and payout annuity business from Lincoln Benefit Life Company ("LBL"). Premiums and contract charges assumed from LBL totaled \$690 million in 2018. A decline in LBL's financial strength ratings could adversely affect our results of operations by decreasing future premiums.

*Reducing our concentration in spread-based business and exiting certain distribution channels may adversely affect annuity reported results*

We have been reducing our concentration in spread-based business since 2008 and discontinued offering fixed annuities effective January 1, 2014. We also exited the independent master brokerage agencies and structured settlement annuity brokers distribution channels in 2013 and sold LBL on April 1, 2014. The reduction in sales of these products has and will continue to reduce investment portfolio levels. It may also affect the settlement of contract benefits, including sales of assets with unrealized capital losses and affect insurance reserves deficiency testing.

### Item 1B. Unresolved Staff Comments

None.

### Item 2. Properties

Our home office complex is owned and located in Northbrook, Illinois. As of December 31, 2018, the home office complex consists of several buildings totaling 1.9 million square feet of office space on a 186-acre site.

We also operate from approximately 500 administrative, data processing, claims handling and other support facilities in North America. In addition to our home office facilities, 825 thousand square feet are owned and 6.0 million square feet are leased. Outside North America, we own one and lease three properties in Northern Ireland comprising approximately 220,000 square feet. We also have two leased facilities in India for approximately 340,000 square feet and two leased facilities in London for 3,385 square feet.

The locations where Allstate exclusive agencies operate in the U.S. are normally leased by the agencies.

### Item 3. Legal Proceedings

Information required for Item 3 is incorporated by reference to the discussion under the heading "Regulation and compliance" and under the heading "Legal and regulatory proceedings and inquiries" in Note 14 of the consolidated financial statements.

### Item 4. Mine Safety Disclosures

Not applicable.

## Part II

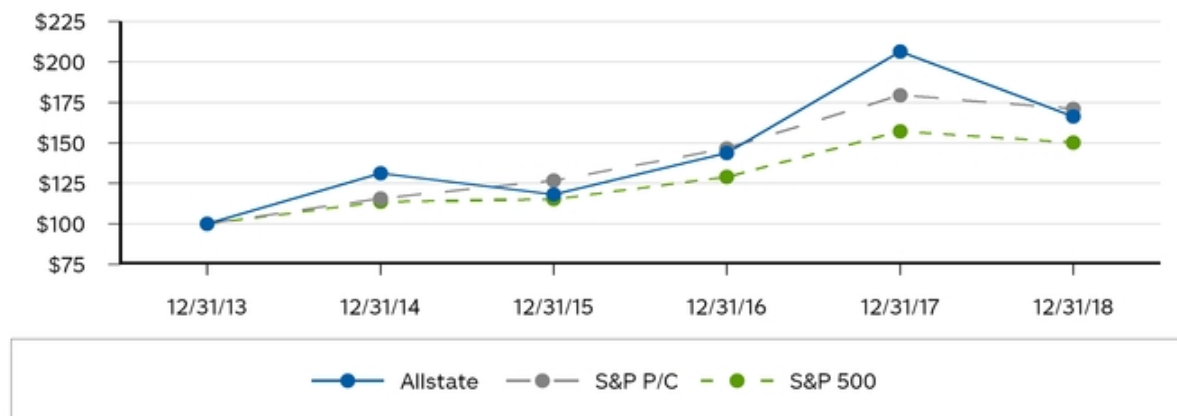
**Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities**

As of January 31, 2019, there were 72,568 holders of record of The Allstate Corporation's common stock. The principal market for the common stock is the New York Stock Exchange, where our common stock trades under the trading symbol "ALL". Our common stock is also listed on the Chicago Stock Exchange.

*Common stock performance graph*

The following performance graph compares the cumulative total shareholder return on Allstate common stock for a five-year period (December 31, 2013 to December 31, 2018) with the cumulative total return of the S&P Property and Casualty Insurance Index (S&P P/C) and the S&P's 500 stock index.

**Value at Each Year-End  
of \$100 Initial Investment Made on December 31, 2013  
Allstate v. Published Indices**



**Value at each year-end of \$100 initial investment made on December 31, 2013**

|          | 12/31/2013 | 12/31/2014 | 12/31/2015 | 12/31/2016 | 12/31/2017 | 12/31/2018 |
|----------|------------|------------|------------|------------|------------|------------|
| Allstate | \$ 100.00  | \$ 131.23  | \$ 118.15  | \$ 143.80  | \$ 206.52  | \$ 166.21  |
| S&P P/C  | \$ 100.00  | \$ 115.74  | \$ 126.77  | \$ 146.68  | \$ 179.52  | \$ 171.10  |
| S&P 500  | \$ 100.00  | \$ 113.68  | \$ 115.24  | \$ 129.02  | \$ 157.17  | \$ 150.27  |

## Issuer Purchases of Equity Securities

| Period                                  | Total number of shares (or units) purchased <sup>(1)</sup> | Average price paid per share (or unit) | Total number of shares (or units) purchased as part of publicly announced plans or programs <sup>(3)</sup> | Maximum number (or approximate dollar value) of shares (or units) that may yet be purchased under the plans or programs <sup>(4)</sup> |
|---|--|--|--|--|
| October 1, 2018 -<br>October 31, 2018   |  |  |  |  |
| Open Market Purchases                   | 1,155,602  | \$ 96.2500                             | 1,147,998  |  |
| November 1, 2018 -<br>November 30, 2018 |  |  |  |  |
| Open Market Purchases                   | 1,352,575  | \$ 89.5608                             | 1,351,489  |  |
| December 1, 2018 -<br>December 31, 2018 |  |  |  |  |
| ASR Agreement <sup>(2)</sup>            | 10,718,789   | —                                      | 10,718,789   |  |
| Open Market Purchases                   | 218  | \$ 89.1900                             | —  |  |
| <b>Total</b>                            | <b>13,227,184</b>  |  | <b>13,218,276</b>  | <b>\$2.07 billion</b>  |

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

October: 7,604  
November: 1,086  
December: 218

<sup>(2)</sup> On December 14, 2018, Allstate entered into an accelerated share repurchase agreement ("ASR Agreement") with Wells Fargo Bank, National Association ("Wells Fargo"), to purchase \$1 billion of our outstanding shares of common stock. In exchange for an upfront payment of \$1 billion, Wells Fargo initially delivered 10,718,789 shares to Allstate. The actual number of shares we repurchase under the ASR Agreement, and the average price paid per share, will be determined at the completion of the ASR Agreement based on the volume weighted average price of Allstate's common stock during the period of Wells Fargo's purchases, which will end on or before May 3, 2019.

<sup>(3)</sup> From time to time, repurchases under our programs are executed under the terms of a pre-set trading plan meeting the requirements of Rule 10b5-1(c) of the Securities Exchange Act of 1934.

<sup>(4)</sup> On August 1, 2017, we announced the approval of a new common share repurchase program for \$2 billion, which was completed on November 13, 2018. On October 31, 2018, we announced the approval of a common share repurchase program for \$3 billion, which is expected to be completed by April 2020.

## Item 6. Selected Financial Data

| <b>5-year summary of selected financial data</b>   |             |             |             |             |             |
|--|-------------|-------------|-------------|-------------|-------------|
| <b>(\$ in millions, except per share data)</b>   | <b>2018</b> | <b>2017</b> | <b>2016</b> | <b>2015</b> | <b>2014</b> |
| <b>Consolidated Operating Results</b>  |             |             |             |             |             |
| Insurance premiums and contract charges  | \$ 36,513   | \$ 34,678   | \$ 33,582   | \$ 32,467   | \$ 31,086   |
| Other revenue  | 939         | 883         | 865         | 863         | 859         |
| Net investment income  | 3,240       | 3,401       | 3,042       | 3,156       | 3,459       |
| Realized capital gains and losses  | (877)       | 445         | (90)        | 30          | 694         |
| Total revenues   | 39,815      | 39,407      | 37,399      | 36,516      | 36,098      |
| Net income applicable to common shareholders   | 2,104       | 3,073       | 1,761       | 2,055       | 2,746       |
| Net income applicable to common shareholders per common share:                                     |             |             |             |             |             |
| Net income applicable to common shareholders per common share - Basic                              | 6.05        | 8.49        | 4.72        | 5.12        | 6.37        |
| Net income applicable to common shareholders per common share - Diluted                            | 5.96        | 8.36        | 4.67        | 5.05        | 6.27        |
| Cash dividends declared per common share   | 1.84        | 1.48        | 1.32        | 1.20        | 1.12        |
| <b>Consolidated Financial Position</b>   |             |             |             |             |             |
| Investments  | \$ 81,260   | \$ 82,803   | \$ 81,799   | \$ 77,758   | \$ 81,113   |
| Total assets   | 112,249     | 112,422     | 108,610     | 104,656     | 108,479     |
| Reserves for claims and claims expense, life-contingent contract benefits and contractholder funds | 58,002      | 58,308      | 57,749      | 57,411      | 57,832      |
| Long-term debt   | 6,451       | 6,350       | 6,347       | 5,124       | 5,140       |
| Shareholders' equity   | 21,312      | 22,551      | 20,573      | 20,025      | 22,304      |
| Shareholders' equity per diluted common share  | 57.56       | 57.58       | 50.77       | 47.34       | 48.24       |

## Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

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## Overview

The following discussion highlights significant factors influencing the consolidated financial position and results of operations of The Allstate Corporation (referred to in this document as “we,” “our,” “us,” the “Company” or “Allstate”). It should be read in conjunction with the 5-year summary of selected financial data, consolidated financial statements and related notes found under Part II, Item 6, and Item 8, contained herein.

The most important factors we monitor to evaluate the financial condition and performance for our reportable segments and the Company include:

- **Allstate Protection:** premium, policies in force (“PIF”), new business sales, policy retention, price changes, claim frequency and severity, catastrophes, loss ratio, expenses, underwriting results, and relative competitive position.
- **Service Businesses:** revenues, premium written, PIF, adjusted net income and net income.
- **Allstate Life:** premiums and contract charges, new business sales, PIF, benefit spread, expenses, adjusted net income and net income.
- **Allstate Benefits:** premiums, new business sales, PIF, benefit ratio, expenses, adjusted net income and net income.
- **Allstate Annuities:** investment spread, asset-liability matching, contract benefits, expenses, adjusted net income, net income and invested assets.
- **Investments:** exposure to market risk, asset allocation, credit quality/experience, total return, net investment income, cash flows, realized capital gains and losses, unrealized capital gains and losses, stability of long-term returns, and asset and liability duration.
- **Financial condition:** liquidity, parent holding company deployable assets, financial strength ratings, operating leverage, debt levels, book value per share and return on equity.

## 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 (“MD&A”).

**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.

## 2018 Highlights

Allstate Delivered on 2018 Operating Priorities <sup>(1)</sup>

|   |   |
|---|---|
| <b>Better Serve Customers</b>                     | Net Promoter Score increased for all major businesses<br>Renewal ratio improved across Allstate, Esurance and Encompass brands  |
| <b>Achieve Target Economic Returns on Capital</b> | Return on common shareholders' equity of 10.5% for 2018   |
| <b>Grow Customer Base</b>                         | Policy growth accelerated in Allstate and Esurance brands<br>SquareTrade PIF grew 29.9 million, or 77.1%, compared to 2017  |
| <b>Proactively Manage Investments</b>             | Net investment income of \$3.2 billion in 2018<br>Total return on \$81 billion investment portfolio of 0.8%<br>Expanded telematics offerings, Arity collecting 10 billion miles of data per month |
| <b>Building Long-Term Growth Platforms</b>        | SquareTrade continued its rapid growth, adding a leading U.S. retailer during the year<br>Acquired InfoArmor, a fast growing identity protection service provider                                 |

(1) 2019 operating priorities will remain consistent with the 2018 priorities.

## Consolidated Net Income

(\$ in billions)



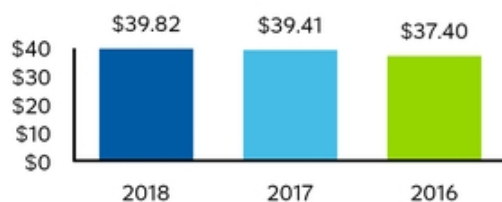
*Consolidated net income applicable to common shareholders* decreased 31.5% in 2018 compared to 2017. The decrease was primarily driven by net realized capital losses compared to net realized capital gains in 2017, a lower tax benefit from the Tax Legislation, lower favorable prior year reserve reestimates and higher distribution expenses from growth, partially offset by higher premiums earned, a lower effective tax rate from the Tax Legislation and lower catastrophe losses. The Property-Liability combined ratio was 93.6 in both 2018 and 2017.

Net realized capital losses on investments in 2018 were primarily due to declines in the valuation of equity investments, which are now recorded in net income due to the adoption of the recognition and measurement accounting standard effective January 1, 2018.

**2017 vs. 2016** - Increase was primarily due to higher Allstate Protection premiums earned, a tax benefit from the Tax Legislation, net realized capital gains in 2017 compared to net realized capital losses in 2016, higher net investment income, lower claims and claims expense, partially offset by higher catastrophe losses.

## Total Revenue

(\$ in billions)

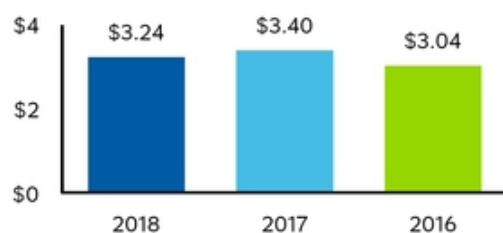


*Total revenue* increased 1.0% in 2018 compared to 2017, driven by a 5.3% increase in insurance premiums and contract charges, which were partially offset by net realized capital losses in 2018 compared to net realized capital gains in 2017 and lower net investment income. Insurance premiums increased in the following segments: Allstate Protection (Allstate brand and Esurance), Service Businesses (SquareTrade and Allstate Dealer Services), Allstate Benefits and Allstate Life.

**2017 vs. 2016** - Increase was primarily due to higher Allstate Protection insurance premiums, net realized capital gains in 2017 compared to net realized capital losses in 2016, higher net investment income and the acquisition of SquareTrade.

## Net Investment Income

(\$ in billions)



*Net investment income* decreased 4.7% in 2018 compared to 2017, primarily due to strong performance-based investment results in 2017, partially offset by higher market-based portfolio income as interest rates increased during 2018.

**2017 vs. 2016** - Increase reflected strong 2017 performance-based results, primarily from limited partnerships, an increase in invested assets and stable market-based yields, partially offset by higher employee-related expenses.

### Segment Highlights

**Allstate Protection** underwriting income totaled \$2.19 billion in 2018, a 3.6% increase from \$2.11 billion in 2017, primarily due to increased premiums earned, lower catastrophe losses and improved auto claim frequency, partially offset by higher claim severity, operating costs and expenses and lower favorable prior year reserve reestimates.

Premiums written increased 6.0% to \$33.56 billion in 2018 compared to 2017.

**Service Businesses** adjusted net income was \$2 million in 2018 compared to an adjusted net loss of \$59 million in 2017. The improvement in 2018 was primarily due to increased revenue at SquareTrade, improved loss experience at SquareTrade and Allstate Dealer Services and lower restructuring charges in 2018 compared to 2017, partially offset by higher loss costs at Allstate Roadside Services.

Total revenues increased 24.5% or \$259 million to \$1.32 billion in 2018 from \$1.06 billion in 2017. The increase was primarily due to SquareTrade's growth through its U.S. retail and international channels and increased premiums earned on Allstate Dealer Services' vehicle service contracts. 2018 revenue also includes \$101 million from SquareTrade due to the adoption of the revenue from contracts with customers accounting standard.

**Allstate Life** adjusted net income was \$289 million in 2018 compared to \$253 million in 2017. The increase was primarily due to a lower effective tax rate from the Tax Legislation and increased premiums and contract charges, partially offset by higher contract benefits.

Premiums and contract charges totaled \$1.32 billion in 2018, an increase of 2.7% from \$1.28 billion in 2017.

**Allstate Benefits** adjusted net income was \$119 million in 2018 compared to \$95 million in 2017. The increase was 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 totaled \$1.14 billion in 2018, an increase of 4.7% from \$1.08 billion in 2017.

**Allstate Annuities** adjusted net income was \$130 million in 2018 compared to \$204 million in 2017. The

decrease was primarily due to lower net investment income, driven by performance-based investment results and decreased average investment balances, partially offset by a lower effective tax rate from the Tax Legislation, decreased interest credited to contractholder funds and lower contract benefits.

Net investment income decreased 16.0% to \$1.10 billion in 2018 from \$1.31 billion in 2017.

### Financial Highlights

**Tax reform** On December 22, 2017, the 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 years. During 2017, we revalued deferred tax assets and liabilities and recorded liabilities related to the transition to the modified territorial system for international taxation, resulting in a \$506 million reduction to income tax expense or a \$1.38 per share benefit to earnings per common share for the year ended December 31, 2017. During 2018, the impact of the Tax Legislation was adjusted from our preliminary estimate due to, among other things, changes in interpretations and assumptions we previously made, guidance that was issued and actions we took as a result of the Tax Legislation. During 2018, we recognized a net tax benefit of \$29 million, as a reduction to income tax expense related to the provisional amounts. The accounting for income tax effects of the Tax Legislation has been completed. The impact of Tax Legislation is excluded from adjusted net income when evaluating segment performance.

**InfoArmor** On October 5, 2018, we acquired InfoArmor, Inc. ("InfoArmor"), a leading provider of identity protection in the employee benefits market, for \$525 million in cash. InfoArmor primarily offers identity protection to employees and their family members through voluntary benefit programs at over 1,400 firms, including more than 100 of the Fortune 500 companies. Starting in the fourth quarter of 2018, the Service Businesses segment includes the results of InfoArmor.

**PlumChoice** On November 30, 2018, we acquired PlumChoice, Inc. ("PlumChoice") for \$30 million in cash



to provide technical support services to SquareTrade's customers and small businesses.

*Investments* totaled \$81.26 billion as of December 31, 2018, decreasing from \$82.80 billion as of December 31, 2017.

*Shareholders' equity* As of December 31, 2018, shareholders' equity was \$21.31 billion. This total included \$1.50 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 \$57.56 as of December 31, 2018, a decrease from \$57.58 as of December 31, 2017.

*Return on average common shareholders' equity* For the twelve months ended December 31, 2018, net income applicable to common shareholders' return on the average of beginning and ending period common shareholders' equity of 10.5% decreased by 5.0 points from 15.5% for the twelve months ended December 31, 2017.

*Pension settlement loss* During 2018 and 2017, the Company's qualified employee pension plan lump sum payments exceeded a threshold of service and interest cost, which resulted in a pension settlement loss of \$172 million and \$122 million, pre-tax, respectively, and was recorded as part of operating costs and expenses in the Corporate and Other segment. The net periodic costs for the pension plans inclusive of pension settlement losses were \$257 million and \$255 million in 2018 and 2017, respectively.

*Common share repurchases* On October 31, 2018, the Board authorized a new \$3.00 billion common share repurchase program that is expected to be completed by April 2020. As of December 31, 2018, there was \$2.07 billion remaining on the repurchase program.

#### 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 prior to January 1, 2018. 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 2 of the consolidated financial statements for additional details on the adopted accounting standards.

| <b>Consolidated net income</b>                                    |                 |                 |                 |
|---|-----------------|-----------------|-----------------|
| <b>(\$ in millions)</b>   | <b>2018</b>     | <b>2017</b>     | <b>2016</b>     |
| <b>Revenues</b>   |                 |                 |                 |
| Property and casualty insurance premiums                          | \$ 34,048       | \$ 32,300       | \$ 31,307       |
| Life premiums and contract charges                                | 2,465           | 2,378           | 2,275           |
| Other revenue   | 939             | 883             | 865             |
| Net investment income <sup>(1)</sup>                              | 3,240           | 3,401           | 3,042           |
| Realized capital gains and losses:                                |                 |                 |                 |
| Total other-than-temporary impairment (“OTTI”) losses             | (13)            | (146)           | (313)           |
| OTTI losses reclassified (from) to other comprehensive income     | (1)             | (4)             | 10              |
| Net OTTI losses recognized in earnings                            | (14)            | (150)           | (303)           |
| Sales and valuation changes on equity investments and derivatives | (863)           | 595             | 213             |
| Total realized capital gains and losses <sup>(1)</sup>            | (877)           | 445             | (90)            |
| <b>Total revenues</b>   | <b>39,815</b>   | <b>39,407</b>   | <b>37,399</b>   |
| <b>Costs and expenses</b>   |                 |                 |                 |
| Property and casualty insurance claims and claims expense         | (22,839)        | (21,929)        | (22,221)        |
| Life contract benefits  | (1,973)         | (1,923)         | (1,857)         |
| Interest credited to contractholder funds                         | (654)           | (690)           | (726)           |
| Amortization of deferred policy acquisition costs                 | (5,222)         | (4,784)         | (4,550)         |
| Operating costs and expenses                                      | (5,869)         | (5,442)         | (4,939)         |
| Amortization of purchased intangible assets                       | (105)           | (99)            | (32)            |
| Restructuring and related charges                                 | (83)            | (109)           | (30)            |
| Goodwill impairment   | —               | (125)           | —               |
| Interest expense  | (332)           | (335)           | (295)           |
| <b>Total costs and expenses</b>                                   | <b>(37,077)</b> | <b>(35,436)</b> | <b>(34,650)</b> |
| Gain on disposition of operations                                 | 6               | 20              | 5               |
| Income tax expense <sup>(2)</sup>                                 | (492)           | (802)           | (877)           |
| <b>Net income</b>   | <b>2,252</b>    | <b>3,189</b>    | <b>1,877</b>    |
| Preferred stock dividends   | (148)           | (116)           | (116)           |
| <b>Net income applicable to common shareholders</b>               | <b>\$ 2,104</b> | <b>\$ 3,073</b> | <b>\$ 1,761</b> |

<sup>(1)</sup> 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 2 of the consolidated financial statements for further details.

<sup>(2)</sup> Beginning January 1, 2018, the Tax Legislation reduced the U.S. corporate income tax rate from 35% to 21%. 2018 and 2017 results include a Tax Legislation benefit of \$29 million and \$506 million, respectively. 2017 results also include a tax benefit of \$63 million related to the adoption of the new accounting standard for share-based payments on January 1, 2017.

## 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 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.

**Summarized financial data**

| (\$ in millions, except ratios)   | 2018            | 2017            | 2016            |
|---|-----------------|-----------------|-----------------|
| Premiums written  | \$ 33,555       | \$ 31,648       | \$ 30,891       |
| <b>Revenues</b>   |                 |                 |                 |
| Premiums earned   | \$ 32,950       | \$ 31,433       | \$ 30,727       |
| Other revenue   | 738             | 703             | 688             |
| Net investment income   | 1,464           | 1,478           | 1,253           |
| Realized capital gains and losses   | (639)           | 401             | (6)             |
| <b>Total revenues</b>   | <b>34,513</b>   | <b>34,015</b>   | <b>32,662</b>   |
| <b>Costs and expenses</b>   |                 |                 |                 |
| Claims and claims expense   | (22,495)        | (21,566)        | (21,968)        |
| Amortization of DAC   | (4,475)         | (4,205)         | (4,053)         |
| Operating costs and expenses  | (4,545)         | (4,262)         | (4,145)         |
| Restructuring and related charges   | (76)            | (91)            | (29)            |
| <b>Total costs and expenses</b>   | <b>(31,591)</b> | <b>(30,124)</b> | <b>(30,195)</b> |
| Gain on disposition of operations <sup>(1)</sup>  | —               | 14              | —               |
| Income tax expense  | (581)           | (1,318)         | (806)           |
| <b>Net income applicable to common shareholders</b>                                       | <b>\$ 2,341</b> | <b>\$ 2,587</b> | <b>\$ 1,661</b> |
| <b>Underwriting income</b>  |                 |                 |                 |
| Net investment income   | 1,464           | 1,478           | 1,253           |
| Income tax expense on operations  | (715)           | (1,119)         | (812)           |
| Realized capital gains and losses, after-tax  | (500)           | 272             | —               |
| Gain on disposition of operations, after-tax  | —               | 9               | —               |
| Tax Legislation expense   | (5)             | (65)            | —               |
| <b>Net income applicable to common shareholders</b>                                       | <b>\$ 2,341</b> | <b>\$ 2,587</b> | <b>\$ 1,661</b> |
| Catastrophe losses <sup>(2)</sup>   | \$ 2,855        | \$ 3,228        | \$ 2,571        |
| <b>GAAP operating ratios</b>  |                 |                 |                 |
| Claims and claims expense ratio   | 68.2            | 68.6            | 71.5            |
| Expense ratio <sup>(3)</sup>  | 25.4            | 25.0            | 24.5            |
| Combined ratio  | 93.6            | 93.6            | 96.0            |
| Effect of catastrophe losses on combined ratio  | 8.7             | 10.3            | 8.4             |
| Effect of prior year reserve reestimates on combined ratio <sup>(4)</sup>                 | (0.8)           | (1.6)           | (0.1)           |
| Effect of catastrophe losses included in prior year reserve reestimates on combined ratio | 0.1             | —               | —               |
| Effect of amortization of purchased intangible assets on combined ratio                   | —               | —               | 0.1             |
| Effect of restructuring and related charges on combined ratio                             | 0.2             | 0.3             | 0.1             |
| Effect of Discontinued Lines and Coverages on combined ratio                              | 0.2             | 0.3             | 0.3             |

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

<sup>(2)</sup> Prior year reserve reestimates included in catastrophe losses totaled \$25 million unfavorable, \$18 million favorable and \$6 million unfavorable in 2018, 2017 and 2016, respectively.

<sup>(3)</sup> Other revenue is deducted from operating costs and expenses in the expense ratio calculation.

<sup>(4)</sup> Prior year favorable reserve reestimates totaled \$253 million, \$505 million and \$21 million in 2018, 2017 and 2016, respectively.

**Net investment income** decreased 0.9% or \$14 million to \$1.46 billion in 2018 from \$1.48 billion in 2017 after increasing 18.0% in 2017 compared to 2016. The 2018 decrease was primarily due to lower performance-based investment results, primarily from limited partnerships, partially offset by higher market-based portfolio income. The 2017 increase benefited from strong performance-based results, primarily from limited partnerships, an increase in invested assets and stable market-based yields, partially offset by higher employee-related expenses. Limited partnership income includes asset appreciation and sales of underlying investments.

### Net investment income

| (\$ in millions)                             | For the years ended December 31, |                 |                 |
|--|----------------------------------|-----------------|-----------------|
|  | 2018                             | 2017            | 2016            |
| Fixed income securities                      | \$ 943                           | \$ 909          | \$ 870          |
| Equity securities                            | 121                              | 122             | 95              |
| Mortgage loans                               | 17                               | 12              | 11              |
| Limited partnership interests <sup>(1)</sup> | 378                              | 432             | 269             |
| Short-term investments                       | 40                               | 17              | 9               |
| Other  | 123                              | 100             | 89              |
| Investment income, before expense            | 1,622                            | 1,592           | 1,343           |
| Investment expense <sup>(2) (3)</sup>        | (158)                            | (114)           | (90)            |
| <b>Net investment income</b>                 | <b>\$ 1,464</b>                  | <b>\$ 1,478</b> | <b>\$ 1,253</b> |

<sup>(1)</sup> 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.

<sup>(2)</sup> Investment expense includes \$45 million, \$22 million and \$19 million of investee level expenses in 2018, 2017 and 2016, respectively, and has increased compared to prior year primarily due to growth in real estate investments. Investee level expenses include depreciation and asset level operating expenses on directly held real estate and other consolidated investments.

<sup>(3)</sup> Investment expense includes \$18 million, \$4 million and zero related to the portion of reinvestment income on securities lending collateral paid to the counterparties in 2018, 2017 and 2016, respectively.

**Realized capital gains and losses** Net realized capital losses in 2018, primarily related to decreases in the valuation of equity investments and losses on sales of fixed income securities. Realized capital gains and losses in 2017 primarily related to net gains on sales, as well as gains from valuation changes in public securities held in certain limited partnerships, partially offset by impairment and change in intent write-downs, and derivative valuation losses.

### Components of realized capital gains (losses) and the related tax effect

| (\$ in millions)                                    | For the years ended December 31, |               |             |
|---|----------------------------------|---------------|-------------|
|   | 2018                             | 2017          | 2016        |
| Impairment write-downs <sup>(1)</sup>               | \$ (5)                           | \$ (56)       | \$ (130)    |
| Change in intent write-downs <sup>(1)</sup>         | —                                | (44)          | (56)        |
| Net OTTI losses recognized in earnings              | (5)                              | (100)         | (186)       |
| Sales <sup>(1)</sup>                                | (148)                            | 531           | 185         |
| Valuation of equity investments <sup>(1)(2)</sup>   | (522)                            | —             | —           |
| Valuation and settlements of derivative instruments | 36                               | (30)          | (5)         |
| Realized capital gains and losses, pre-tax          | (639)                            | 401           | (6)         |
| Income tax benefit (expense)                        | 139                              | (129)         | 6           |
| <b>Realized capital gains and losses, after-tax</b> | <b>\$ (500)</b>                  | <b>\$ 272</b> | <b>\$ —</b> |

<sup>(1)</sup> 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.

<sup>(2)</sup> 2018 results include \$447 million of declines in the valuation of equity investments and \$75 million of declines in value primarily related to certain limited partnerships where the underlying assets are predominately public equity securities.

## Allstate Protection Segment

Private passenger auto, homeowners, and other personal lines insurance products are offered to consumers through agencies and directly through contact centers and online. Our strategy is to position product offerings and distribution channels to meet customers' evolving needs and help them manage the risks they face. For additional information on our strategy and outlook, see Part I, Item 1. Business - Strategy and Segment Information.

### Underwriting results

| (\$ in millions)                  | For the years ended December 31, |                 |                 |
|-----------------------------------|----------------------------------|-----------------|-----------------|
|                                   | 2018                             | 2017            | 2016            |
| Premiums written                  | \$ 33,555                        | \$ 31,648       | \$ 30,888       |
| Premiums earned                   | \$ 32,950                        | \$ 31,433       | \$ 30,727       |
| Other revenue                     | 738                              | 703             | 688             |
| Claims and claims expense         | (22,408)                         | (21,470)        | (21,863)        |
| Amortization of DAC               | (4,475)                          | (4,205)         | (4,053)         |
| Other costs and expenses          | (4,542)                          | (4,259)         | (4,143)         |
| Restructuring and related charges | (76)                             | (91)            | (29)            |
| <b>Underwriting income</b>        | <b>\$ 2,187</b>                  | <b>\$ 2,111</b> | <b>\$ 1,327</b> |
| Catastrophe losses                | \$ 2,855                         | \$ 3,228        | \$ 2,571        |

### Underwriting income (loss) by line of business

|                                     |                 |                 |                 |
|-------------------------------------|-----------------|-----------------|-----------------|
| Auto                                | \$ 1,681        | \$ 1,298        | \$ 156          |
| Homeowners                          | 457             | 658             | 1,075           |
| Other personal lines <sup>(1)</sup> | 94              | 124             | 160             |
| Commercial lines                    | (87)            | (19)            | (110)           |
| Other business lines <sup>(2)</sup> | 49              | 51              | 53              |
| Answer Financial                    | (7)             | (1)             | (7)             |
| <b>Underwriting income</b>          | <b>\$ 2,187</b> | <b>\$ 2,111</b> | <b>\$ 1,327</b> |

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

<sup>(2)</sup> Other business lines represent 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.

**Changes in underwriting results from prior year by component and by line of business <sup>(1)</sup>**

| (\$ in millions)  | For the years ended December 31, |                 |               |               |                      |               |                  |                |                                    |                 |
|---|----------------------------------|-----------------|---------------|---------------|----------------------|---------------|------------------|----------------|------------------------------------|-----------------|
|   | Auto                             |                 | Homeowners    |               | Other personal lines |               | Commercial lines |                | Allstate Protection <sup>(2)</sup> |                 |
|   | 2018                             | 2017            | 2018          | 2017          | 2018                 | 2017          | 2018             | 2017           | 2018                               | 2017            |
| Underwriting income (loss) - prior year                               | \$ 1,298                         | \$ 156          | \$ 658        | \$ 1,075      | \$ 124               | \$ 160        | \$ (19)          | \$ (110)       | \$ 2,111                           | \$ 1,327        |
| Changes in underwriting income (loss) from:                           |                                  |                 |               |               |                      |               |                  |                |                                    |                 |
| Increase (decrease) premiums earned                                   | 1,092                            | 614             | 207           | 53            | 58                   | 50            | 160              | (11)           | 1,517                              | 706             |
| Increase (decrease) other revenue                                     | 30                               | 10              | 3             | —             | 4                    | 1             | (2)              | —              | 35                                 | 15              |
| (Increase) decrease incurred claims and claims expense ("losses"):    |                                  |                 |               |               |                      |               |                  |                |                                    |                 |
| Incurred losses, excluding catastrophe losses and reserve reestimates | (623)                            | 623             | (262)         | (46)          | (71)                 | (29)          | (137)            | 51             | (1,093)                            | 599             |
| Catastrophe losses, excluding reserve reestimates                     | 336                              | (150)           | 92            | (526)         | (13)                 | (12)          | 1                | 7              | 416                                | (681)           |
| Catastrophe reserve reestimates                                       | 24                               | 7               | (72)          | 18            | 4                    | (5)           | 1                | 4              | (43)                               | 24              |
| Non-catastrophe reserve reestimates                                   | (59)                             | 328             | (73)          | 89            | 4                    | (5)           | (90)             | 39             | (218)                              | 451             |
| Losses subtotal   | (322)                            | 808             | (315)         | (465)         | (76)                 | (51)          | (225)            | 101            | (938)                              | 393             |
| (Increase) decrease expenses  | (417)                            | (290)           | (96)          | (5)           | (16)                 | (36)          | (1)              | 1              | (538)                              | (330)           |
| <b>Underwriting income (loss)</b>                                     | <b>\$ 1,681</b>                  | <b>\$ 1,298</b> | <b>\$ 457</b> | <b>\$ 658</b> | <b>\$ 94</b>         | <b>\$ 124</b> | <b>\$ (87)</b>   | <b>\$ (19)</b> | <b>\$ 2,187</b>                    | <b>\$ 2,111</b> |

(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 \$49 million and \$51 million in 2018 and 2017, respectively, and Answer Financial underwriting loss of \$7 million and \$1 million in 2018 and 2017, respectively.

**Underwriting income** totaled \$2.19 billion in 2018, a 3.6% increase from \$2.11 billion in 2017, primarily due to increased premiums earned, lower catastrophe losses and improved auto claim frequency, partially offset by higher claim severity, operating costs and expenses and lower favorable prior year reserve reestimates. Underwriting income totaled \$2.11 billion in 2017, a 59.1% increase from \$1.33 billion in 2016, primarily due to increased premiums earned, lower loss costs and higher favorable prior year reserve reestimates, partially offset by higher catastrophe losses.

**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 Consolidated Statements of Financial Position.

## Premiums written and earned by line of business

| (\$ in millions)  | For the years ended December 31, |                  |                  |
|---|----------------------------------|------------------|------------------|
|   | 2018                             | 2017             | 2016             |
| <b>Premiums written</b>                                       |                                  |                  |                  |
| Auto  | \$ 23,367                        | \$ 22,042        | \$ 21,425        |
| Homeowners  | 7,698                            | 7,350            | 7,240            |
| Other personal lines  | 1,831                            | 1,768            | 1,724            |
| Subtotal – Personal lines                                     | 32,896                           | 31,160           | 30,389           |
| Commercial lines  | 659                              | 488              | 499              |
| <b>Total premiums written</b>                                 | <b>\$ 33,555</b>                 | <b>\$ 31,648</b> | <b>\$ 30,888</b> |
| <i>Reconciliation of premiums written to premiums earned:</i> |                                  |                  |                  |
| Increase in unearned premiums                                 | (544)                            | (258)            | (181)            |
| Other   | (61)                             | 43               | 20               |
| <b>Total premiums earned</b>                                  | <b>\$ 32,950</b>                 | <b>\$ 31,433</b> | <b>\$ 30,727</b> |
| Auto  | \$ 22,970                        | \$ 21,878        | \$ 21,264        |
| Homeowners  | 7,517                            | 7,310            | 7,257            |
| Other personal lines  | 1,808                            | 1,750            | 1,700            |
| Subtotal – Personal lines                                     | 32,295                           | 30,938           | 30,221           |
| Commercial lines  | 655                              | 495              | 506              |
| <b>Total premiums earned</b>                                  | <b>\$ 32,950</b>                 | <b>\$ 31,433</b> | <b>\$ 30,727</b> |

*Auto insurance premiums written* totaled \$23.37 billion in 2018, a 6.0% increase from \$22.04 billion in 2017, following a 2.9% increase in 2017 from \$21.43 billion in 2016.

*Homeowners insurance premiums written* totaled \$7.70 billion in 2018, a 4.7% increase from \$7.35 billion in 2017, following a 1.5% increase from \$7.24 billion in 2016. Excluding the cost of catastrophe reinsurance, which is recorded as a reduction to premiums, premiums written increased 4.3% in 2018 compared to 2017. For a more detailed discussion on reinsurance, see the Claims and Claims Expense Reserves section of this Item and Note 10 of the consolidated financial statements.

## Unearned premium balance and the time frame in which we expect to recognize these premiums as earned

| (\$ in millions)                             | as of December 31, |                  | % earned after |              |              |               |
|--|--------------------|------------------|----------------|--------------|--------------|---------------|
|  | 2018               | 2017             | Three months   | Six months   | Nine months  | Twelve months |
| <b>Allstate brand:</b>                       |                    |                  |                |              |              |               |
| Auto   | \$ 5,635           | \$ 5,344         | 71.1%          | 96.6%        | 99.2%        | 100.0%        |
| Homeowners                                   | 3,908              | 3,745            | 43.3%          | 75.4%        | 94.1%        | 100.0%        |
| Other personal lines                         | 917                | 895              | 43.4%          | 75.3%        | 94.1%        | 100.0%        |
| Commercial lines                             | 250                | 246              | 44.0%          | 75.2%        | 93.9%        | 100.0%        |
| <b>Total Allstate brand</b>                  | <b>10,710</b>      | <b>10,230</b>    | <b>58.1%</b>   | <b>86.7%</b> | <b>96.8%</b> | <b>100.0%</b> |
| <b>Esurance brand:</b>                       |                    |                  |                |              |              |               |
| Auto   | 471                | 404              | 74.4%          | 99.1%        | 99.8%        | 100.0%        |
| Homeowners                                   | 53                 | 42               | 43.4%          | 75.5%        | 94.2%        | 100.0%        |
| Other personal lines                         | 2                  | 2                | 43.5%          | 75.4%        | 94.1%        | 100.0%        |
| <b>Total Esurance brand</b>                  | <b>526</b>         | <b>448</b>       | <b>71.1%</b>   | <b>96.6%</b> | <b>99.2%</b> | <b>100.0%</b> |
| <b>Encompass brand:</b>                      |                    |                  |                |              |              |               |
| Auto   | 275                | 275              | 43.9%          | 75.7%        | 94.2%        | 100.0%        |
| Homeowners                                   | 212                | 216              | 43.8%          | 75.7%        | 94.2%        | 100.0%        |
| Other personal lines                         | 42                 | 44               | 44.1%          | 75.8%        | 94.2%        | 100.0%        |
| <b>Total Encompass brand</b>                 | <b>529</b>         | <b>535</b>       | <b>43.8%</b>   | <b>75.7%</b> | <b>94.2%</b> | <b>100.0%</b> |
| <b>Allstate Protection unearned premiums</b> | <b>\$ 11,765</b>   | <b>\$ 11,213</b> | <b>58.1%</b>   | <b>86.6%</b> | <b>96.8%</b> | <b>100.0%</b> |



**Combined ratios by line of business**

|                      | For the years ended December 31, |             |             |                              |             |             |                |             |             |
|----------------------|----------------------------------|-------------|-------------|------------------------------|-------------|-------------|----------------|-------------|-------------|
|                      | Loss ratio                       |             |             | Expense ratio <sup>(1)</sup> |             |             | Combined ratio |             |             |
|                      | 2018                             | 2017        | 2016        | 2018                         | 2017        | 2016        | 2018           | 2017        | 2016        |
| Auto                 | 67.0                             | 68.9        | 74.7        | 25.7                         | 25.2        | 24.6        | 92.7           | 94.1        | 99.3        |
| Homeowners           | 69.5                             | 67.2        | 61.3        | 24.4                         | 23.8        | 23.9        | 93.9           | 91.0        | 85.2        |
| Other personal lines | 66.2                             | 64.0        | 62.9        | 28.6                         | 28.9        | 27.7        | 94.8           | 92.9        | 90.6        |
| Commercial lines     | 91.5                             | 75.5        | 93.9        | 21.8                         | 28.3        | 27.8        | 113.3          | 103.8       | 121.7       |
| <b>Total</b>         | <b>68.0</b>                      | <b>68.3</b> | <b>71.2</b> | <b>25.4</b>                  | <b>25.0</b> | <b>24.5</b> | <b>93.4</b>    | <b>93.3</b> | <b>95.7</b> |

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

**Loss ratios by line of business**

|                      | For the years ended December 31, |             |             |  |             |            |  |              |              |   |              |          |
|----------------------|----------------------------------|-------------|-------------|--|-------------|------------|--|--------------|--------------|---|--------------|----------|
|                      | Loss ratio                       |             |             | Effect of catastrophe losses on combined ratio |             |            | Effect of prior year reserve reestimates on combined ratio |              |              | Effect of catastrophe losses included in prior year reserve reestimates on combined ratio |              |          |
|                      | 2018                             | 2017        | 2016        | 2018   | 2017        | 2016       | 2018   | 2017         | 2016         | 2018  | 2017         | 2016     |
| Auto                 | 67.0                             | 68.9        | 74.7        | 1.6  | 3.3         | 2.7        | (2.0)  | (2.2)        | (0.7)        | (0.2)   | (0.1)        | —        |
| Homeowners           | 69.5                             | 67.2        | 61.3        | 30.0   | 31.2        | 24.4       | 0.2  | (1.8)        | (0.3)        | 0.9   | (0.1)        | 0.2      |
| Other personal lines | 66.2                             | 64.0        | 62.9        | 12.1   | 11.9        | 11.3       | (0.4)  | 0.1          | (0.5)        | —   | 0.2          | (0.1)    |
| Commercial lines     | 91.5                             | 75.5        | 93.9        | 3.4  | 4.8         | 6.9        | 16.5   | 3.8          | 12.2         | —   | 0.2          | 1.0      |
| <b>Total</b>         | <b>68.0</b>                      | <b>68.3</b> | <b>71.2</b> | <b>8.7</b>                                     | <b>10.3</b> | <b>8.4</b> | <b>(1.0)</b>   | <b>(1.9)</b> | <b>(0.4)</b> | <b>0.1</b>  | <b>(0.1)</b> | <b>—</b> |

**Catastrophe losses** were \$2.86 billion in 2018, compared to \$3.23 billion in 2017 and \$2.57 billion in 2016. 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.

**Catastrophe losses in 2018 by the size of event**

| (\$ in millions)                | Number of Events |               | Claims and claims expense |               | Combined ratio impact | Average catastrophe loss per event |
|---------------------------------|------------------|---------------|---------------------------|---------------|-----------------------|------------------------------------|
| <b>Size of catastrophe loss</b> |                  |               |                           |               |                       |                                    |
| Greater than \$250 million      | 1                | 0.8%          | \$ 469                    | 16.4%         | 1.4                   | \$ 469                             |
| \$101 million to \$250 million  | 5                | 4.3           | 769                       | 26.9          | 2.3                   | 154                                |
| \$50 million to \$100 million   | 9                | 7.7           | 694                       | 24.3          | 2.1                   | 77                                 |
| Less than \$50 million          | 102              | 87.2          | 898                       | 31.5          | 2.8                   | 9                                  |
| <b>Total</b>                    | <b>117</b>       | <b>100.0%</b> | <b>2,830</b>              | <b>99.1</b>   | <b>8.6</b>            | <b>24</b>                          |
| Prior year reserve reestimates  |                  |               | 25                        | 0.9           | 0.1                   |                                    |
| <b>Total catastrophe losses</b> |                  |               | <b>\$ 2,855</b>           | <b>100.0%</b> | <b>8.7</b>            |                                    |

**Catastrophe losses by the type of event**

| (\$ in millions)                | For the years ended December 31, |                 |                  |                 |                  |                 |
|---------------------------------|----------------------------------|-----------------|------------------|-----------------|------------------|-----------------|
|                                 | Number of events                 | 2018            | Number of events | 2017            | Number of events | 2016            |
| Hurricanes/Tropical storms      | 3                                | \$ 200          | 3                | \$ 613          | 2                | \$ 156          |
| Tornadoes                       | 3                                | 17              | 3                | 100             | 2                | 7               |
| Wind/Hail                       | 99                               | 1,752           | 93               | 1,973           | 72               | 2,255           |
| Wildfires                       | 10                               | 745             | 10               | 536             | 8                | 92              |
| Other events                    | 2                                | 116             | 2                | 24              | 2                | 55              |
| Prior year reserve reestimates  |                                  | 25              |                  | (18)            |                  | 6               |
| <b>Total catastrophe losses</b> | <b>117</b>                       | <b>\$ 2,855</b> | <b>111</b>       | <b>\$ 3,228</b> | <b>86</b>        | <b>\$ 2,571</b> |

## Catastrophe management

**Historical catastrophe experience** For the last ten years, the average annual impact of catastrophes on our loss ratio was 8.4 points, but it has varied from 4.5 points to 14.7 points. The average annual impact of catastrophes on the homeowners loss ratio for the last ten years was 32.0 points. 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, limited by our participation in various state facilities. For further discussion of these facilities, see Note 14 of the consolidated financial statements. However, the impact of these actions may be diminished by the growth in insured values, and the effect of state insurance laws and regulations. In addition, in various states we are required to participate in assigned risk plans, reinsurance facilities and joint underwriting associations that provide insurance coverage to individuals or entities that otherwise are unable to purchase such coverage from private insurers. Because of our participation in these and other state facilities such as wind pools, we may be exposed to losses that surpass the capitalization of these facilities and to assessments from these facilities.

We have continued to take actions to maintain an appropriate level of exposure to catastrophic events while continuing to meet the needs of our customers, including the following:

- Continuing to limit or not offer new homeowners, manufactured home and landlord package policy business in certain coastal geographies.
- Increased capacity in our brokerage platform for customers not offered an Allstate policy.
- In 2016, we began to write a limited number of homeowners policies in select areas of California. We continue to renew current policyholders and allow replacement policies for existing customers who buy a new home, or change their residence to rental property. Additionally, we write homeowners coverage through North Light Specialty Insurance Company ("North Light"), which includes earthquake coverage (other than fire following earthquakes) that is currently ceded via quota share reinsurance.
- In certain states, we have been ceding wind exposure related to insured property located in wind pool eligible areas.
- Starting in the second quarter of 2017, we began writing a limited number of homeowners policies in select areas of Florida and continue to support existing customers who replace their currently-insured home with an acceptable property. Encompass withdrew from property lines in Florida in 2009.
- Tropical cyclone deductibles are generally higher than all peril deductibles and are in place for a large portion of coastal insured properties.
- Auto physical damage coverage generally includes coverage for flood-related loss. We have additional catastrophe exposure, beyond the property lines, for auto customers who have purchased physical

damage coverage. We manage this additional exposure through inclusion of auto losses in our nationwide reinsurance program, including Florida personal lines automobile business, as of June 1, 2016. New Jersey is excluded from the nationwide reinsurance program, but auto losses are included in our New Jersey reinsurance program.

- We offer a homeowners policy available in 42 states and the District of Columbia ("D.C."), Allstate Home and Home®, that provides options of coverage for roof damage, including graduated coverage and pricing based on roof type and age.

**Hurricanes** We consider the greatest areas of potential catastrophe losses due to hurricanes generally to be major metropolitan centers in counties along the eastern and gulf coasts of the United States. Usually, the average premium on a property policy near these coasts is greater than in other areas. However, average premiums are often not considered commensurate with the inherent risk of loss. In addition and as explained in Note 14 of the consolidated financial statements, in various states Allstate is subject to assessments from assigned risk plans, reinsurance facilities and joint underwriting associations providing insurance for wind related property losses.

We have addressed our risk of hurricane loss by, among other actions, purchasing reinsurance for specific states and on a countrywide basis for our personal lines property insurance in areas most exposed to hurricanes, limiting personal homeowners, landlord package policy and manufactured home new business writings in coastal areas in southern and eastern states, implementing tropical cyclone deductibles where appropriate, and not offering continuing coverage on certain policies in coastal counties in certain states. We continue to seek appropriate returns for the risks we write. This may require further actions, similar to those already taken, in geographies where we are not getting appropriate returns. However, we may maintain or opportunistically increase our presence in areas where adequate risk adjusted returns can be achieved.

**Earthquakes** We do not offer earthquake coverage in most states. We retain approximately 23,000 PIF with earthquake coverage, primarily in Kentucky, due to regulatory and other reasons. We purchase reinsurance in Kentucky and enter into arrangements in many states to make earthquake coverage available through our brokerage platform.

We continue to have exposure to earthquake risk on certain policies that do not specifically exclude coverage for earthquake losses, including our auto policies, and to fires following earthquakes. Allstate policyholders in California are offered homeowners coverage through the California Earthquake Authority ("CEA"), a privately-financed, publicly-managed state agency created to provide insurance coverage for earthquake damage. Allstate is subject to assessments from the CEA under certain circumstances as explained in Note 14 of the consolidated financial statements. While North Light writes property policies in California, which can include

earthquake coverage, this coverage is 100% ceded via quota share reinsurance.

**Fires Following Earthquakes** Under a standard homeowners policy we cover fire losses, including those caused by an earthquake. Actions taken related to our risk of loss from fires following earthquakes include restrictive underwriting guidelines in California for new business writings, purchasing reinsurance for Kentucky personal lines property risks, and purchasing nationwide occurrence reinsurance, excluding Florida and New Jersey.

**Wildfires** Actions taken related to managing our risk of loss from wildfires include purchasing nationwide occurrence reinsurance, new and renewal inspection programs to identify and remediate wildfire risk as well as leveraging contemporary underwriting tools in select areas. While these programs are designed to mitigate risk, the exposure to wildfires still

**Expense ratio** increased 0.4 points in 2018 compared to 2017.

exists. We continue to manage our exposure and seek appropriate returns for the risks we write. For example, despite writing a limited number of homeowner risks in select geographies in California over the last three years, our overall homeowner exposures in California have declined approximately 50% since 2007.

To manage the exposure, this may require further actions, similar to those already taken, in geographies where we are not achieving appropriate returns. However, we may maintain or opportunistically increase our presence in areas where adequate risk adjusted returns can be achieved.

**Reinsurance** A description of our current catastrophe reinsurance program appears in Note 10 of the consolidated financial statements.

#### Expense ratios by line of business

|   | For the years ended December 31, |             |             |
|---|----------------------------------|-------------|-------------|
|   | 2018                             | 2017        | 2016        |
| Auto                                      | 25.7                             | 25.2        | 24.6        |
| Homeowners                                | 24.4                             | 23.8        | 23.9        |
| Other personal lines                      | 28.6                             | 28.9        | 27.7        |
| Commercial lines                          | 21.8                             | 28.3        | 27.8        |
| <b>Total expense ratio <sup>(1)</sup></b> | <b>25.4</b>                      | <b>25.0</b> | <b>24.5</b> |

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

#### Impact of specific costs and expenses on the expense ratio

|   | For the years ended December 31, |             |             |
|---|----------------------------------|-------------|-------------|
|   | 2018                             | 2017        | 2016        |
| Amortization of DAC                         | 13.6                             | 13.4        | 13.2        |
| Advertising expense                         | 2.5                              | 2.2         | 2.5         |
| Amortization of purchased intangible assets | —                                | —           | 0.1         |
| Other costs and expenses                    | 9.1                              | 9.1         | 8.6         |
| Restructuring and related charges           | 0.2                              | 0.3         | 0.1         |
| <b>Total expense ratio <sup>(1)</sup></b>   | <b>25.4</b>                      | <b>25.0</b> | <b>24.5</b> |

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

**Deferred acquisition costs** We establish a DAC asset for costs that are related directly to the successful acquisition of new or renewal insurance policies, principally agency remuneration and premium taxes. DAC is amortized to income over the period in which premiums are earned.

#### DAC balance as of December 31 by product type

| (\$ in millions)     | 2018            | 2017            |
|----------------------|-----------------|-----------------|
| Auto                 | \$ 845          | \$ 789          |
| Homeowners           | 599             | 558             |
| Other personal lines | 141             | 132             |
| Commercial lines     | 33              | 31              |
| <b>Total DAC</b>     | <b>\$ 1,618</b> | <b>\$ 1,510</b> |

The following table presents premiums written, PIF and underwriting income (loss) by line of business for Allstate brand, Esurance brand, Encompass brand and Allstate Protection as of or for the year ended December 31, 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.

| <b>Premiums written, policies in force and underwriting income (loss)</b> |                  |                        |                 |                        |                 |                        |                     |                  |
|---|------------------|------------------------|-----------------|------------------------|-----------------|------------------------|---------------------|------------------|
| (\$ in millions)  | Allstate brand   |                        | Esurance brand  |                        | Encompass brand |                        | Allstate Protection |                  |
|   | Amount           | Percent to total brand | Amount          | Percent to total brand | Amount          | Percent to total brand | Amount              | Percent to total |
| <b>Premiums written</b>   |                  |                        |                 |                        |                 |                        |                     |                  |
| Auto  | \$ 20,991        | 68.6 %                 | \$ 1,839        | 94.4%                  | \$ 537          | 52.8 %                 | \$ 23,367           | 69.6 %           |
| Homeowners  | 7,199            | 23.5                   | 101             | 5.2                    | 398             | 39.2                   | 7,698               | 22.9             |
| Other personal lines  | 1,742            | 5.7                    | 8               | 0.4                    | 81              | 8.0                    | 1,831               | 5.5              |
| Commercial lines  | 659              | 2.2                    | —               | —                      | —               | —                      | 659                 | 2.0              |
| <b>Total</b>  | <b>\$ 30,591</b> | <b>100.0 %</b>         | <b>\$ 1,948</b> | <b>100.0%</b>          | <b>\$ 1,016</b> | <b>100.0 %</b>         | <b>\$ 33,555</b>    | <b>100.0 %</b>   |
| <b>Percent to total Allstate Protection</b>                               |                  | <b>91.2 %</b>          |                 | <b>5.8%</b>            |                 | <b>3.0 %</b>           |                     | <b>100.0 %</b>   |
| <b>PIF (thousands)</b>  |                  |                        |                 |                        |                 |                        |                     |                  |
| Auto  | 20,104           | 65.2 %                 | 1,488           | 91.4%                  | 502             | 61.3 %                 | 22,094              | 66.4 %           |
| Homeowners  | 6,186            | 20.1                   | 95              | 5.8                    | 239             | 29.2                   | 6,520               | 19.6             |
| Other personal lines  | 4,295            | 13.9                   | 46              | 2.8                    | 78              | 9.5                    | 4,419               | 13.3             |
| Commercial lines  | 231              | 0.8                    | —               | —                      | —               | —                      | 231                 | 0.7              |
| <b>Total</b>  | <b>30,816</b>    | <b>100.0 %</b>         | <b>1,629</b>    | <b>100.0%</b>          | <b>819</b>      | <b>100.0 %</b>         | <b>33,264</b>       | <b>100.0 %</b>   |
| <b>Percent to total Allstate Protection</b>                               |                  | <b>92.6 %</b>          |                 | <b>4.9%</b>            |                 | <b>2.5 %</b>           |                     | <b>100.0 %</b>   |
| <b>Underwriting income (loss)</b>   |                  |                        |                 |                        |                 |                        |                     |                  |
| Auto  | \$ 1,681         | 76.2 %                 | \$ (11)         | 44.0%                  | \$ 11           | 84.6 %                 | \$ 1,681            | 76.9 %           |
| Homeowners  | 472              | 21.4                   | (14)            | 56.0                   | (1)             | (7.7)                  | 457                 | 20.9             |
| Other personal lines  | 91               | 4.1                    | —               | —                      | 3               | 23.1                   | 94                  | 4.3              |
| Commercial lines  | (87)             | (3.9)                  | —               | —                      | —               | —                      | (87)                | (4.0)            |
| Other business lines  | 49               | 2.2                    | —               | —                      | —               | —                      | 49                  | 2.2              |
| Answer Financial  | —                | —                      | —               | —                      | —               | —                      | (7)                 | (0.3)            |
| <b>Total</b>  | <b>\$ 2,206</b>  | <b>100.0 %</b>         | <b>\$ (25)</b>  | <b>100.0%</b>          | <b>\$ 13</b>    | <b>100.0 %</b>         | <b>\$ 2,187</b>     | <b>100.0 %</b>   |

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. Commercial lines PIF for the agreement with a transportation network company reflects corporate contracts as opposed to individual driver counts.
- **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 generally 12 months for auto and homeowners.
- **Renewal ratio:** Renewal policy item counts issued during the period, based on contract effective dates, divided by the total policy item counts issued 6 months prior for auto (generally 12 months prior for Encompass brand) or 12 months prior for homeowners.



Allstate brand products are sold primarily through Allstate exclusive agencies and serve customers who prefer local personalized advice and service and are brand-sensitive. In 2018, the Allstate brand represented 91.2% of the Allstate Protection segment's written premium. For additional information on our strategy and outlook, see Part I, Item 1. Business - Strategy and Segment Information.

### Underwriting results

| (\$ in millions)                                      | For the years ended December 31, |                 |                 |
|---|----------------------------------|-----------------|-----------------|
|   | 2018                             | 2017            | 2016            |
| Premiums written                                      | \$ 30,591                        | \$ 28,885       | \$ 28,059       |
| Premiums earned                                       | \$ 30,058                        | \$ 28,631       | \$ 27,865       |
| Other revenue   | 582                              | 559             | 545             |
| Claims and claims expense                             | (20,296)                         | (19,352)        | (19,750)        |
| Amortization of DAC                                   | (4,242)                          | (3,963)         | (3,791)         |
| Other costs and expenses                              | (3,828)                          | (3,591)         | (3,385)         |
| Restructuring and related charges                     | (68)                             | (83)            | (27)            |
| <b>Underwriting income</b>                            | <b>\$ 2,206</b>                  | <b>\$ 2,201</b> | <b>\$ 1,457</b> |
| Catastrophe losses                                    | \$ 2,701                         | \$ 2,985        | \$ 2,424        |
| <b>Underwriting income (loss) by line of business</b> |                                  |                 |                 |
| Auto  | \$ 1,681                         | \$ 1,331        | \$ 250          |
| Homeowners  | 472                              | 725             | 1,098           |
| Other personal lines <sup>(1)</sup>                   | 91                               | 113             | 166             |
| Commercial lines                                      | (87)                             | (19)            | (110)           |
| Other business lines <sup>(2)</sup>                   | 49                               | 51              | 53              |
| <b>Underwriting income</b>                            | <b>\$ 2,206</b>                  | <b>\$ 2,201</b> | <b>\$ 1,457</b> |

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

<sup>(2)</sup> Other business lines represent Ivantage.

### Changes in underwriting results from prior year by component <sup>(1)</sup>

| (\$ in millions)  | For the years ended December 31, |                 |
|---|----------------------------------|-----------------|
|   | 2018                             | 2017            |
| Underwriting income - prior year                                      | \$ 2,201                         | \$ 1,457        |
| Changes in underwriting income (loss) from:                           |                                  |                 |
| Increase (decrease) premiums earned                                   | 1,427                            | 766             |
| Increase (decrease) other revenue                                     | 23                               | 14              |
| (Increase) decrease incurred claims and claims expense ("losses"):    |                                  |                 |
| Incurred losses, excluding catastrophe losses and reserve reestimates | (1,002)                          | 506             |
| Catastrophe losses, excluding reserve reestimates                     | 311                              | (583)           |
| Catastrophe reserve reestimates                                       | (27)                             | 22              |
| Non-catastrophe reserve reestimates                                   | (226)                            | 453             |
| Losses subtotal   | (944)                            | 398             |
| (Increase) decrease expenses  | (501)                            | (434)           |
| <b>Underwriting income</b>  | <b>\$ 2,206</b>                  | <b>\$ 2,201</b> |

<sup>(1)</sup> The 2018 column presents changes in 2018 compared to 2017. The 2017 column presents changes in 2017 compared to 2016.

**Underwriting income** totaled \$2.21 billion in 2018, a 0.2% increase from \$2.20 billion in 2017, primarily due to increased premiums earned, lower catastrophe losses and improved auto claim frequency, partially offset by higher claim severity, agency and employee-related compensation costs and advertising costs and lower favorable non-catastrophe prior year reserve reestimates.

Underwriting income totaled \$2.20 billion in 2017, a 51.1% increase from \$1.46 billion in 2016, primarily due to increased premiums earned, lower claim frequency and higher favorable prior year reserve reestimates, partially offset by higher catastrophe losses and agency and employee-related compensation costs.

**Premiums written and earned by line of business**

| (\$ in millions)          | For the years ended December 31, |                  |                  |
|---------------------------|----------------------------------|------------------|------------------|
|                           | 2018                             | 2017             | 2016             |
| <b>Premiums written</b>   |                                  |                  |                  |
| Auto                      | \$ 20,991                        | \$ 19,859        | \$ 19,209        |
| Homeowners                | 7,199                            | 6,865            | 6,730            |
| Other personal lines      | 1,742                            | 1,673            | 1,621            |
| Subtotal – Personal lines | 29,932                           | 28,397           | 27,560           |
| Commercial lines          | 659                              | 488              | 499              |
| <b>Total</b>              | <b>\$ 30,591</b>                 | <b>\$ 28,885</b> | <b>\$ 28,059</b> |
| <b>Premiums earned</b>    |                                  |                  |                  |
| Auto                      | \$ 20,662                        | \$ 19,676        | \$ 19,031        |
| Homeowners                | 7,025                            | 6,811            | 6,736            |
| Other personal lines      | 1,716                            | 1,649            | 1,592            |
| Subtotal – Personal lines | 29,403                           | 28,136           | 27,359           |
| Commercial lines          | 655                              | 495              | 506              |
| <b>Total</b>              | <b>\$ 30,058</b>                 | <b>\$ 28,631</b> | <b>\$ 27,865</b> |

**Auto premium measures and statistics**

|   | 2018   | 2017               | 2016   |
|---|--------|--------------------|--------|
| PIF (thousands)                         | 20,104 | 19,580             | 19,742 |
| New issued applications (thousands)     | 2,933  | 2,520              | 2,312  |
| Average premium                         | \$ 570 | \$ 550             | \$ 523 |
| Renewal ratio (%)                       | 88.5   | 87.6               | 87.8   |
| Approved rate changes <sup>(1)</sup> :  |        |                    |        |
| # of locations <sup>(2)</sup>           | 47     | 49                 | 53     |
| Total brand (%) <sup>(3)</sup>          | 1.1    | 4.0 <sup>(6)</sup> | 7.2    |
| Location specific (%) <sup>(4)(5)</sup> | 2.9    | 6.0 <sup>(6)</sup> | 8.1    |

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

<sup>(2)</sup> Allstate brand operates in 50 states, D.C. and 5 Canadian provinces.

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

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

<sup>(5)</sup> Based on historical premiums written in the locations noted above, rate changes approved for auto totaled \$215 million, \$773 million and \$1.33 billion in 2018, 2017 and 2016, respectively.

<sup>(6)</sup> Includes a rate increase in California in first and fourth quarter 2017. Excluding California, Allstate brand auto total brand and location specific rate changes were 2.7% and 4.7% in 2017.

Auto insurance premiums written totaled \$20.99 billion in 2018, a 5.7% increase from \$19.86 billion in 2017. Factors impacting premiums written were:

- 2.7% or 524 thousand increase in PIF as of December 31, 2018 compared to December 31, 2017. The rate of PIF change compared to the prior year improved throughout 2018. Auto PIF increased in 40 states, including 8 of our largest 10 states, as of December 31, 2018 compared to December 31, 2017.
- 0.9 point increase in the renewal ratio in 2018 compared to 2017. 48 states, including 9 of our largest 10 states, experienced increases in the renewal ratio in 2018 compared to 2017.
- 16.4% increase in new issued applications in 2018 compared to 2017. 43 states, including 9 of our largest 10 states, experienced increases in new issued applications in 2018 compared to 2017, with 34 states experiencing double digit increases.

- 3.6% increase in average premium in 2018 compared to 2017, primarily due to rate increases approved in 2017.

Auto insurance premiums written totaled \$19.86 billion in 2017, a 3.4% increase from \$19.21 billion in 2016. Factors impacting premiums written were:

- 0.8% or 162 thousand decrease in PIF as of December 31, 2017 compared to December 31, 2016. The rate of PIF change compared to the prior year improved throughout 2017. Auto PIF increased in 18 states, including 3 of our largest 10 states, as of December 31, 2017 compared to December 31, 2016.
- 9.0% increase in new issued applications in 2017 compared to 2016. 38 states, including 9 of our largest 10 states, experienced increases in new issued applications in 2017 compared to 2016, with 20 states experiencing double digit increases.
- 5.2% increase in average premium in 2017 compared to 2016, primarily due to rate increases.

- 0.2 point decrease in the renewal ratio in 2017 compared to 2016. 20 states, including 3 of our largest 10 states, experienced increases in the renewal ratio in 2017 compared to 2016.

### Homeowners premium measures and statistics

|                                     | 2018     | 2017     | 2016     |
|-------------------------------------|----------|----------|----------|
| PIF (thousands)                     | 6,186    | 6,088    | 6,120    |
| New issued applications (thousands) | 826      | 733      | 712      |
| Average premium                     | \$ 1,231 | \$ 1,197 | \$ 1,177 |
| Renewal ratio (%)                   | 88.0     | 87.3     | 87.8     |
| Approved rate changes (1):          |          |          |          |
| # of locations (2)                  | 40       | 30       | 40       |
| Total brand (%)                     | 2.7      | 1.8      | 1.1 (4)  |
| Location specific (%) (3)           | 4.3      | 3.7      | 2.2 (4)  |

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

(2) Allstate brand operates in 50 states, D.C., and 5 Canadian provinces.

(3) Based on historical premiums written in the locations noted above, rate changes approved for homeowners totaled \$189 million, \$122 million and \$75 million in 2018, 2017 and 2016, respectively.

(4) Includes the impact of a rate decrease in California in first quarter 2016. Excluding California, Allstate brand homeowners total brand and location specific rate changes were 2.1% and 5.1% in 2016, respectively.

*Homeowners insurance premiums written* totaled \$7.20 billion in 2018, a 4.9% increase from \$6.87 billion in 2017. Factors impacting premiums written were:

- 1.6% or 98 thousand increase in PIF as of December 31, 2018 compared to December 31, 2017. Allstate brand homeowners PIF increased in 32 states, including 5 of our largest 10 states, as of December 31, 2018 compared to December 31, 2017.
- 0.7 point increase in the renewal ratio in 2018 compared to 2017. Of our largest 10 states, 9 experienced an increase in the renewal ratio in 2018 compared to 2017.
- 12.7% increase in new issued applications in 2018 compared to 2017. Of our largest 10 states, 8 experienced increases in new issued applications in 2018 compared to 2017.
- 2.8% increase in average premium in 2018 compared to 2017 primarily due to rate increases and increasing insured home valuations due to inflation.
- \$19 million decrease in the cost of our catastrophe reinsurance program to \$264 million in 2018 from \$283 million in 2017. Catastrophe placement premiums are recorded primarily in the Allstate brand and are a reduction of premium.

Premiums written for Allstate's House and Home product, our homeowners offering currently available in 42 states and D.C., totaled \$2.87 billion in 2018 compared to \$2.34 billion in 2017.

Homeowners insurance premiums written totaled \$6.87 billion in 2017, a 2.0% increase from \$6.73 billion in 2016. Factors impacting premiums written were:

- 0.5% or 32 thousand decrease in PIF as of December 31, 2017 compared to December 31, 2016. Allstate brand homeowners PIF increased in 20 states, including 4 of our largest 10 states, as of

December 31, 2017 compared to December 31, 2016.

- 2.9% increase in new issued applications in 2017 compared to 2016. Of our largest 10 states, 6 experienced increases in new issued applications in 2017 compared to 2016.
- 1.7% increase in average premium in 2017 compared to 2016 primarily due to rate changes and increasing insured home valuations due to inflation.
- 0.5 point decrease in the renewal ratio in 2017 compared to 2016. Of our largest 10 states, 1 experienced an increase in the renewal ratio in 2017 compared to 2016.
- \$52 million decrease in the cost of our catastrophe reinsurance program to \$283 million in 2017 from \$335 million in 2016.

*Other personal lines premiums written* totaled \$1.74 billion in 2018, a 4.1% increase from \$1.67 billion in 2017, following a 3.2% increase in 2017 from \$1.62 billion in 2016. The increase in 2018 was primarily due to increases in personal umbrella and condominium insurance premiums, partially offset by agreements to transfer our auto residual market obligations to third party carriers. The increase in 2017 was primarily due to increases in personal umbrella insurance premiums.

*Commercial lines premiums written* totaled \$659 million in 2018, a 35.0% increase from \$488 million in 2017, following a 2.2% decrease in 2017 from \$499 million in 2016. The increase in 2018 was due to the agreement with a transportation network company to provide commercial auto insurance coverage in select states, partially offset by profit improvement actions. The decrease in 2017 was driven by decreased new business and lower renewals due to profit improvement actions, partially offset by increased average premiums.

**Combined ratios by line of business**

|                      | For the years ended December 31, |             |             |                              |             |             |                |             |             |
|----------------------|----------------------------------|-------------|-------------|------------------------------|-------------|-------------|----------------|-------------|-------------|
|                      | Loss ratio                       |             |             | Expense ratio <sup>(1)</sup> |             |             | Combined ratio |             |             |
|                      | 2018                             | 2017        | 2016        | 2018                         | 2017        | 2016        | 2018           | 2017        | 2016        |
| Auto                 | 66.2                             | 68.1        | 74.5        | 25.7                         | 25.1        | 24.2        | 91.9           | 93.2        | 98.7        |
| Homeowners           | 69.5                             | 66.2        | 61.0        | 23.8                         | 23.2        | 22.7        | 93.3           | 89.4        | 83.7        |
| Other personal lines | 66.5                             | 64.3        | 62.0        | 28.2                         | 28.8        | 27.6        | 94.7           | 93.1        | 89.6        |
| Commercial lines     | 91.5                             | 75.5        | 93.9        | 21.8                         | 28.3        | 27.8        | 113.3          | 103.8       | 121.7       |
| <b>Total</b>         | <b>67.6</b>                      | <b>67.6</b> | <b>70.9</b> | <b>25.1</b>                  | <b>24.7</b> | <b>23.9</b> | <b>92.7</b>    | <b>92.3</b> | <b>94.8</b> |

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

**Loss ratios by line of business**

|                      | For the years ended December 31, |             |             |                              |             |            |  |              |              |   |          |          |
|----------------------|----------------------------------|-------------|-------------|------------------------------|-------------|------------|--|--------------|--------------|---|----------|----------|
|                      | Loss ratio                       |             |             | Effect of catastrophe losses |             |            | Effect of prior year reserve reestimates |              |              | Effect of catastrophe losses included in prior year reserve reestimates |          |          |
|                      | 2018                             | 2017        | 2016        | 2018                         | 2017        | 2016       | 2018                                     | 2017         | 2016         | 2018  | 2017     | 2016     |
| Auto                 | 66.2                             | 68.1        | 74.5        | 1.6                          | 3.4         | 2.8        | (2.1)                                    | (2.5)        | (0.7)        | (0.2)   | (0.1)    | (0.1)    |
| Homeowners           | 69.5                             | 66.2        | 61.0        | 30.5                         | 30.7        | 24.6       | —  | (1.9)        | (0.3)        | 0.7   | (0.1)    | 0.1      |
| Other personal lines | 66.5                             | 64.3        | 62.0        | 12.3                         | 12.2        | 11.8       | 0.5                                      | 0.7          | (0.9)        | (0.1)   | 0.2      | (0.2)    |
| Commercial lines     | 91.5                             | 75.5        | 93.9        | 3.4                          | 4.8         | 6.9        | 16.5                                     | 3.8          | 12.2         | —   | 0.2      | 1.0      |
| <b>Total</b>         | <b>67.6</b>                      | <b>67.6</b> | <b>70.9</b> | <b>9.0</b>                   | <b>10.4</b> | <b>8.7</b> | <b>(1.1)</b>                             | <b>(2.0)</b> | <b>(0.4)</b> | <b>—</b>  | <b>—</b> | <b>—</b> |

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* <sup>(1)</sup> 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* <sup>(1)</sup> 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.

<sup>(1)</sup> Frequency statistics exclude counts associated with catastrophe events.

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 implement 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. We have opened several Digital Operating Centers to handle auto physical damage claims countrywide utilizing our virtual estimation capabilities, which includes estimating damage through photos and video with the use of QuickFoto Claim<sup>®</sup> and Virtual Assist<sup>SM</sup>. We are also leveraging virtual capabilities to handle property claims by estimating damage through video with Virtual Assist and aerial imagery using satellites, airplanes and drones. These organizational and process changes impact frequency and severity statistics as changes in claim opening and closing practices and shifts in timing, if any, can impact comparisons to prior periods.

*Auto loss ratio* decreased 1.9 points in 2018 compared to 2017, primarily due to increased premiums earned, lower catastrophe losses and improved claim frequency, partially offset by higher claim severity and lower favorable non-catastrophe prior year reserve reestimates. Auto loss ratio decreased 6.4 points in 2017 compared to 2016, primarily due to increased premiums earned, lower claim frequency and higher favorable prior year reserve reestimates, partially offset by higher catastrophe losses and higher claim severity.

*Property damage* paid claim frequency decreased 1.7% in 2018 compared to 2017, following a decrease of 5.2% in 2017 compared to 2016. 36 states experienced



a year over year decrease in property damage paid claim frequency in 2018 when compared to 2017. Property damage paid claim severities increased 5.9% in 2018 compared to 2017, following an increase of 4.5% in 2017 compared to 2016 due to the impact of higher costs to repair more sophisticated, newer model vehicles, higher third-party subrogation demands and increased costs associated with total losses.

**Bodily injury** gross claim frequency decreased 2.0% in 2018 compared to 2017, following a decrease of 4.8% in 2017 compared to 2016. Bodily injury severity trends have been impacted by higher medical costs, which after adjusting for company specific claims practices, policy provisions and coverage limits, generally increased consistent with medical care inflation indices.

**Homeowners loss ratio** increased 3.3 points to 69.5 in 2018 from 66.2 in 2017, primarily due to higher paid claim frequency and severity and lower favorable non-catastrophe prior year reserve reestimates, partially offset by increased premiums earned. Paid claim frequency excluding catastrophe losses increased 4.8% in 2018 compared to 2017 driven by weather related claims. Paid claim severity excluding catastrophe losses increased 5.5% in 2018 compared to 2017. Homeowner paid claim severity can be impacted by both the mix of perils and the magnitude of specific losses paid during the year. Homeowners loss ratio increased 5.2 points to 66.2 in 2017 from 61.0 in 2016, primarily due to higher catastrophe losses, partially

offset by higher favorable prior year reserve reestimates and increased premiums earned. Paid claim frequency excluding catastrophe losses decreased 0.1% in 2017 compared to 2016. Paid claim severity excluding catastrophe losses increased 5.0% in 2017 compared to 2016.

**Other personal lines loss ratio** increased 2.2 points in 2018 compared to 2017, primarily due to higher loss costs, including catastrophe losses, partially offset by increased premiums earned. Other personal lines loss ratio increased 2.3 points in 2017 compared to 2016, primarily due to unfavorable prior year reserve reestimates, higher catastrophe losses and higher claim severity, partially offset by increased premiums earned.

**Commercial lines loss ratio** increased 16.0 points in 2018 compared to 2017, primarily due to higher unfavorable non-catastrophe prior year reserve reestimates related to auto bodily injury coverages, partially offset by increased premiums earned. Commercial lines recorded losses related to an agreement with a transportation network company and are based on original pricing expectations given limited loss experience. Commercial lines loss ratio decreased 18.4 points in 2017 compared to 2016, primarily due to lower unfavorable prior year reserve reestimates, lower claim frequency and lower catastrophe losses.

### Expense ratios by line of business

|   | For the years ended December 31, |             |             |
|---|----------------------------------|-------------|-------------|
|   | 2018                             | 2017        | 2016        |
| Auto                                      | 25.7                             | 25.1        | 24.2        |
| Homeowners                                | 23.8                             | 23.2        | 22.7        |
| Other personal lines                      | 28.2                             | 28.8        | 27.6        |
| Commercial lines                          | 21.8                             | 28.3        | 27.8        |
| <b>Total expense ratio <sup>(1)</sup></b> | <b>25.1</b>                      | <b>24.7</b> | <b>23.9</b> |

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

### Impact of specific costs and expenses on the expense ratio

|   | For the years ended December 31, |             |             |
|---|----------------------------------|-------------|-------------|
|   | 2018                             | 2017        | 2016        |
| Amortization of DAC                     | 14.1                             | 13.8        | 13.6        |
| Advertising expense                     | 2.2                              | 2.0         | 2.1         |
| Other costs and expenses <sup>(1)</sup> | 8.6                              | 8.6         | 8.1         |
| Restructuring and related charges       | 0.2                              | 0.3         | 0.1         |
| <b>Total expense ratio</b>              | <b>25.1</b>                      | <b>24.7</b> | <b>23.9</b> |

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

**Expense ratio** increased 0.4 points in 2018 compared to 2017, primarily due to higher agency and employee-related compensation costs and higher advertising costs. Amortization of DAC primarily includes agent remuneration and premium taxes. Allstate agency total incurred base commissions, variable compensation and bonuses in 2018 were higher than 2017. Commercial lines expense ratio decreased 6.5 points in 2018 compared to 2017, primarily due to a lower expense ratio on business with a transportation network company.

Expense ratio increased 0.8 points in 2017 compared to 2016, primarily due to higher agency and employee-related compensation costs and restructuring and related costs. Amortization of DAC primarily includes agency remuneration and premium taxes.



Esurance brand products are sold directly to self-directed, brand-sensitive consumers online and through call centers. We manage the direct-to-customer business based on its profitability over the lifetime of the customer relationship. In 2018, the Esurance brand represented 5.8% of the Allstate Protection segment's written premium. For additional information on our strategy and outlook, see Part I, Item 1. Business - Strategy and Segment Information.

### Underwriting results

| (\$ in millions)                                      | For the years ended December 31, |                |                 |
|---|----------------------------------|----------------|-----------------|
|   | 2018                             | 2017           | 2016            |
| Premiums written                                      | \$ 1,948                         | \$ 1,728       | \$ 1,689        |
| Premiums earned                                       | \$ 1,869                         | \$ 1,712       | \$ 1,660        |
| Other revenue   | 80                               | 67             | 62              |
| Claims and claims expense                             | (1,443)                          | (1,329)        | (1,258)         |
| Amortization of DAC                                   | (43)                             | (41)           | (41)            |
| Other costs and expenses                              | (487)                            | (462)          | (547)           |
| Restructuring and related charges                     | (1)                              | (3)            | —               |
| <b>Underwriting loss</b>                              | <b>\$ (25)</b>                   | <b>\$ (56)</b> | <b>\$ (124)</b> |
| Catastrophe losses                                    | \$ 52                            | \$ 50          | \$ 36           |
| <b>Underwriting income (loss) by line of business</b> |                                  |                |                 |
| Auto  | \$ (11)                          | \$ (37)        | \$ (65)         |
| Homeowners  | (14)                             | (20)           | (59)            |
| Other personal lines                                  | —                                | 1              | —               |
| <b>Underwriting loss</b>                              | <b>\$ (25)</b>                   | <b>\$ (56)</b> | <b>\$ (124)</b> |

### Changes in underwriting results from prior year by component <sup>(1)</sup>

| (\$ in millions)  | For the years ended December 31, |                |
|---|----------------------------------|----------------|
|   | 2018                             | 2017           |
| Underwriting income (loss) - prior year                               | \$ (56)                          | \$ (124)       |
| Changes in underwriting income (loss) from:                           |                                  |                |
| Increase (decrease) premiums earned                                   | 157                              | 52             |
| Increase (decrease) other revenue                                     | 13                               | 5              |
| (Increase) decrease incurred claims and claims expense ("losses"):    |                                  |                |
| Incurred losses, excluding catastrophe losses and reserve reestimates | (110)                            | (37)           |
| Catastrophe losses, excluding reserve reestimates                     | 1                                | (15)           |
| Catastrophe reserve reestimates                                       | (3)                              | 1              |
| Non-catastrophe reserve reestimates                                   | (2)                              | (20)           |
| Losses subtotal   | (114)                            | (71)           |
| (Increase) decrease expenses  | (25)                             | 82             |
| <b>Underwriting loss</b>  | <b>\$ (25)</b>                   | <b>\$ (56)</b> |

<sup>(1)</sup> The 2018 column presents changes in 2018 compared to 2017. The 2017 column presents changes in 2017 compared to 2016.

*Underwriting loss* totaled \$25 million in 2018, an improvement from \$56 million in 2017, primarily due to increased premiums earned, partially offset by higher claim severities and additional marketing spend.

Underwriting loss totaled \$56 million in 2017, an improvement from \$124 million in 2016, primarily due to increased premiums earned, decreased homeowners marketing and lower amortization of purchased intangible assets, partially offset by lower favorable prior year reserve reestimates and higher catastrophe losses.

**Premiums written and earned by line of business**

| (\$ in millions)        | For the years ended December 31, |                 |                 |
|-------------------------|----------------------------------|-----------------|-----------------|
|                         | 2018                             | 2017            | 2016            |
| <b>Premiums written</b> |                                  |                 |                 |
| Auto                    | \$ 1,839                         | \$ 1,641        | \$ 1,625        |
| Homeowners              | 101                              | 79              | 56              |
| Other personal lines    | 8                                | 8               | 8               |
| <b>Total</b>            | <b>\$ 1,948</b>                  | <b>\$ 1,728</b> | <b>\$ 1,689</b> |
| <b>Premiums earned</b>  |                                  |                 |                 |
| Auto                    | \$ 1,771                         | \$ 1,636        | \$ 1,610        |
| Homeowners              | 90                               | 68              | 42              |
| Other personal lines    | 8                                | 8               | 8               |
| <b>Total</b>            | <b>\$ 1,869</b>                  | <b>\$ 1,712</b> | <b>\$ 1,660</b> |

**Auto premium measures and statistics**

|  | 2018   | 2017   | 2016   |
|--|--------|--------|--------|
| PIF (thousands)                          | 1,488  | 1,352  | 1,391  |
| New issued applications (thousands)      | 633    | 484    | 597    |
| Average premium                          | \$ 605 | \$ 574 | \$ 547 |
| Renewal ratio (%)                        | 83.3   | 81.5   | 79.4   |
| Approved rate changes <sup>(1)</sup> :   |        |        |        |
| # of locations <sup>(2)</sup>            | 30     | 39     | 33     |
| Total brand (%) <sup>(3)</sup>           | 1.8    | 4.8    | 4.2    |
| Location specific (%) <sup>(4) (5)</sup> | 2.7    | 5.5    | 6.1    |

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

<sup>(2)</sup> Esurance brand operates in 43 states. In the second quarter of 2018, Esurance discontinued its operations in Canada.

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

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

<sup>(5)</sup> Based on historical premiums written in the locations noted above, rate changes approved for auto totaled \$28 million, \$78 million and \$65 million in 2018, 2017 and 2016, respectively.

*Auto insurance premiums written* totaled \$1.84 billion in 2018, a 12.1% increase from \$1.64 billion in 2017. Factors impacting premiums written were:

- 10.1% or 136 thousand increase in PIF as of December 31, 2018 compared to December 31, 2017.
- 1.8 point increase in the renewal ratio in 2018 compared to 2017, primarily due to improved customer experience.
- 30.8% increase in new issued applications in 2018 compared to 2017, primarily due to improvements in the sales process as well as increases in quote volume driven in part by additional marketing spend.
- 5.4% increase in average premium in 2018 compared to 2017, primarily due to rate changes and changes in business mix.

Auto insurance premiums written totaled \$1.64 billion in 2017, a 1.0% increase from \$1.63 billion in 2016. Factors impacting premiums written were:

- 2.8% or 39 thousand decrease in PIF as of December 31, 2017 compared to December 31, 2016.
- 18.9% decrease in new issued applications in 2017 compared to 2016, primarily due to the impact of rate increases, decreased marketing activities and underwriting guideline changes.
- 4.9% increase in average premium in 2017 compared to 2016 primarily due to rate changes and changes in business mix.
- 2.1 point increase in the renewal ratio in 2017 compared to 2016, primarily due to improved customer experience.

**Homeowners premium measures and statistics**

|  | 2018   | 2017   | 2016   |
|--|--------|--------|--------|
| PIF (thousands)                        | 95     | 79     | 58     |
| New issued applications (thousands)    | 32     | 34     | 37     |
| Average premium                        | \$ 982 | \$ 917 | \$ 875 |
| Renewal ratio (%) <sup>(1)</sup>       | 85.3   | 85.5   | 82.6   |
| Approved rate changes <sup>(2)</sup> : |        |        |        |
| # of locations <sup>(3)</sup>          | 6      | 3      | 1      |
| Total brand (%)                        | 2.1    | 4.5    | (0.5)  |
| Location specific (%) <sup>(4)</sup>   | 6.9    | 18.5   | (10.0) |

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

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

<sup>(3)</sup> Esurance brand operates in 31 states. In the second quarter of 2018, Esurance discontinued its operations in Canada.

<sup>(4)</sup> Based on historical premiums written in the locations noted above, rate changes approved for homeowners totaled \$2 million and \$3 million in 2018 and 2017, respectively. Rate changes were only approved in Texas in 2016.

*Homeowners insurance premiums written* totaled \$101 million in 2018 compared to \$79 million in 2017. Factors impacting premiums written were:

- 16 thousand increase in PIF as of December 31, 2018 compared to December 31, 2017.
- 2 thousand decrease in new issued applications in 2018 compared to 2017.
- 7.1% increase in average premium in 2018 compared to 2017, primarily due to increased premium distribution in higher average premium states and rate increases. As of December 31, 2018, Esurance continues to write homeowners insurance in 31 states with lower hurricane risk, contributing to lower average premium compared to the industry.

Homeowners insurance premiums written totaled \$79 million in 2017 compared to \$56 million in 2016. Factors impacting premiums written were:

- 21 thousand increase in PIF as of December 31, 2017 compared to December 31, 2016.
- 3 thousand decrease in new issued applications in 2017 compared to 2016 due to reduced marketing activities.
- 4.8% increase in average premium in 2017 compared to 2016, primarily due to increased premium distribution in higher average premium states and rate changes. As of December 31, 2017, Esurance writes homeowners insurance in 31 states with lower hurricane risk, contributing to lower average premium compared to the industry.

**Combined ratios by line of business**

|              | For the years ended December 31, |             |             |                              |             |             |                |              |              |
|--------------|----------------------------------|-------------|-------------|------------------------------|-------------|-------------|----------------|--------------|--------------|
|              | Loss ratio                       |             |             | Expense ratio <sup>(1)</sup> |             |             | Combined ratio |              |              |
|              | 2018                             | 2017        | 2016        | 2018                         | 2017        | 2016        | 2018           | 2017         | 2016         |
| Auto         | 77.0                             | 77.5        | 75.8        | 23.6                         | 24.8        | 28.2        | 100.6          | 102.3        | 104.0        |
| Homeowners   | 83.4                             | 83.8        | 78.6        | 32.2                         | 45.6        | 161.9       | 115.6          | 129.4        | 240.5        |
| <b>Total</b> | <b>77.2</b>                      | <b>77.6</b> | <b>75.8</b> | <b>24.1</b>                  | <b>25.7</b> | <b>31.7</b> | <b>101.3</b>   | <b>103.3</b> | <b>107.5</b> |

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

**Loss ratios by line of business**

|              | For the years ended December 31, |             |             |                              |            |            |  |              |              |   |              |          |
|--------------|----------------------------------|-------------|-------------|------------------------------|------------|------------|--|--------------|--------------|---|--------------|----------|
|              | Loss ratio                       |             |             | Effect of catastrophe losses |            |            | Effect of prior year reserve reestimates |              |              | Effect of catastrophe losses included in prior year reserve reestimates |              |          |
|              | 2018                             | 2017        | 2016        | 2018                         | 2017       | 2016       | 2018                                     | 2017         | 2016         | 2018  | 2017         | 2016     |
| Auto         | 77.0                             | 77.5        | 75.8        | 1.5                          | 2.1        | 1.5        | 0.1                                      | 0.1          | (1.3)        | —   | —            | —        |
| Homeowners   | 83.4                             | 83.8        | 78.6        | 27.8                         | 23.5       | 28.6       | 2.2                                      | (3.0)        | —            | 2.2   | (1.5)        | —        |
| <b>Total</b> | <b>77.2</b>                      | <b>77.6</b> | <b>75.8</b> | <b>2.8</b>                   | <b>2.9</b> | <b>2.2</b> | <b>0.2</b>                               | <b>(0.1)</b> | <b>(1.3)</b> | <b>0.1</b>  | <b>(0.1)</b> | <b>—</b> |

*Auto loss ratio* decreased 0.5 points in 2018 compared to 2017, primarily due to increased premiums earned, and lower catastrophe losses, partially offset by higher claim severity. Auto loss ratio increased 1.7 points in 2017 compared to 2016, primarily due to unfavorable prior year reserve reestimates in 2017 compared to favorable prior year reserve reestimates in 2016 and higher catastrophe losses.

*Catastrophe losses* were \$52 million in 2018 compared to \$50 million in 2017 and \$36 million in 2016.

**Expense ratios by line of business**

|   | For the years ended December 31, |             |             |
|---|----------------------------------|-------------|-------------|
|   | 2018                             | 2017        | 2016        |
| Auto                                      | 23.6                             | 24.8        | 28.2        |
| Homeowners                                | 32.2                             | 45.6        | 161.9       |
| <b>Total expense ratio <sup>(1)</sup></b> | <b>24.1</b>                      | <b>25.7</b> | <b>31.7</b> |

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

**Impact of specific costs and expenses on the expense ratio**

|   | For the years ended December 31, |             |             |
|---|----------------------------------|-------------|-------------|
|   | 2018                             | 2017        | 2016        |
| Amortization of DAC                         | 2.3                              | 2.4         | 2.5         |
| Advertising expense                         | 8.7                              | 8.3         | 11.2        |
| Amortization of purchased intangible assets | 0.1                              | 0.2         | 1.4         |
| Other costs and expenses <sup>(1)</sup>     | 12.9                             | 14.6        | 16.6        |
| Restructuring and related charges           | 0.1                              | 0.2         | —           |
| <b>Total expense ratio</b>                  | <b>24.1</b>                      | <b>25.7</b> | <b>31.7</b> |

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

*Expense ratio* decreased 1.6 points in 2018 compared to 2017. Other costs and expenses, including salaries of telephone sales personnel and other underwriting costs related to customer acquisition, were lower in 2018 compared to 2017 due to the continued 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 increased 0.4 points in 2018 compared to 2017, primarily due to a new marketing campaign launched during the second half of 2018 and increased spending on targeted growth opportunities.

We manage our advertising spend to ensure our acquisition costs meet our targeted returns. Esurance incurs substantially all of its acquisition costs in the year of policy inception. As a result, the Esurance expense ratio will be higher or lower depending on the advertising expenditures incurred. Esurance's annual combined ratio is below 100 after the year of policy inception (in which substantially all acquisition costs are incurred).

Expense ratio decreased 6.0 points in 2017 compared to 2016. Esurance advertising expense ratio decreased 2.9 points in 2017 compared to 2016, primarily due to reductions in homeowners marketing. Other costs and expenses, including salaries of phone sales personnel and other underwriting costs related to customer acquisition, were lower in 2017 compared to 2016 due to the implementation of process efficiencies. Expense ratio includes amortization of purchased intangible assets from the original acquisition in 2011.

Starting in 2017, the portion of the remaining purchased intangible asset related to the Esurance brand name was classified as an infinite-lived intangible and is no longer being amortized, but instead tested for impairment on an annual basis.



Encompass products are sold through independent agencies that serve brand-neutral customers who prefer personal service and support from an independent agent. In 2018, the Encompass brand represented 3.0% of the Allstate Protection segment's written premium. For additional information on our strategy and outlook, see Part I, Item 1. Business - Strategy and Segment Information.

## Underwriting results

| (\$ in millions)                                      | For the years ended December 31, |                |             |
|---|----------------------------------|----------------|-------------|
|   | 2018                             | 2017           | 2016        |
| Premiums written                                      | \$ 1,016                         | \$ 1,035       | \$ 1,140    |
| Premiums earned                                       | \$ 1,023                         | \$ 1,090       | \$ 1,202    |
| Other revenue   | 5                                | 6              | 6           |
| Claims and claims expense                             | (669)                            | (789)          | (855)       |
| Amortization of DAC                                   | (190)                            | (201)          | (221)       |
| Other costs and expenses                              | (149)                            | (134)          | (130)       |
| Restructuring and related charges                     | (7)                              | (5)            | (1)         |
| <b>Underwriting income (loss)</b>                     | <b>\$ 13</b>                     | <b>\$ (33)</b> | <b>\$ 1</b> |
| Catastrophe losses                                    | \$ 102                           | \$ 193         | \$ 111      |
| <b>Underwriting income (loss) by line of business</b> |                                  |                |             |
| Auto  | \$ 11                            | \$ 4           | \$ (29)     |
| Homeowners  | (1)                              | (47)           | 36          |
| Other personal lines                                  | 3                                | 10             | (6)         |
| <b>Underwriting income (loss)</b>                     | <b>\$ 13</b>                     | <b>\$ (33)</b> | <b>\$ 1</b> |

## Changes in underwriting results from prior year by component <sup>(1)</sup>

| (\$ in millions)  | For the years ended December 31, |                |
|---|----------------------------------|----------------|
|   | 2018                             | 2017           |
| Underwriting income (loss) - prior year                               | \$ (33)                          | \$ 1           |
| Changes in underwriting income (loss) from:                           |                                  |                |
| Increase (decrease) premiums earned                                   | (67)                             | (112)          |
| Increase (decrease) other revenue                                     | (1)                              | —              |
| (Increase) decrease incurred claims and claims expense ("losses"):    |                                  |                |
| Incurred losses, excluding catastrophe losses and reserve reestimates | 19                               | 130            |
| Catastrophe losses, excluding reserve reestimates                     | 104                              | (83)           |
| Catastrophes reserve reestimates                                      | (13)                             | 1              |
| Non-catastrophe reserve reestimates                                   | 10                               | 18             |
| Losses subtotal   | 120                              | 66             |
| (Increase) decrease expenses  | (6)                              | 12             |
| <b>Underwriting income (loss)</b>                                     | <b>\$ 13</b>                     | <b>\$ (33)</b> |

<sup>(1)</sup> The 2018 column presents changes in 2018 compared to 2017. The 2017 column presents changes in 2017 compared to 2016.

*Underwriting income* totaled \$13 million in 2018 compared to an underwriting loss of \$33 million in 2017. The improvement was primarily due to lower catastrophe losses and improved auto claim frequency, partially offset by decreased premiums earned.

Underwriting loss totaled \$33 million in 2017 compared to underwriting income of \$1 million in 2016, primarily due to higher homeowners catastrophe losses, partially offset by improved auto loss costs.

**Premiums written and earned by line of business**

| (\$ in millions)        | For the years ended December 31, |                 |                 |
|-------------------------|----------------------------------|-----------------|-----------------|
|                         | 2018                             | 2017            | 2016            |
| <b>Premiums written</b> |                                  |                 |                 |
| Auto                    | \$ 537                           | \$ 542          | \$ 591          |
| Homeowners              | 398                              | 406             | 454             |
| Other personal lines    | 81                               | 87              | 95              |
| <b>Total</b>            | <b>\$ 1,016</b>                  | <b>\$ 1,035</b> | <b>\$ 1,140</b> |
| <b>Premiums earned</b>  |                                  |                 |                 |
| Auto                    | \$ 537                           | \$ 566          | \$ 623          |
| Homeowners              | 402                              | 431             | 479             |
| Other personal lines    | 84                               | 93              | 100             |
| <b>Total</b>            | <b>\$ 1,023</b>                  | <b>\$ 1,090</b> | <b>\$ 1,202</b> |

**Auto premium measures and statistics**

|                                     | 2018     | 2017     | 2016     |
|-------------------------------------|----------|----------|----------|
| PIF (thousands)                     | 502      | 530      | 622      |
| New issued applications (thousands) | 76       | 52       | 54       |
| Average premium                     | \$ 1,118 | \$ 1,079 | \$ 1,008 |
| Renewal ratio (%) (1)               | 74.9     | 73.4     | 75.0     |
| Approved rate changes (2):          |          |          |          |
| # of locations (3)                  | 17       | 27       | 24       |
| Total brand (%) (4)                 | 2.4      | 6.2      | 10.5     |
| Location specific (%) (5)(6)        | 4.8      | 7.8      | 14.3     |

(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 ratios were 76.5 points in 2018 compared to 74.5 points in 2017 and 75.0 points in 2016.

(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 40 states and D.C.

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

(5) Represents the impact in the states and D.C. where rate changes were approved during the period as a percentage of their respective total prior year-end premiums written in those same locations.

(6) Based on historical premiums written in the locations noted above, rate changes approved for auto totaled \$13 million, \$37 million and \$68 million in 2018, 2017 and 2016, respectively.

*Auto insurance premiums written* totaled \$537 million in 2018, a 0.9% decrease from \$542 million in 2017. Factors impacting premiums written were:

- 5.3% or 28 thousand decrease in PIF as of December 31, 2018 compared to December 31, 2017.
- 1.5 point increase in the renewal ratio in 2018 compared to 2017, as profit improvement actions have moderated. 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% or 24 thousand increase in new issued applications in 2018 compared to 2017.
- 3.6% increase in average premium in 2018 compared to 2017, primarily due to rate changes. Encompass brand policy terms are generally 12 months for auto.

*Auto insurance premiums written* totaled \$542 million in 2017, an 8.3% decrease from \$591 million in 2016. Factors impacting premiums written were:

- 14.8% or 92 thousand decrease in PIF as of December 31, 2017 compared to December 31, 2016.
- 3.7% decrease in new issued applications in 2017 compared to 2016, primarily due to rate changes.
- 7.0% increase in average premium in 2017 compared to 2016.
- 1.4 point decrease in the renewal ratio in 2017 compared to 2016, primarily due to profit improvement actions taken, including exiting states with inadequate returns.

**Homeowners premium measure and statistics**

|  | 2018     | 2017     | 2016     |
|--|----------|----------|----------|
| PIF (thousands)                        | 239      | 254      | 295      |
| New issued applications (thousands)    | 37       | 30       | 34       |
| Average premium                        | \$ 1,724 | \$ 1,684 | \$ 1,639 |
| Renewal ratio (%) <sup>(1)</sup>       | 80.0     | 78.5     | 79.8     |
| Approved rate changes <sup>(2)</sup> : |          |          |          |
| # of locations <sup>(3)</sup>          | 20       | 21       | 19       |
| Total brand (%)                        | 4.7      | 4.8      | 5.1      |
| Location specific (%) <sup>(4)</sup>   | 8.1      | 8.4      | 9.0      |

<sup>(1)</sup> 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 80.8 points in 2018 compared to 79.0 points in 2017 and 79.9 points in 2016.

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

<sup>(3)</sup> Encompass brand operates in 40 states and D.C.

<sup>(4)</sup> Based on historical premiums written in the locations noted above, rate changes approved for homeowner totaled \$20 million, \$23 million and \$27 million in 2018, 2017 and 2016, respectively.

Homeowners insurance premiums written totaled \$398 million in 2018, a 2.0% decrease from \$406 million in 2017. Factors impacting premiums written were the following:

- 5.9% or 15 thousand decrease in PIF as of December 31, 2018 compared to December 31, 2017.
- 1.5 point increase in the renewal ratio in 2018 compared to 2017, as profit improvement actions have moderated. 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.
- 23.3% or 7 thousand increase in new issued applications in 2018 compared to 2017.
- 2.4% increase in average premium in 2018 compared to 2017, primarily due to rate changes.

Homeowners insurance premiums written totaled \$406 million in 2017, a 10.6% decrease from \$454 million in 2016. Factors impacting premiums written were the following:

- 13.9% or 41 thousand decrease in PIF as of December 31, 2017 compared to December 31, 2016.
- 11.8% decrease in new issued applications in 2017 compared to 2016.
- 2.7% increase in average premium in 2017 compared to 2016, primarily due to rate changes.
- 1.3 point decrease in the renewal ratio in 2017 compared to 2016, primarily due to profit improvement actions taken to exit states with inadequate returns.

**Combined ratios by line of business**

|                      | For the years ended December 31, |             |             |                              |             |             |                |              |             |
|----------------------|----------------------------------|-------------|-------------|------------------------------|-------------|-------------|----------------|--------------|-------------|
|                      | Loss ratio                       |             |             | Expense ratio <sup>(1)</sup> |             |             | Combined ratio |              |             |
|                      | 2018                             | 2017        | 2016        | 2018                         | 2017        | 2016        | 2018           | 2017         | 2016        |
| Auto                 | 65.2                             | 68.6        | 76.1        | 32.8                         | 30.7        | 28.6        | 98.0           | 99.3         | 104.7       |
| Homeowners           | 66.9                             | 80.3        | 63.5        | 33.3                         | 30.6        | 29.0        | 100.2          | 110.9        | 92.5        |
| Other personal lines | 59.5                             | 59.1        | 77.0        | 36.9                         | 30.1        | 29.0        | 96.4           | 89.2         | 106.0       |
| <b>Total</b>         | <b>65.4</b>                      | <b>72.4</b> | <b>71.1</b> | <b>33.3</b>                  | <b>30.6</b> | <b>28.8</b> | <b>98.7</b>    | <b>103.0</b> | <b>99.9</b> |

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

**Loss ratios by line of business**

|                      | For the years ended December 31, |             |             |                              |             |            |  |              |            |   |              |          |
|----------------------|----------------------------------|-------------|-------------|------------------------------|-------------|------------|--|--------------|------------|---|--------------|----------|
|                      | Loss ratio                       |             |             | Effect of catastrophe losses |             |            | Effect of prior year reserve reestimates |              |            | Effect of catastrophe losses included in prior year reserve reestimates |              |          |
|                      | 2018                             | 2017        | 2016        | 2018                         | 2017        | 2016       | 2018                                     | 2017         | 2016       | 2018  | 2017         | 2016     |
| Auto                 | 65.2                             | 68.6        | 76.1        | 1.1                          | 2.1         | 1.6        | (1.8)                                    | (1.1)        | —          | (0.2)   | (0.2)        | (0.4)    |
| Homeowners           | 66.9                             | 80.3        | 63.5        | 22.1                         | 40.1        | 20.3       | 3.2                                      | 0.5          | —          | 3.0   | —            | 0.5      |
| Other personal lines | 59.5                             | 59.1        | 77.0        | 8.3                          | 8.6         | 4.0        | (16.7)                                   | (10.8)       | 5.0        | 1.2   | —            | —        |
| <b>Total</b>         | <b>65.4</b>                      | <b>72.4</b> | <b>71.1</b> | <b>10.0</b>                  | <b>17.7</b> | <b>9.2</b> | <b>(1.1)</b>                             | <b>(1.3)</b> | <b>0.4</b> | <b>1.2</b>  | <b>(0.1)</b> | <b>—</b> |

Auto loss ratio decreased 3.4 points in 2018 compared to 2017, primarily due to lower claim frequency, lower catastrophe losses, higher favorable

non-catastrophe prior year reserve reestimates and a slower decline in premiums earned. Auto loss ratio decreased 7.5 points in 2017 compared to 2016,



primarily due to lower frequency and severity, and favorable prior year reserve reestimates, partially offset by higher catastrophe losses.

*Homeowners loss ratio* decreased 13.4 points in 2018 compared to 2017, primarily due to lower catastrophe losses, partially offset by decreased

premiums earned. Homeowners loss ratio increased 16.8 points in 2017 compared to 2016, primarily due to higher catastrophe losses.

#### Expense ratios by line of business

|                                | For the years ended December 31, |             |             |
|--------------------------------|----------------------------------|-------------|-------------|
|                                | 2018                             | 2017        | 2016        |
| Auto                           | 32.8                             | 30.7        | 28.6        |
| Homeowners                     | 33.3                             | 30.6        | 29.0        |
| Other personal lines           | 36.9                             | 30.1        | 29.0        |
| <b>Total expense ratio (1)</b> | <b>33.3</b>                      | <b>30.6</b> | <b>28.8</b> |

(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

|                                   | For the years ended December 31, |             |             |
|-----------------------------------|----------------------------------|-------------|-------------|
|                                   | 2018                             | 2017        | 2016        |
| Amortization of DAC               | 18.5                             | 18.3        | 18.4        |
| Advertising expense               | 0.2                              | 0.2         | 0.2         |
| Other costs and expenses (1)      | 13.9                             | 11.6        | 10.1        |
| Restructuring and related charges | 0.7                              | 0.5         | 0.1         |
| <b>Total expense ratio</b>        | <b>33.3</b>                      | <b>30.6</b> | <b>28.8</b> |

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

*Expense ratio* increased 2.7 points in 2018 compared to 2017, primarily due to decreased premiums earned, increased investment in technology and higher employee-related compensation costs. The Encompass brand DAC amortization rate is higher on average than Allstate brand due to higher commission rates paid to independent agencies.

Expense ratio increased 1.8 points in 2017 compared to 2016, primarily due to higher employee-related and technology costs, and restructuring and related charges.

## Discontinued Lines and Coverages Segment

The Discontinued Lines and Coverages segment includes results from property and casualty insurance coverage that primarily relates to policies written during the 1960s through the mid-1980s. Our exposure to asbestos, environmental and other discontinued lines claims arises principally from direct excess commercial insurance, assumed reinsurance coverage, direct primary commercial insurance and other businesses in run-off. For additional information on our strategy and outlook, see Part I, Item 1. Business - Strategy and Segment Information.

### Underwriting Results

| (\$ in millions)                | For the years ended December 31, |                |                 |
|---------------------------------|----------------------------------|----------------|-----------------|
|                                 | 2018                             | 2017           | 2016            |
| Premiums written <sup>(1)</sup> | \$ —                             | \$ —           | \$ 3            |
| Premiums earned                 | \$ —                             | \$ —           | \$ —            |
| Claims and claims expense       | (87)                             | (96)           | (105)           |
| Operating costs and expenses    | (3)                              | (3)            | (2)             |
| <b>Underwriting loss</b>        | <b>\$ (90)</b>                   | <b>\$ (99)</b> | <b>\$ (107)</b> |

<sup>(1)</sup> Primarily represents retrospective reinsurance premium recognized when billed.

*Underwriting losses* of \$90 million in 2018 primarily related to our annual reserve review using established industry and actuarial best practices. The annual review resulted in unfavorable reestimates of \$76 million, including \$44 million for asbestos exposures, primarily related to new reported information, changes in our projections of reported claims and settlement agreements, including bankruptcy proceedings; \$20 million for environmental exposures and \$13 million for other exposures, partially offset by a \$1 million decrease in the allowance for uncollectible reinsurance.

Underwriting losses of \$99 million in 2017 primarily related to our annual reserve review, resulting in unfavorable reestimates of \$85 million, including \$61 million for asbestos exposures, \$10 million for

environmental exposures and \$27 million for other exposures, partially offset by a \$13 million decrease in the allowance for future uncollectible reinsurance.

Underwriting losses of \$107 million in 2016 primarily related to our annual reserve review, resulting in unfavorable reestimates of \$96 million, including a \$67 million unfavorable reestimate of asbestos exposures, a \$23 million unfavorable reestimate of environmental exposures and a \$6 million increase in the allowance for future uncollectible reinsurance with other exposures essentially unchanged.

The cost of administering claims settlements totaled \$11 million, \$11 million and \$10 million for 2018, 2017 and 2016, respectively.

### Reserves for asbestos, environmental and other discontinued lines claims before and after the effects of reinsurance

| (\$ in millions)                | December 31, 2018 | December 31, 2017 |
|---------------------------------|-------------------|-------------------|
| <b>Asbestos claims</b>          |                   |                   |
| Gross reserves                  | \$ 1,266          | \$ 1,296          |
| Reinsurance                     | (400)             | (412)             |
| Net reserves                    | 866               | 884               |
| <b>Environmental claims</b>     |                   |                   |
| Gross reserves                  | 209               | 199               |
| Reinsurance                     | (39)              | (33)              |
| Net reserves                    | 170               | 166               |
| <b>Other discontinued lines</b> |                   |                   |
| Gross reserves                  | 389               | 398               |
| Reinsurance                     | (34)              | (41)              |
| Net reserves                    | 355               | 357               |
| <b>Total</b>                    |                   |                   |
| Gross reserves                  | 1,864             | 1,893             |
| Reinsurance                     | (473)             | (486)             |
| <b>Net reserves</b>             | <b>\$ 1,391</b>   | <b>\$ 1,407</b>   |

**Reserves by type of exposure before and after the effects of reinsurance**

| (\$ in millions)                            | December 31, 2018 | December 31, 2017 |
|---|-------------------|-------------------|
| <b>Direct excess commercial insurance</b>   |                   |                   |
| Gross reserves <sup>(1)</sup>               | \$ 973            | \$ 997            |
| Reinsurance <sup>(2)</sup>                  | (355)             | (378)             |
| Net reserves                                | 618               | 619               |
| <b>Assumed reinsurance coverage</b>         |                   |                   |
| Gross reserves <sup>(3)</sup>               | 625               | 622               |
| Reinsurance <sup>(4)</sup>                  | (53)              | (38)              |
| Net reserves                                | 572               | 584               |
| <b>Direct primary commercial insurance</b>  |                   |                   |
| Gross reserves <sup>(5)</sup>               | 171               | 177               |
| Reinsurance <sup>(6)</sup>                  | (48)              | (48)              |
| Net reserves                                | 123               | 129               |
| <b>Other run-off business</b>               |                   |                   |
| Gross reserves                              | 19                | 24                |
| Reinsurance                                 | (16)              | (21)              |
| Net reserves                                | 3                 | 3                 |
| <b>Unallocated loss adjustment expenses</b> |                   |                   |
| Gross reserves                              | 76                | 73                |
| Reinsurance                                 | (1)               | (1)               |
| Net reserves                                | 75                | 72                |
| <b>Total</b>                                |                   |                   |
| Gross reserves                              | 1,864             | 1,893             |
| Reinsurance                                 | (473)             | (486)             |
| <b>Net reserves</b>                         | <b>\$ 1,391</b>   | <b>\$ 1,407</b>   |

(1) Gross reserves as of December 31, 2018 comprised 67% case reserves and 33% incurred but not reported ("IBNR") reserves. Approximately 75% of the total gross case reserves are subject to settlement agreements. In 2018, total gross payments from case reserves were \$105 million with approximately 88% attributable to settlements. Reserves as of December 31, 2017, comprised 65% case reserves and 35% IBNR reserves.

(2) Ceded reserves as of December 31, 2018 comprised 78% case reserves and 22% IBNR reserves. Approximately 82% of the total ceded case reserves are subject to settlement agreements. In 2018, reinsurance billings of ceded case reserves were \$55 million with approximately 84% attributable to settlements. Reserves as of December 31, 2017, comprised 76% case reserves and 24% IBNR reserves.

(3) Gross reserves as of December 31, 2018 comprised 34% case reserves and 66% IBNR reserves. In 2018, total gross payments from case reserves were \$39 million. Reserves as of December 31, 2017, comprised 31% case reserves and 69% IBNR reserves.

(4) Ceded reserves as of December 31, 2018 comprised 37% case reserves and 63% IBNR reserves. In 2018, reinsurance billings of ceded case reserves were \$5 million. Reserves as of December 31, 2017, comprised 36% case reserves and 64% IBNR reserves.

(5) Gross reserves as of December 31, 2018 comprised 58% case reserves and 42% IBNR reserves. In 2018, total gross payments from case reserves were \$8 million. Reserves as of December 31, 2017, comprised 54% case reserves and 46% IBNR reserves.

(6) Ceded reserves as of December 31, 2018 comprised 78% case reserves and 22% IBNR reserves. In 2018, reinsurance billings of ceded case reserves were \$1 million. Reserves as of December 31, 2017, comprised 76% case reserves and 24% IBNR reserves.

Total net reserves were \$1.39 billion, including \$693 million or 50% of estimated IBNR reserves as of December 31, 2018 compared to total net reserves of \$1.41 billion, including \$733 million or 52% of estimated IBNR reserves as of December 31, 2017.

Total gross payments were \$156 million and \$192 million for 2018 and 2017, respectively, primarily related to payments on settlement agreements reached with several insureds on large claims, mainly asbestos related losses, where the scope of coverages has been agreed upon.

The claims associated with these settlement agreements are expected to be substantially paid out over the next several years as qualified claims are submitted by these insureds. Reinsurance collections were \$62 million and \$67 million for 2018 and 2017, respectively.

See the Claims and Claims Expense Reserves section of this Item for a more detailed discussion.

## Service Businesses Segment



Service Businesses comprise SquareTrade, Arity, InfoArmor, Allstate Roadside Services and Allstate Dealer Services. In 2018, Service Businesses represented 3.3% of total revenue, 65.1% of total PIF and less than 1.0% of total adjusted net income. We offer consumer product protection plans, device and mobile data collection services and analytic solutions, identity protection, roadside assistance, and finance and insurance products (including vehicle service contracts, guaranteed asset protection waivers, road hazard tire and wheel and paintless dent repair protection).

Starting in the fourth quarter of 2018, the Service Businesses segment includes the results of InfoArmor, a leading provider of identity protection to more than 1 million employees and their family members at over 1,400 firms, which was acquired on October 5, 2018. For additional information on our strategy and outlook, see Part I, Item 1. Business - Strategy and Segment Information.

## Summarized financial information

| (\$ in millions)  | For the years ended December 31, |                |              |
|---|----------------------------------|----------------|--------------|
|   | 2018                             | 2017           | 2016         |
| <b>Premiums written</b>   | \$ 1,431                         | \$ 1,094       | \$ 709       |
| <b>Revenues</b>   |                                  |                |              |
| Premiums  | \$ 1,098                         | \$ 867         | \$ 580       |
| Intersegment insurance premiums and service fees <sup>(1)</sup> | 122                              | 110            | 105          |
| Other revenue   | 82                               | 66             | 64           |
| Net investment income   | 27                               | 16             | 13           |
| Realized capital gains and losses                               | (11)                             | —              | —            |
| <b>Total revenues</b>   | <b>1,318</b>                     | <b>1,059</b>   | <b>762</b>   |
| <b>Costs and expenses</b>                                       |                                  |                |              |
| Claims and claims expense                                       | (351)                            | (369)          | (258)        |
| Amortization of DAC   | (463)                            | (296)          | (214)        |
| Operating costs and expenses                                    | (511)                            | (467)          | (287)        |
| Amortization of purchased intangible assets                     | (94)                             | (92)           | —            |
| Restructuring and related charges <sup>(2)</sup>                | (4)                              | (13)           | —            |
| <b>Total costs and expenses</b>                                 | <b>(1,423)</b>                   | <b>(1,237)</b> | <b>(759)</b> |
| Income tax benefit  | 20                               | 193            | —            |
| <b>Net (loss) income applicable to common shareholders</b>      | <b>\$ (85)</b>                   | <b>\$ 15</b>   | <b>\$ 3</b>  |
| Adjusted net income (loss)                                      | \$ 2                             | \$ (59)        | \$ 3         |
| Realized capital gains and losses, after-tax                    | (9)                              | —              | —            |
| Amortization of purchased intangible assets, after-tax          | (74)                             | (60)           | —            |
| Tax Legislation (expense) benefit                               | (4)                              | 134            | —            |
| <b>Net (loss) income applicable to common shareholders</b>      | <b>\$ (85)</b>                   | <b>\$ 15</b>   | <b>\$ 3</b>  |
| SquareTrade <sup>(3)</sup>                                      | \$ 23                            | \$ (22)        | \$ —         |
| Arity   | (14)                             | (15)           | 11           |
| InfoArmor <sup>(3)</sup>  | 1                                | —              | —            |
| Allstate Roadside Services                                      | (23)                             | (20)           | (12)         |
| Allstate Dealer Services  | 15                               | (2)            | 4            |
| <b>Adjusted net income (loss)</b>                               | <b>\$ 2</b>                      | <b>\$ (59)</b> | <b>\$ 3</b>  |
| SquareTrade <sup>(3)</sup>                                      | 68,588                           | 38,719         | —            |
| InfoArmor <sup>(3)</sup>  | 1,040                            | —              | —            |
| Allstate Roadside Services                                      | 663                              | 699            | 768          |
| Allstate Dealer Services  | 3,896                            | 4,088          | 4,142        |
| <b>Policies in force as of December 31 (in thousands)</b>       | <b>74,187</b>                    | <b>43,506</b>  | <b>4,910</b> |

<sup>(1)</sup> Primarily related to Arity and Allstate Roadside Services and are eliminated in our consolidated financial statements.

<sup>(2)</sup> 2018 related to organizational changes at Allstate Roadside Services and 2017 related to a one-time contract termination of a SquareTrade European vendor.

<sup>(3)</sup> SquareTrade was acquired on January 3, 2017 and InfoArmor was acquired on October 5, 2018.

*Net loss applicable to common shareholders* was \$85 million in 2018 compared to net income applicable to common shareholders of \$15 million and \$3 million in 2017 and 2016, respectively. 2018 and 2017 results include a tax expense of \$4 million and a tax benefit of \$134 million, respectively, related to the Tax Legislation.

*Adjusted net income* was \$2 million in 2018 compared to an adjusted net loss of \$59 million in 2017 and an adjusted net income of \$3 million in 2016. The improvement in 2018 was primarily due to increased revenue at SquareTrade, improved loss experience at SquareTrade and Allstate Dealer Services and lower restructuring charges in 2018 compared to 2017, partially offset by higher loss costs at Allstate Roadside Services. The loss in 2017 compared to income in 2016 was primarily due to investments in Arity's research and development, strategic investments in SquareTrade and Allstate Roadside Services, a SquareTrade restructuring charge and Hurricane Harvey's impacts on Allstate Dealer Services.

*Total revenues* increased 24.5% or \$259 million to \$1.32 billion in 2018 from \$1.06 billion in 2017. The increase was primarily due to SquareTrade's growth through its U.S. retail and international channels and increased premiums earned on Allstate Dealer Services' vehicle service contracts. 2018 revenue also includes \$101 million for SquareTrade protection plans sold directly to retailers prior to January 1, 2018 for which SquareTrade is deemed to be the principal. This increase in revenue is due to the adoption of the revenue from contracts with customers accounting standard and is offset by corresponding increases in amortization of DAC.

*Premiums written* increased 30.8% or \$337 million to \$1.43 billion in 2018 from \$1.09 billion in 2017, primarily due to continued growth at SquareTrade, including the addition of a leading U.S. retailer in third quarter 2018. Premiums written increased 54.3% or \$385 million to \$1.09 billion in 2017 from \$709 million in 2016, primarily due to the acquisition of SquareTrade and growth through its U.S. retail channel, partially offset by decreases in premiums written at Allstate Roadside Services.

Premiums written in 2019 will benefit from the full year impact of the addition of a leading U.S. retailer, but will be partially offset by the loss of existing retailer relationships in the normal course of business.

SquareTrade and Allstate Dealer Services issue contractual liability insurance policies or guaranteed asset protection reimbursement insurance policies to cover the liabilities of their products where required by state regulations. The products offered through SquareTrade and Allstate Dealer Services fall under the regulation of departments of insurance in many states with requirements for filing of forms and rates varying by product and by state.

*PIF* increased 70.5% or 30.7 million to 74.2 million as of December 31, 2018 compared to 43.5 million as of December 31, 2017 due to continued growth at SquareTrade, including the addition of a leading U.S.

retailer, and the acquisition of InfoArmor. PIF increased by 38.6 million to 43.5 million as of December 31, 2017 compared to 4.9 million as of December 31, 2016 due to the acquisition of SquareTrade.

*Intersegment premiums and service fees* of \$122 million in 2018 increased from \$110 million and \$105 million in 2017 and 2016, respectively, primarily related to increased auto connections through Arity's device and mobile data collection services and analytic solutions.

*Other revenue* of \$82 million in 2018 increased from \$66 million and \$64 million in 2017 and 2016, respectively, primarily due to the acquisition of InfoArmor in 2018.

*Claims and claims expense* decreased 4.9% to \$351 million in 2018 from \$369 million in 2017, primarily due to improved loss experience at SquareTrade and Allstate Dealer Services, including a decrease in catastrophe losses as Allstate Dealer Services was impacted by Hurricane Harvey in 2017, partially offset by higher loss costs at Allstate Roadside Services. Claims and claims expense increased 43.0% to \$369 million in 2017 from \$258 million in 2016, primarily due to the acquisition of SquareTrade on January 3, 2017.

*Amortization of DAC* increased 56.4% or \$167 million to \$463 million in 2018 from \$296 million in 2017, including \$101 million in 2018 related to the adoption of the revenue from contracts with customers accounting standard. The remaining increase of \$66 million is due to the growth experienced at SquareTrade and Allstate Dealer Services.

*Operating costs and expenses* increased 9.4% to \$511 million in 2018 from \$467 million in 2017, primarily due to higher product and advertising costs at SquareTrade, higher costs for device data collection services, investments in research and business expansion at Arity and the addition of InfoArmor. Operating costs and expenses increased 62.7% to \$467 million in 2017 from \$287 million in 2016, primarily due to the acquisition of SquareTrade on January 3, 2017, Allstate Roadside Services increase in strategic investments in the Good Hands Rescue Network, and investments in Arity's research and business expansion.

*Amortization of purchased intangible assets* relates to the acquisitions of SquareTrade and InfoArmor. We recognized \$555 million of intangible assets for SquareTrade and we recorded amortization expense of \$81 million in 2018 compared to \$92 million in 2017. We recognized \$257 million of intangible assets for InfoArmor and we recorded amortization expense of \$13 million in 2018.

## Claims and Claims Expense Reserves

Underwriting results are significantly influenced by estimates of claims and claims expense reserves. For a description of our reserve process, see Note 8 of the consolidated financial statements. Further, for a description of our reserving policies and the potential variability in our reserve estimates, see the Application of Critical Accounting Estimates section of the MD&A. These reserves are an estimate of amounts necessary to settle all outstanding claims, including IBNR claims, as of the reporting date.

The facts and circumstances leading to our reestimates of reserves relate to revisions to the development factors used to predict how losses are likely to develop from the end of a reporting period until all claims have been paid. Reestimates occur because actual losses are likely different than those predicted by the estimated development factors used in prior reserve estimates.

We believe the net loss reserves exposures are appropriately established based on available facts, technology, laws and regulations.

### Total reserves, net of recoverables ("net reserves"), as of December 31, by line of business

| (\$ in millions)                 | 2018             | 2017             | 2016             |
|----------------------------------|------------------|------------------|------------------|
| Allstate brand                   | \$ 17,272        | \$ 16,826        | \$ 16,108        |
| Esurance brand                   | 862              | 777              | 740              |
| Encompass brand                  | 691              | 758              | 749              |
| Total Allstate Protection        | 18,825           | 18,361           | 17,597           |
| Discontinued Lines and Coverages | 1,391            | 1,407            | 1,445            |
| Total Property-Liability         | 20,216           | 19,768           | 19,042           |
| Service Businesses               | 52               | 86               | 24               |
| <b>Total net reserves</b>        | <b>\$ 20,268</b> | <b>\$ 19,854</b> | <b>\$ 19,066</b> |

The year-end 2018 gross reserves of \$27.42 billion for insurance claims and claims expense were \$8.52 billion more than the net reserve balance of \$18.90 billion recorded on the basis of statutory accounting practices for reports provided to state regulatory authorities. The principal differences are recoverables from third parties totaling \$7.16 billion, including \$5.37 billion of indemnification recoverables related to the Michigan Catastrophic Claims Association ("MCCA"), that reduce reserves for statutory reporting, but are

recorded as assets for GAAP reporting, and a liability for the reserves of the Canadian subsidiaries for \$1.26 billion that are a component of our consolidated reserves, but not included in our U.S. statutory reserves. The tables below show net reserves representing the estimated cost of outstanding claims as they were recorded at the beginning of years 2018, 2017 and 2016, and the effect of reestimates in each year.

### Net reserves

| (\$ in millions)                 | January 1 reserves |                  |                  |
|----------------------------------|--------------------|------------------|------------------|
|                                  | 2018               | 2017             | 2016             |
| Allstate brand                   | \$ 16,826          | \$ 16,108        | \$ 14,953        |
| Esurance brand                   | 777                | 740              | 717              |
| Encompass brand                  | 758                | 749              | 770              |
| Total Allstate Protection        | 18,361             | 17,597           | 16,440           |
| Discontinued Lines and Coverages | 1,407              | 1,445            | 1,516            |
| Total Property-Liability         | 19,768             | 19,042           | 17,956           |
| Service Businesses               | 86                 | 24               | 21               |
| <b>Total net reserves</b>        | <b>\$ 19,854</b>   | <b>\$ 19,066</b> | <b>\$ 17,977</b> |

**Impact of reserve reestimates by brand on combined ratio and underwriting income**

| (\$ in millions, except ratios)  | 2018                   |                              | 2017                   |                              | 2016                   |                              |
|--|------------------------|------------------------------|------------------------|------------------------------|------------------------|------------------------------|
|  | Reserve reestimate (4) | Effect on combined ratio (5) | Reserve reestimate (4) | Effect on combined ratio (5) | Reserve reestimate (4) | Effect on combined ratio (5) |
| Allstate brand (1)   | \$ (332)               | (1.0)                        | \$ (585)               | (1.8)                        | \$ (110)               | (0.3)                        |
| Esurance brand (2)   | 3                      | —                            | (2)                    | —                            | (21)                   | (0.1)                        |
| Encompass brand (3)  | (11)                   | —                            | (14)                   | (0.1)                        | 5                      | —                            |
| Total Allstate Protection  | (340)                  | (1.0)                        | (601)                  | (1.9)                        | (126)                  | (0.4)                        |
| Discontinued Lines and Coverages   | 87                     | 0.2                          | 96                     | 0.3                          | 105                    | 0.3                          |
| Total Property-Liability (6)   | (253)                  | (0.8)                        | (505)                  | (1.6)                        | (21)                   | (0.1)                        |
| Service Businesses   | (2)                    | —                            | 2                      | —                            | 4                      | —                            |
| <b>Total</b>   | <b>\$ (255)</b>        |                              | <b>\$ (503)</b>        |                              | <b>\$ (17)</b>         |                              |
| Reserve reestimates, after-tax   | \$ (201)               |                              | \$ (327)               |                              | \$ (11)                |                              |
| Consolidated net income applicable to common shareholders                                      | \$ 2,104               |                              | \$ 3,073               |                              | \$ 1,761               |                              |
| Reserve reestimates as a % impact on consolidated net income applicable to common shareholders | 9.6%                   |                              | 10.6%                  |                              | 0.6%                   |                              |

(1) Impact of reserve reestimates on Allstate brand underwriting income were 15.0%, 26.6% and 7.5% in 2018, 2017 and 2016, respectively.

(2) Impact of reserve reestimates on Esurance brand underwriting loss were (12.0)%, 3.6% and 16.9% in 2018, 2017 and 2016, respectively.

(3) Impact of reserve reestimates on Encompass brand underwriting income (loss) were 84.6% and 42.4% in 2018 and 2017, respectively. Impact on results in 2016 were not meaningful.

(4) Favorable reserve reestimates are shown in parentheses.

(5) Ratios are calculated using property and casualty premiums earned.

(6) Prior year reserve reestimates included in catastrophe losses totaled \$25 million unfavorable, \$18 million favorable and \$6 million unfavorable in 2018, 2017 and 2016, respectively.

The following tables reflect the accident years to which the reestimates shown above are applicable. Favorable reserve reestimates are shown in parentheses.

**2018 prior year reserve reestimates**

| (\$ in millions)                 | 2013 & prior | 2014           | 2015           | 2016            | 2017           | Total           |
|----------------------------------|--------------|----------------|----------------|-----------------|----------------|-----------------|
| Allstate brand                   | \$ (61)      | \$ (50)        | \$ (25)        | \$ (146)        | \$ (50)        | \$ (332)        |
| Esurance brand                   | (5)          | (6)            | 9              | 13              | (8)            | 3               |
| Encompass brand                  | (12)         | (11)           | (15)           | 1               | 26             | (11)            |
| Total Allstate Protection        | (78)         | (67)           | (31)           | (132)           | (32)           | (340)           |
| Discontinued Lines and Coverages | 87           | —              | —              | —               | —              | 87              |
| Total Property-Liability         | 9            | (67)           | (31)           | (132)           | (32)           | (253)           |
| Service Businesses               | —            | —              | —              | —               | (2)            | (2)             |
| <b>Total</b>                     | <b>\$ 9</b>  | <b>\$ (67)</b> | <b>\$ (31)</b> | <b>\$ (132)</b> | <b>\$ (34)</b> | <b>\$ (255)</b> |

**2017 prior year reserve reestimates**

| (\$ in millions)                 | 2012 & prior | 2013            | 2014            | 2015            | 2016            | Total           |
|----------------------------------|--------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Allstate brand                   | \$ 3         | \$ (99)         | \$ (103)        | \$ (121)        | \$ (265)        | \$ (585)        |
| Esurance brand                   | (3)          | (1)             | (12)            | 1               | 13              | (2)             |
| Encompass brand                  | (6)          | (1)             | (4)             | (1)             | (2)             | (14)            |
| Total Allstate Protection        | (6)          | (101)           | (119)           | (121)           | (254)           | (601)           |
| Discontinued Lines and Coverages | 96           | —               | —               | —               | —               | 96              |
| Total Property-Liability         | 90           | (101)           | (119)           | (121)           | (254)           | (505)           |
| Service Businesses               | —            | —               | —               | —               | 2               | 2               |
| <b>Total</b>                     | <b>\$ 90</b> | <b>\$ (101)</b> | <b>\$ (119)</b> | <b>\$ (121)</b> | <b>\$ (252)</b> | <b>\$ (503)</b> |

**2016 prior year reserve reestimates**

| (\$ in millions)                 | 2011 & prior | 2012           | 2013           | 2014           | 2015         | Total          |
|----------------------------------|--------------|----------------|----------------|----------------|--------------|----------------|
| Allstate brand                   | \$ (11)      | \$ (52)        | \$ (69)        | \$ (40)        | \$ 62        | \$ (110)       |
| Esurance brand                   | (7)          | (3)            | (5)            | (9)            | 3            | (21)           |
| Encompass brand                  | (25)         | 7              | 3              | 14             | 6            | 5              |
| Total Allstate Protection        | (43)         | (48)           | (71)           | (35)           | 71           | (126)          |
| Discontinued Lines and Coverages | 105          | —              | —              | —              | —            | 105            |
| Total Property-Liability         | 62           | (48)           | (71)           | (35)           | 71           | (21)           |
| Service Businesses               | —            | —              | —              | —              | 4            | 4              |
| <b>Total</b>                     | <b>\$ 62</b> | <b>\$ (48)</b> | <b>\$ (71)</b> | <b>\$ (35)</b> | <b>\$ 75</b> | <b>\$ (17)</b> |

**Allstate Protection**

The tables below show Allstate Protection net reserves representing the estimated cost of outstanding claims as they were recorded at the beginning of years 2018, 2017, and 2016, and the effect of reestimates in each year.

**Net reserves by line**

| (\$ in millions)                 | January 1 reserves |                  |                  |
|----------------------------------|--------------------|------------------|------------------|
|                                  | 2018               | 2017             | 2016             |
| Auto                             | \$ 14,051          | \$ 13,530        | \$ 12,459        |
| Homeowners                       | 2,205              | 1,990            | 1,937            |
| Other personal lines             | 1,489              | 1,456            | 1,490            |
| Commercial lines                 | 616                | 621              | 554              |
| <b>Total Allstate Protection</b> | <b>\$ 18,361</b>   | <b>\$ 17,597</b> | <b>\$ 16,440</b> |

**Impact of reserve reestimates by line on combined ratio and underwriting income**

| (\$ in millions, except ratios)                          | 2018               |                          | 2017               |                          | 2016               |                          |
|--|--------------------|--------------------------|--------------------|--------------------------|--------------------|--------------------------|
|  | Reserve reestimate | Effect on combined ratio | Reserve reestimate | Effect on combined ratio | Reserve reestimate | Effect on combined ratio |
| Auto   | \$ (455)           | (1.3)                    | \$ (490)           | (1.5)                    | \$ (155)           | (0.5)                    |
| Homeowners   | 14                 | —                        | (131)              | (0.4)                    | (24)               | (0.1)                    |
| Other personal lines                                     | (7)                | —                        | 1                  | —                        | (9)                | —                        |
| Commercial lines   | 108                | 0.3                      | 19                 | —                        | 62                 | 0.2                      |
| <b>Total Allstate Protection</b>                         | <b>\$ (340)</b>    | <b>(1.0)</b>             | <b>\$ (601)</b>    | <b>(1.9)</b>             | <b>\$ (126)</b>    | <b>(0.4)</b>             |
| Underwriting income                                      | \$ 2,187           |                          | \$ 2,111           |                          | \$ 1,327           |                          |
| Reserve reestimates as a % impact on underwriting income | 15.5%              |                          | 28.5%              |                          | 9.5%               |                          |

Prior year reserve reestimates are developed based on factors that are calculated quarterly and periodically throughout the year for data elements such as claims reported and settled, paid losses and paid losses combined with case reserves. These data elements are primarily responsible for revisions to loss development factors used to predict how losses are likely to develop from the end of a reporting period until all claims have been paid. When actual development of these data elements is different than the historical development pattern used in a prior period reserve estimate, reserves are revised as actuarial studies validate new trends based on the indications of updated development factor calculations. On-going claims organizational and process changes that are occurring are considered within our estimation process.

Favorable reserve reestimates for auto in 2018 primarily related to continued favorable personal lines auto injury coverage development, offset by strengthening in our commercial lines and personal injury protection ("PIP") coverage, including an unfavorable ruling against the insurance industry related to Florida PIP. Auto liability claims process

changes implemented in prior years, including a program requiring enhanced documentation of injuries and related medical treatments, have resulted in favorable severity trends compared to those originally estimated as we continue to develop greater experience in settling claims under these programs. The impact of these program changes have begun to moderate. Unfavorable results for commercial lines in 2018 were primarily due to non-catastrophe auto loss development being higher than anticipated in previous estimates.

Favorable reserve reestimates for auto and homeowners in 2017 were primarily related to a reduction in claim severity estimates for liability coverages. Auto liability claims process changes implemented in prior years also impacted 2017 results. Auto liability legislative reforms, higher limits and longer settlement periods in Canada resulted in uncertainty that has developed favorably as loss experience emerges. Unfavorable results for commercial lines in 2017 were primarily due to non-catastrophe auto loss development being higher than anticipated in previous estimates.



Favorable auto reserve reestimates in 2016 were primarily due to severity development for auto liability coverages that was better than expected. Favorable homeowners reserve reestimates in 2016 were primarily due to severity development for liability coverages related to the timing of payments. Other personal lines reserve reestimates in 2016 were primarily due to non-catastrophe loss development lower than anticipated in previous estimates.

Commercial lines reserve reestimates in 2016 were primarily due to severity development for auto bodily injury coverage that was more than expected.

Estimating the ultimate cost of claims and claims expenses is an inherently uncertain and complex process involving a high degree of judgment and is subject to the evaluation of numerous variables.

Pending, new and closed claims for Allstate Protection are summarized in the following table for the years ended December 31. The increases in pending claims as of December 31, 2018 compared to December 31, 2017 were primarily due to increases in the amount of time to settle auto liability claims and growth in the business. The increases in pending claims as of December 31, 2017 compared to December 31, 2016 were primarily due to increases in the amount of time to settle claims.

**Summary of pending new and closed claims for Allstate Protection**

| Number of claims                 | 2018        | 2017        | 2016        |
|----------------------------------|-------------|-------------|-------------|
| <b>Auto</b>                      |             |             |             |
| Pending, beginning of year       | 538,424     | 534,531     | 521,890     |
| New                              | 6,494,554   | 6,448,747   | 6,844,491   |
| Total closed                     | (6,443,276) | (6,444,854) | (6,831,850) |
| Pending, end of year             | 589,702     | 538,424     | 534,531     |
| <b>Homeowners</b>                |             |             |             |
| Pending, beginning of year       | 37,294      | 34,691      | 38,865      |
| New                              | 810,919     | 898,512     | 818,084     |
| Total closed                     | (806,559)   | (895,909)   | (822,258)   |
| Pending, end of year             | 41,654      | 37,294      | 34,691      |
| <b>Other personal lines</b>      |             |             |             |
| Pending, beginning of year       | 17,077      | 14,937      | 15,835      |
| New                              | 212,061     | 242,427     | 219,053     |
| Total closed                     | (211,309)   | (240,287)   | (219,951)   |
| Pending, end of year             | 17,829      | 17,077      | 14,937      |
| <b>Commercial lines</b>          |             |             |             |
| Pending, beginning of year       | 10,416      | 11,518      | 11,837      |
| New                              | 72,326      | 55,308      | 73,139      |
| Total closed                     | (70,203)    | (56,410)    | (73,458)    |
| Pending, end of year             | 12,539      | 10,416      | 11,518      |
| <b>Total Allstate Protection</b> |             |             |             |
| Pending, beginning of year       | 603,211     | 595,677     | 588,427     |
| New                              | 7,589,860   | 7,644,994   | 7,954,767   |
| Total closed                     | (7,531,347) | (7,637,460) | (7,947,517) |
| Pending, end of year             | 661,724     | 603,211     | 595,677     |

**Discontinued Lines and Coverages**

We conduct an annual review in the third quarter of each year to evaluate and establish asbestos, environmental and other discontinued lines reserves. Reserves are recorded in the reporting period in which they are determined. Using established industry and actuarial best practices and assuming no change in the

regulatory or economic environment, this detailed and comprehensive methodology determines reserves based on assessments of the characteristics of exposure (e.g. claim activity, potential liability, jurisdiction, products versus non-products exposure) presented by policyholders.

**Discontinued Lines and Coverages reserve reestimates**

| (\$ in millions)         | 2018               |                    | 2017               |                    | 2016               |                    |
|--------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
|                          | January 1 reserves | Reserve reestimate | January 1 reserves | Reserve reestimate | January 1 reserves | Reserve reestimate |
| Asbestos claims          | \$ 884             | \$ 44              | \$ 912             | \$ 61              | \$ 960             | \$ 67              |
| Environmental claims     | 166                | 20                 | 179                | 10                 | 179                | 23                 |
| Other discontinued lines | 357                | 23                 | 354                | 25                 | 377                | 15                 |
| <b>Total</b>             | <b>\$ 1,407</b>    | <b>\$ 87</b>       | <b>\$ 1,445</b>    | <b>\$ 96</b>       | <b>\$ 1,516</b>    | <b>\$ 105</b>      |
| Underwriting loss        |                    | \$ (90)            |                    | \$ (99)            |                    | \$ (107)           |

Reserve additions for asbestos in 2018 were primarily related to new reported information, changes

in our projections of reported claims and settlement agreements, including bankruptcy proceedings.

Reserve additions for asbestos in 2017 were primarily related to new reported information and settlement agreements, including bankruptcy proceedings. Reserve additions for asbestos in 2016 were primarily related to insured business and claim development, new reported information on insured's claims, expanded expected exposure periods and other legal settlements including insured's bankruptcy proceedings.

Reserve additions for environmental in 2018 were primarily related to expected greater loss activity for future claims. Reserve additions for environmental in 2017 and 2016 were primarily related to greater reported loss activity than expected.

### Reserves and claim activity before (Gross) and after (Net) the effects of reinsurance

| (\$ in millions, except ratios)                   | 2018            |               | 2017            |               | 2016            |               |
|---|-----------------|---------------|-----------------|---------------|-----------------|---------------|
|   | Gross           | Net           | Gross           | Net           | Gross           | Net           |
| <b>Asbestos claims</b>                            |                 |               |                 |               |                 |               |
| Beginning reserves                                | \$ 1,296        | \$ 884        | \$ 1,356        | \$ 912        | \$ 1,418        | \$ 960        |
| Incurred claims and claims expense                | 89              | 44            | 79              | 61            | 96              | 67            |
| Claims and claims expense paid                    | (119)           | (62)          | (139)           | (89)          | (158)           | (115)         |
| <b>Ending reserves</b>                            | <b>\$ 1,266</b> | <b>\$ 866</b> | <b>\$ 1,296</b> | <b>\$ 884</b> | <b>\$ 1,356</b> | <b>\$ 912</b> |
| Annual survival ratio                             | 10.6            | 14.0          | 9.3             | 9.9           | 8.6             | 7.9           |
| 3-year survival ratio                             | 9.1             | 9.7           | 9.2             | 8.9           | 9.9             | 9.2           |
| <b>Environmental claims</b>                       |                 |               |                 |               |                 |               |
| Beginning reserves                                | \$ 199          | \$ 166        | \$ 219          | \$ 179        | \$ 222          | \$ 179        |
| Incurred claims and claims expense                | 30              | 20            | 9               | 10            | 24              | 23            |
| Claims and claims expense paid                    | (20)            | (16)          | (29)            | (23)          | (27)            | (23)          |
| <b>Ending reserves</b>                            | <b>\$ 209</b>   | <b>\$ 170</b> | <b>\$ 199</b>   | <b>\$ 166</b> | <b>\$ 219</b>   | <b>\$ 179</b> |
| Annual survival ratio                             | 10.5            | 10.6          | 6.9             | 7.2           | 8.1             | 7.8           |
| 3-year survival ratio                             | 8.4             | 8.2           | 6.9             | 6.9           | 8.1             | 7.8           |
| <b>Combined environmental and asbestos claims</b> |                 |               |                 |               |                 |               |
| Annual survival ratio                             | 10.6            | 13.3          | 8.9             | 9.4           | 8.5             | 7.9           |
| 3-year survival ratio                             | 9.0             | 9.5           | 8.8             | 8.5           | 9.6             | 8.9           |
| Percentage of IBNR in ending reserves             |                 | 49.6%         |                 | 52.7%         |                 | 56.7%         |

The survival ratio is calculated by taking our ending reserves divided by payments made during the year. This is a commonly used but extremely simplistic and imprecise approach to measuring the adequacy of asbestos and environmental reserve levels. Many factors, such as mix of business, level of coverage provided and settlement procedures have significant impacts on the amount of environmental and asbestos claims and claims expense reserves, claim payments and the resultant ratio. As payments result in

corresponding reserve reductions, survival ratios can be expected to vary over time. In 2018, the asbestos and environmental net 3-year survival ratio increased due to lower claim payments associated with settlement agreements. In 2017 and 2016, the asbestos and environmental net 3-year survival ratio decreased due to increased claim payments associated with settlement agreements expected to be substantially paid out over the next several years.

### Net asbestos reserves by type of exposure and total reserve additions

| (\$ in millions)           | December 31, 2018     |               |               | December 31, 2017     |               |               | December 31, 2016     |               |               |
|----------------------------|-----------------------|---------------|---------------|-----------------------|---------------|---------------|-----------------------|---------------|---------------|
|                            | Active policy-holders | Net reserves  | % of reserves | Active policy-holders | Net reserves  | % of reserves | Active policy-holders | Net reserves  | % of reserves |
| Direct policyholders:      |                       |               |               |                       |               |               |                       |               |               |
| Primary                    | 51                    | \$ 12         | 1%            | 48                    | \$ 10         | 1%            | 51                    | \$ 9          | 1%            |
| Excess                     | 295                   | 309           | 36            | 296                   | 308           | 35            | 297                   | 266           | 29            |
| <b>Total case reserves</b> | <b>346</b>            | <b>321</b>    | <b>37</b>     | <b>344</b>            | <b>318</b>    | <b>36</b>     | <b>348</b>            | <b>275</b>    | <b>30</b>     |
| Assumed reinsurance        |                       | 138           | 16            |                       | 117           | 13            |                       | 125           | 14            |
| IBNR                       |                       | 407           | 47            |                       | 449           | 51            |                       | 512           | 56            |
| <b>Total net reserves</b>  |                       | <b>\$ 866</b> | <b>100%</b>   |                       | <b>\$ 884</b> | <b>100%</b>   |                       | <b>\$ 912</b> | <b>100%</b>   |
| Total reserve additions    |                       | \$ 44         |               |                       | \$ 61         |               |                       | \$ 67         |               |

At December 31, 2018, there were 346 active policyholders with open asbestos claims.

- Active policyholders increased by 2 in 2018, including 13 policyholders reporting asbestos claims for the first time and the closing of all claims for 11 policyholders.
- Active policyholders decreased by 4 in 2017, including 10 policyholders reporting asbestos claims for the first time and the closing of all claims for 14 policyholders.
- Active policyholders increased by 2 in 2016, including 17 policyholders reporting asbestos claims for the first time and the closing of all claims for 15 policyholders.

IBNR net reserves decreased \$42 million as of December 31, 2018 compared to December 31, 2017, due to the transfer of IBNR to case reserves through settlement agreements with insureds on large claims where the scope of coverages have been agreed. IBNR provides for reserve development of known claims and future reporting of additional unknown claims from current policyholders and ceding companies.

**Claims counts for asbestos and environmental exposures**

| Number of claims            | For the years ended December 31, |              |              |
|-----------------------------|----------------------------------|--------------|--------------|
|                             | 2018                             | 2017         | 2016         |
| <b>Asbestos</b>             |                                  |              |              |
| Pending, beginning of year  | 6,659                            | 6,883        | 7,151        |
| New                         | 427                              | 406          | 477          |
| Closed                      | (646)                            | (630)        | (745)        |
| <b>Pending, end of year</b> | <b>6,440</b>                     | <b>6,659</b> | <b>6,883</b> |
| Closed without payment      | 446                              | 377          | 373          |
| <b>Environmental</b>        |                                  |              |              |
| Pending, beginning of year  | 3,351                            | 3,399        | 3,504        |
| New                         | 335                              | 375          | 292          |
| Closed                      | (457)                            | (423)        | (397)        |
| <b>Pending, end of year</b> | <b>3,229</b>                     | <b>3,351</b> | <b>3,399</b> |
| Closed without payment      | 320                              | 299          | 211          |

**Reinsurance and indemnification programs** We utilize reinsurance to reduce exposure to catastrophe risk and manage capital, and to support the required statutory surplus and the insurance financial strength ratings of certain subsidiaries such as Castle Key Insurance Company (“CKIC”) and Allstate New Jersey Insurance Company (“ANJ”). We purchase significant reinsurance to manage our aggregate countrywide exposure to an acceptable level. The price and terms of reinsurance and the credit quality of the reinsurer are considered in the purchase process, along with whether the price can be appropriately reflected in the

costs that are considered in setting future rates charged to policyholders. We have also historically purchased reinsurance to mitigate long-tail liability lines, including environmental, asbestos and other discontinued lines exposures. We also participate in various indemnification mechanisms, including state-based industry pool or facility programs mandating participation by insurers offering certain coverage in their state and the federal government National Flood Insurance Program (“NFIP”). See Note 10 of the consolidated financial statements for additional details on these programs.

**Reinsurance and indemnification recoverable balances net of the allowance established for uncollectible amounts**

| (\$ in millions)   | S&P financial strength rating <sup>(1)</sup> | Reinsurance or indemnification recoverable on paid and unpaid claims, net |                 |
|--|--|---|-----------------|
|  |  | 2018  | 2017            |
| <b>Indemnification programs</b>  |  |   |                 |
| <i>State-based industry pool or facility programs</i>                  |  |   |                 |
| MCCA <sup>(2)</sup>  | N/A  | \$ 5,400  | \$ 5,261        |
| New Jersey Property-Liability Insurance Guaranty Association ("PLIGA") | N/A  | 461   | 493             |
| North Carolina Reinsurance Facility                                    | N/A  | 86  | 86              |
| Florida Hurricane Catastrophe Fund ("FHCF")                            | N/A  | 104   | 19              |
| Other  |  | 9   | 6               |
| <i>Federal Government - NFIP</i>                                       | N/A  | 31  | 88              |
| <b>Subtotal</b>  |  | <b>6,091</b>  | <b>5,953</b>    |
| <b>Catastrophe reinsurance recoverables</b>                            |  |   |                 |
| Renaissance Reinsurance Limited  | A+   | 65  | 1               |
| Swiss Reinsurance America Corporation                                  | AA-  | 39  | —               |
| Arch Reinsurance Limited   | A+   | 37  | —               |
| Other  |  | 412   | 10              |
| <b>Subtotal</b>  |  | <b>553</b>  | <b>11</b>       |
| <b>Other reinsurance recoverables <sup>(3)</sup></b>                   |  |   |                 |
| Lloyd's of London ("Lloyd's") <sup>(4)</sup>                           | A+   | 165   | 167             |
| Westport Insurance Corporation   | AA-  | 60  | 61              |
| TIG Insurance Company  | N/A  | 35  | 31              |
| Other, including allowance for future uncollectible recoverables       |  | 344   | 326             |
| <b>Subtotal</b>  |  | <b>604</b>  | <b>585</b>      |
| <b>Total Property-Liability</b>  |  | <b>7,248</b>  | <b>6,549</b>    |
| <b>Service Businesses</b>  |  | <b>18</b>   | <b>18</b>       |
| <b>Total</b>   |  | <b>\$ 7,266</b>   | <b>\$ 6,567</b> |

(1) N/A reflects no S&P Global Ratings ("S&P") rating available.

(2) As of December 31, 2018 and 2017, MCCA includes \$30 million and \$27 million of reinsurance recoverable on paid claims, respectively, and \$5.37 billion and \$5.23 billion of reinsurance recoverable on unpaid claims, respectively.

(3) Other reinsurance recoverables primarily relate to asbestos, environmental and other liability exposures.

(4) As of December 31, 2018, case reserves for Lloyd's were 69% of the reinsurance recoverable for unpaid claims.

Reinsurance and indemnification recoverables include an estimate of the amount of insurance claims and claims expense reserves that are ceded under the terms of the agreements, including incurred but not reported unpaid losses. We calculate our ceded reinsurance and indemnification estimates based on the terms of each applicable agreement, including an estimate of how IBNR losses will ultimately be ceded under the agreement. We also consider other limitations and coverage exclusions under our agreements. Accordingly, our estimate of recoverables is subject to similar risks and uncertainties as our estimate of reserves claims and claims expense. We believe the recoverables are appropriately established; however, as our underlying reserves continue to develop, the amount ultimately recoverable may vary from amounts currently recorded. We regularly evaluate the reinsurers and the respective amounts of our reinsurance recoverables, and a provision for uncollectible reinsurance recoverables is recorded, if needed. The establishment of reinsurance recoverables and the related allowance for uncollectible reinsurance is also an inherently uncertain process involving estimates. Changes in estimates

could result in additional changes to the Consolidated Statements of Operations.

Indemnification recoverables are considered collectible based on the industry pool and facility enabling legislation and the Company has not had any credit losses related to these programs. We also have not experienced credit losses on our catastrophe reinsurance programs. The allowance for uncollectible reinsurance relates to other reinsurance programs primarily related to our Discontinued Lines and Coverages segment. This allowance was \$65 million and \$70 million as of December 31, 2018 and 2017, respectively, which represents 11.8% and 12.0% of the related reinsurance recoverable balances as of December 31, 2018 and 2017, respectively. The allowance is based upon our ongoing review of amounts outstanding, length of collection periods, changes in reinsurer credit standing, and other relevant factors. In addition, in the ordinary course of business, we may become involved in coverage disputes with certain of our reinsurers that may ultimately result in lawsuits and arbitrations brought by or against such reinsurers to determine the parties'

rights and obligations under the various reinsurance agreements. We employ dedicated specialists to manage reinsurance collections and disputes. We also consider recent developments in commutation activity between reinsurers and cedents, and recent trends in arbitration and litigation outcomes in disputes between cedents and reinsurers in seeking to maximize our reinsurance recoveries.

Adverse developments in the insurance industry have led to a decline in the financial strength of some of our reinsurance carriers, causing amounts recoverable from them and future claims ceded to them to be considered a higher risk. There has also been consolidation activity in the industry, which

causes reinsurance risk across the industry to be concentrated among fewer companies. In addition, some companies have segregated asbestos, environmental, and other discontinued lines exposures into separate legal entities with dedicated capital. Regulatory bodies in certain cases have supported these actions. We are unable to determine the impact, if any, that these developments will have on the collectability of reinsurance recoverables in the future.

For a detailed description of the MCCA, PLIGA and Lloyd's, see Note 10 of the consolidated financial statements.

### Effects of reinsurance ceded and indemnification programs on our premiums earned and claims and claims expense

| (\$ in millions)                                      | For the years ended December 31, |                 |                 |
|---|----------------------------------|-----------------|-----------------|
|   | 2018                             | 2017            | 2016            |
| <b>Allstate Protection - Premiums</b>                 |                                  |                 |                 |
| <b>Indemnification programs</b>                       |                                  |                 |                 |
| <i>State-based industry pool or facility programs</i> |                                  |                 |                 |
| MCCA  | \$ 77                            | \$ 73           | \$ 73           |
| PLIGA   | 9                                | 9               | 8               |
| FHCF  | 10                               | 11              | 12              |
| Other   | 90                               | 108             | 99              |
| <i>Federal Government - NFIP</i>                      | 258                              | 263             | 274             |
| <b>Catastrophe reinsurance</b>                        | 344                              | 344             | 381             |
| <b>Other reinsurance programs</b>                     | 54                               | —               | —               |
| <b>Total Allstate Protection</b>                      | <b>842</b>                       | <b>808</b>      | <b>847</b>      |
| Discontinued Lines and Coverages                      | —                                | —               | —               |
| <b>Total Property-Liability</b>                       | <b>842</b>                       | <b>808</b>      | <b>847</b>      |
| <b>Service Businesses</b>                             | <b>174</b>                       | <b>163</b>      | <b>140</b>      |
| <b>Total effect on premiums earned</b>                | <b>\$ 1,016</b>                  | <b>\$ 971</b>   | <b>\$ 987</b>   |
| <b>Allstate Protection - Claims</b>                   |                                  |                 |                 |
| <b>Indemnification programs</b>                       |                                  |                 |                 |
| <i>State-based industry pool or facility programs</i> |                                  |                 |                 |
| MCCA  | \$ 233                           | \$ 410          | \$ 386          |
| PLIGA   | (6)                              | 3               | 20              |
| FHCF  | 148                              | 19              | —               |
| Other   | 90                               | 89              | 82              |
| <i>Federal Government - NFIP</i>                      | 118                              | 1,116           | 537             |
| <b>Catastrophe reinsurance</b>                        | 604                              | 46              | (9)             |
| <b>Other reinsurance programs</b>                     | 40                               | —               | —               |
| <b>Total Allstate Protection</b>                      | <b>1,227</b>                     | <b>1,683</b>    | <b>1,016</b>    |
| Discontinued Lines and Coverages                      | 57                               | 35              | 27              |
| <b>Total Property-Liability</b>                       | <b>1,284</b>                     | <b>1,718</b>    | <b>1,043</b>    |
| <b>Service Businesses</b>                             | <b>94</b>                        | <b>89</b>       | <b>73</b>       |
| <b>Total effect on claims and claims expense</b>      | <b>\$ 1,378</b>                  | <b>\$ 1,807</b> | <b>\$ 1,116</b> |

In 2018, 2017 and 2016, ceded premiums earned increased primarily due to increased indemnification program reinsurance premium rates and a decrease in policies written for the NFIP.

In 2018, ceded claims and claims expenses decreased \$429 million, primarily due to higher amounts related to the NFIP in 2017. In 2017, ceded claims and claims expenses increased \$691 million, primarily due to higher amounts related to the NFIP related to claims as a result of Hurricanes Harvey and Irma. Ceded claims and claims expenses increased in

2016, primarily due to higher amounts related to the NFIP as the result of Louisiana flooding.

Our claim reserve development experience is consistent with the MCCA's overall experience with reported and pending claims increasing in recent years. Moreover, the MCCA has reported severity increasing with nearly 57% of reimbursements for attendant and residential care services. Michigan's unique no-fault motor vehicle insurance law provides unlimited lifetime coverage for medical expenses resulting from motor vehicle accidents. The reserve

increases in the MCCA program are attributable to an increased recognition of longer term paid loss trends. The paid loss trends are rising due to increased costs in medical and attendant care and increased longevity of claimants. As a result of continuing to originate

motor vehicle policies in Michigan with unlimited personal injury protection coverage, we expect the number of MCCA covered claims and losses to increase each year.

### Michigan personal injury protection reserve and claim activity before and after the effects of MCCA recoverables

| (\$ in millions)   | For the years ended December 31, |               |                 |               |                 |               |
|--|----------------------------------|---------------|-----------------|---------------|-----------------|---------------|
|  | 2018                             |               | 2017            |               | 2016            |               |
|  | Gross                            | Net           | Gross           | Net           | Gross           | Net           |
| Beginning reserves   | \$ 5,799                         | \$ 565        | \$ 5,443        | \$ 522        | \$ 5,121        | \$ 486        |
| Incurring claims and claims expense-current year           | 449                              | 189           | 513             | 195           | 578             | 214           |
| Incurring claims and claims expense-prior years            | 9                                | 35            | 117             | 25            | 8               | (15)          |
| Claims and claims expense paid-current year <sup>(1)</sup> | (52)                             | (51)          | (54)            | (53)          | (60)            | (58)          |
| Claims and claims expense paid-prior years <sup>(1)</sup>  | (230)                            | (133)         | (220)           | (124)         | (204)           | (105)         |
| <b>Ending reserves <sup>(2)</sup></b>                      | <b>\$ 5,975</b>                  | <b>\$ 605</b> | <b>\$ 5,799</b> | <b>\$ 565</b> | <b>\$ 5,443</b> | <b>\$ 522</b> |

<sup>(1)</sup> Paid claims and claims expenses reported in the table for the current and prior years, recovered from the MCCA totaled \$98 million, \$97 million and \$101 million in 2018, 2017 and 2016, respectively.

<sup>(2)</sup> Gross reserves for the year ended December 31, 2018, comprise 88% case reserves and 12% IBNR. Gross reserves for the year ended December 31, 2017, comprise 87% case reserves and 13% IBNR. Gross reserves for the year ended December 31, 2016 comprise 85% case reserves and 15% IBNR. The MCCA does not require member companies to report ultimate case reserves.

Pending MCCA claims differ from most personal lines insurance pending claims as other personal lines policies have coverage limits and incurred claims settle in shorter periods. Claims are considered pending as long as payments are continuing pursuant to an outstanding MCCA claim, which can be for a claimant's lifetime. Many of these injuries are catastrophic in

nature, resulting in serious permanent disabilities that require attendant and residential care for periods that may span decades. A significant portion of the ultimate incurred claim reserves and the recoverables can be attributed to a small number of catastrophic claims that occurred more than five years ago and continue to pay lifetime benefits.

### Pending, new and closed claims for Michigan personal injury protection exposures

| Number of claims <sup>(1)</sup> | For the years ended December 31, |              |              |
|---------------------------------|----------------------------------|--------------|--------------|
|                                 | 2018                             | 2017         | 2016         |
| Pending, beginning of year      | 4,983                            | 5,388        | 5,127        |
| New                             | 7,858                            | 8,494        | 9,577        |
| Closed                          | (8,029)                          | (8,899)      | (9,316)      |
| <b>Pending, end of year</b>     | <b>4,812</b>                     | <b>4,983</b> | <b>5,388</b> |

<sup>(1)</sup> Total claims includes those covered and not covered by the MCCA indemnification.

As of December 31, 2018, approximately 1,645 of our pending claims have been reported to the MCCA, of which approximately 50% represents claims that occurred more than 5 years ago. There are 75 Allstate brand claims with reserves in excess of \$15 million as of December 31, 2018, which comprise approximately 37% of the gross ending reserves in the table above. As a result, significant developments with a single claimant can result in volatility in prior year incurred claims.

**Intercompany reinsurance** We enter into certain intercompany insurance and reinsurance transactions in order to maintain underwriting control and manage insurance risk among various legal entities. These reinsurance agreements have been approved by the appropriate regulatory authorities. All significant intercompany transactions have been eliminated in consolidation.

**Catastrophe reinsurance** Our catastrophe reinsurance program is designed, utilizing our risk management methodology, to address our exposure to catastrophes nationwide. Our program is designed to provide reinsurance protection for catastrophes resulting from multiple perils including hurricanes, windstorms, hail, tornadoes, fires following earthquakes, earthquakes 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 property business, and to reduce variability of earnings, while providing protection to our customers.

We anticipate completing the placement of our 2019 nationwide catastrophe reinsurance program in the second quarter of 2019. We expect the program will be similar to our 2018 nationwide catastrophe reinsurance program, but will evaluate opportunities to improve the economic terms and conditions. For further details of the existing 2018 program, see Note 10 of the consolidated financial statements.

## Allstate Life Segment

Allstate Life offers traditional, interest-sensitive and variable life insurance. In 2018, Allstate Life represented 4.8% of total revenue, 1.8% of total PIF and 10.1% of total adjusted net income. Our target customers prefer local personalized advice and service and are brand-sensitive. For additional information on our strategy and outlook, see Part I, Item 1. Business - Strategy and Segment Information.

### Summarized financial information

| (\$ in millions)   | For the years ended December 31, |                |                |
|--|----------------------------------|----------------|----------------|
|  | 2018                             | 2017           | 2016           |
| <b>Revenues</b>  |                                  |                |                |
| Premiums and contract charges  | \$ 1,315                         | \$ 1,280       | \$ 1,250       |
| Other revenue  | 119                              | 114            | 113            |
| Net investment income  | 505                              | 489            | 482            |
| Realized capital gains and losses  | (14)                             | 5              | (38)           |
| <b>Total revenues</b>  | <b>1,925</b>                     | <b>1,888</b>   | <b>1,807</b>   |
| <b>Costs and expenses</b>  |                                  |                |                |
| Contract benefits  | (809)                            | (765)          | (742)          |
| Interest credited to contractholder funds  | (285)                            | (282)          | (285)          |
| Amortization of DAC  | (132)                            | (134)          | (131)          |
| Operating costs and expenses   | (369)                            | (352)          | (338)          |
| Restructuring and related charges  | (3)                              | (2)            | (1)            |
| <b>Total costs and expenses</b>  | <b>(1,598)</b>                   | <b>(1,535)</b> | <b>(1,497)</b> |
| Income tax (expense) benefit   | (73)                             | 224            | (91)           |
| <b>Net income applicable to common shareholders</b>                              | <b>\$ 254</b>                    | <b>\$ 577</b>  | <b>\$ 219</b>  |
| <b>Adjusted net income</b>   | <b>\$ 289</b>                    | <b>\$ 253</b>  | <b>\$ 247</b>  |
| Realized capital gains and losses, after-tax                                     | (11)                             | 2              | (24)           |
| DAC and DSI amortization related to realized capital gains and losses, after-tax | (8)                              | (10)           | (4)            |
| Tax Legislation (expense) benefit  | (16)                             | 332            | —              |
| <b>Net income applicable to common shareholders</b>                              | <b>\$ 254</b>                    | <b>\$ 577</b>  | <b>\$ 219</b>  |
| Reserve for life-contingent contract benefits as of December 31                  | \$ 2,677                         | \$ 2,636       | \$ 2,578       |
| Contractholder funds as of December 31   | \$ 7,656                         | \$ 7,608       | \$ 7,464       |
| Policies in force as of December 31 by distribution channel (in thousands)       |                                  |                |                |
| Allstate agencies  | 1,831                            | 1,822          | 1,804          |
| Closed channels  | 191                              | 204            | 219            |
| Total  | 2,022                            | 2,026          | 2,023          |

*Net income applicable to common shareholders* was \$254 million, \$577 million and \$219 million in 2018, 2017 and 2016, respectively. 2018 and 2017 results include a tax expense of \$16 million and a tax benefit of \$332 million, respectively, related to the Tax Legislation.

*Adjusted net income* was \$289 million in 2018 compared to \$253 million in 2017. The increase was primarily due to a lower effective tax rate from the Tax Legislation and increased premiums and contract charges, partially offset by higher contract benefits.

Adjusted net income was \$253 million in 2017 compared to \$247 million in 2016. The increase was primarily due to higher premiums and contract

charges, partially offset by higher contract benefits and operating costs and expenses.

*Premiums and contract charges* increased 2.7% or \$35 million in 2018 compared to 2017. The increase primarily relates to growth in traditional life insurance as well as lower reinsurance premiums ceded. Approximately 85% of Allstate Life's traditional life insurance premium relates to term life insurance products.

Premiums and contract charges increased 2.4% or \$30 million in 2017 compared to 2016. The increase primarily relates to higher traditional life insurance renewal premiums as well as lower levels of reinsurance premiums ceded.

**Premiums and contract charges by product**

| (\$ in millions)                                    | For the years ended December 31, |                 |                 |
|---|----------------------------------|-----------------|-----------------|
|   | 2018                             | 2017            | 2016            |
| Traditional life insurance premiums                 | \$ 600                           | \$ 568          | \$ 533          |
| Accident and health insurance premiums              | 2                                | 2               | 2               |
| Interest-sensitive life insurance contract charges  | 713                              | 710             | 715             |
| <b>Premiums and contract charges <sup>(1)</sup></b> | <b>\$ 1,315</b>                  | <b>\$ 1,280</b> | <b>\$ 1,250</b> |

<sup>(1)</sup> Contract charges related to the cost of insurance totaled \$493 million, \$487 million and \$488 million in 2018, 2017 and 2016, respectively.

*Contract benefits* increased 5.8% or \$44 million in 2018 compared to 2017, primarily due to higher claim experience on both traditional and interest-sensitive life insurance. Contract benefits increased 3.1% or \$23 million in 2017 compared to 2016, primarily due to growth in business in force.

Our annual review of assumptions in 2018 resulted in a \$1 million increase in reserves primarily for secondary guarantees on interest-sensitive life insurance due to higher than anticipated policyholder persistency. In 2017, the review resulted in a \$12 million increase in reserves, primarily for secondary guarantees on interest-sensitive life insurance due to increased projected exposure to benefits paid under secondary guarantees resulting from continued low interest rates.

*Benefit spread* reflects our mortality and morbidity results using the difference between premiums and contract charges earned for the cost of insurance and contract benefits ("benefit spread"). Benefit spread decreased 2.1% to \$286 million in 2018 compared to \$292 million in 2017, primarily due to higher claim experience, partially offset by growth in traditional life insurance premiums. Benefit spread increased 3.9% to

\$292 million in 2017 compared to \$281 million in 2016, primarily due to growth in business in force.

*Investment spread* reflects the difference between net investment income and interest credited to contractholder funds ("investment spread") and is used to analyze the impact of net investment income and interest credited to contractholders on net income. Investment spread increased 6.3% to \$220 million in 2018 compared to \$207 million in 2017, primarily due to higher net investment income, partially offset by higher credited interest. Investment spread increased 5.1% to \$207 million in 2017 compared to \$197 million in 2016, primarily due to higher net investment income and lower credited interest.

*Amortization of DAC* decreased 1.5% or \$2 million in 2018 compared to 2017, primarily due to lower gross profits on interest-sensitive life insurance, partially offset by amortization acceleration in 2018 compared to amortization deceleration in 2017 for changes in assumptions. Amortization of DAC increased 2.3% or \$3 million in 2017 compared to 2016, primarily due to higher net realized capital gains and gross profits, partially offset by higher amortization deceleration for changes in assumptions.

**Components of amortization of DAC**

| (\$ in millions)   | For the years ended December 31, |               |               |
|--|----------------------------------|---------------|---------------|
|  | 2018                             | 2017          | 2016          |
| Amortization of DAC before amortization relating to realized capital gains and losses and changes in assumptions | \$ 117                           | \$ 134        | \$ 131        |
| Amortization relating to realized capital gains and losses <sup>(1)</sup>  | 10                               | 14            | 6             |
| Amortization acceleration (deceleration) for changes in assumptions ("DAC unlocking")                            | 5                                | (14)          | (6)           |
| <b>Total amortization of DAC</b>   | <b>\$ 132</b>                    | <b>\$ 134</b> | <b>\$ 131</b> |

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

Our annual comprehensive review of assumptions underlying estimated future gross profits for our interest-sensitive life contracts covers assumptions for mortality, persistency, expenses, investment returns, including capital gains and losses, interest crediting rates to policyholders, and the effect of any hedges.

In 2018, the review resulted in an acceleration of DAC amortization (decrease to income) of \$5 million. DAC amortization acceleration primarily related to the investment margin component of estimated gross profits and was due to lower projected investment returns. This was partially offset by DAC amortization deceleration (increase to income) for changes in the

benefit margin due to a decrease in projected mortality.

In 2017, the review resulted in a deceleration of DAC amortization of \$14 million. DAC amortization deceleration primarily related to the benefit margin component of estimated gross profits and was due to a decrease in projected mortality. This was partially offset by DAC amortization acceleration for changes in the investment margin due to continued low interest rates and lower projected investment returns.

In 2016, the review resulted in a deceleration of DAC amortization of \$6 million. DAC amortization deceleration for changes in the investment margin was due to increased projected investment margins from a



favorable asset portfolio mix. DAC amortization deceleration for changes in the expense margin related primarily to variable life insurance and was due to a decrease in projected expenses.

## Changes in DAC

| (\$ in millions)  | Traditional life and accident and health |               | Interest-sensitive life insurance |               | Total           |                 |
|---|--|---------------|-----------------------------------|---------------|-----------------|-----------------|
|   | For the years ended December 31,         |               |                                   |               |                 |                 |
|   | 2018                                     | 2017          | 2018                              | 2017          | 2018            | 2017            |
| Balance, beginning of year  | \$ 465                                   | \$ 438        | \$ 687                            | \$ 762        | \$ 1,152        | \$ 1,200        |
| Acquisition costs deferred  | 65                                       | 66            | 65                                | 66            | 130             | 132             |
| Amortization of DAC before amortization relating to realized capital gains and losses and changes in assumptions <sup>(1)</sup> | (41)                                     | (39)          | (76)                              | (95)          | (117)           | (134)           |
| Amortization relating to realized capital gains and losses <sup>(1)</sup>   | —  | —             | (10)                              | (14)          | (10)            | (14)            |
| Amortization (acceleration) deceleration for changes in assumptions (“DAC unlocking”) <sup>(1)</sup>                            | —  | —             | (5)                               | 14            | (5)             | 14              |
| Effect of unrealized capital gains and losses <sup>(2)</sup>  | —  | —             | 150                               | (46)          | 150             | (46)            |
| <b>Ending balance</b>   | <b>\$ 489</b>                            | <b>\$ 465</b> | <b>\$ 811</b>                     | <b>\$ 687</b> | <b>\$ 1,300</b> | <b>\$ 1,152</b> |

<sup>(1)</sup> Included as a component of amortization of DAC on the Consolidated Statements of Operations.

<sup>(2)</sup> Represents the change in the DAC adjustment for unrealized capital gains and losses. The DAC adjustment represents the amount by which the amortization of DAC would increase or decrease if the unrealized gains and losses in the respective product portfolios were realized.

*Operating costs and expenses* increased 4.8% or \$17 million in 2018 compared to 2017, primarily due to higher technology and employee-related costs and higher commissions on non-proprietary product sales.

higher employee related costs and higher net distribution expenses reflecting increased regulatory compliance costs, partially offset by lower non-deferrable commissions.

Operating costs and expenses increased 4.1% or \$14 million in 2017 compared to 2016, primarily due to

## Analysis of reserves and contractholder funds

### Reserve for life-contingent contract benefits

| (\$ in millions)                                     | For the years ended December 31, |                 |                 |
|--|----------------------------------|-----------------|-----------------|
|  | 2018                             | 2017            | 2016            |
| Traditional life insurance                           | \$ 2,539                         | \$ 2,460        | \$ 2,398        |
| Accident and health insurance                        | 138                              | 176             | 180             |
| <b>Reserve for life-contingent contract benefits</b> | <b>\$ 2,677</b>                  | <b>\$ 2,636</b> | <b>\$ 2,578</b> |

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

### Change in contractholder funds

| (\$ in millions)                                   | For the years ended December 31, |          |          |
|--|----------------------------------|----------|----------|
|  | 2018                             | 2017     | 2016     |
| <b>Contractholder funds, beginning balance</b>     | \$ 7,608                         | \$ 7,464 | \$ 7,359 |
| <b>Deposits</b>                                    | 965                              | 973      | 991      |
| <b>Interest credited</b>                           | 284                              | 282      | 284      |
| <b>Benefits, withdrawals and other adjustments</b> |                                  |          |          |
| Benefits   | (232)                            | (241)    | (245)    |
| Surrenders and partial withdrawals                 | (259)                            | (254)    | (250)    |
| Contract charges                                   | (704)                            | (704)    | (705)    |
| Net transfers from separate accounts               | 6                                | 4        | 4        |
| Other adjustments <sup>(1)</sup>                   | (12)                             | 84       | 26       |
| Total benefits, withdrawals and other adjustments  | (1,201)                          | (1,111)  | (1,170)  |
| <b>Contractholder funds, ending balance</b>        | \$ 7,656                         | \$ 7,608 | \$ 7,464 |

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

*Contractholder deposits* decreased 0.8% in 2018 compared to 2017, and 1.8% in 2017 compared to 2016. The weighted average guaranteed crediting rate and weighted average current crediting rate for our interest-sensitive life insurance contracts, excluding variable life, are both 3.9% as of December 31, 2018.

**Allstate Life reinsurance ceded**

In the normal course of business, we seek to limit aggregate and single exposure to losses on large risks by purchasing reinsurance. In addition, we have used reinsurance to effect the disposition of certain blocks of business.

We retain primary liability as a direct insurer for all risks ceded to reinsurers. As of December 31, 2018, approximately 15% of our face amount of life insurance in force was reinsured.

**Reinsurance recoverables by reinsurer**

| (\$ in millions)                             | S&P financial strength rating <sup>(1)</sup> | Reinsurance recoverable on paid and unpaid benefits |               |
|--|--|---|---------------|
|  |  | For the years ended December 31,                    |               |
|  |  | 2018  | 2017          |
| RGA Reinsurance Company                      | AA-  | \$ 210  | \$ 229        |
| Swiss Re Life and Health America, Inc.       | AA-  | 156   | 159           |
| Munich American Reassurance                  | AA-  | 87  | 91            |
| Transamerica Life Group                      | AA-  | 76  | 77            |
| Scottish Re (U.S.), Inc. <sup>(2)</sup>      | N/A  | 66  | 87            |
| John Hancock Life & Health Insurance Company | AA-  | 53  | 54            |
| Triton Insurance Company                     | N/A  | 45  | 47            |
| American Health & Life Insurance Co.         | N/A  | 34  | 37            |
| Lincoln National Life Insurance              | AA-  | 25  | 28            |
| Security Life of Denver                      | A  | 24  | 27            |
| SCOR Global Life                             | AA-  | 14  | 17            |
| American United Life Insurance Company       | AA-  | 13  | 14            |
| Other <sup>(3)</sup>                         |  | 20  | 25            |
| <b>Total</b>                                 |  | <b>\$ 823</b>                                       | <b>\$ 892</b> |

<sup>(1)</sup> N/A reflects no S&P rating available.

<sup>(2)</sup> Scottish Re (U.S.), Inc. was last rated by S&P in 2009 and A.M. Best removed their rating in 2011. Scottish Re (U.S.), Inc. remains current on claims payments to Allstate.

<sup>(3)</sup> As of December 31, 2018 and 2017, the other category includes \$9 million and \$19 million, respectively, of recoverables due from reinsurers rated A- or better by S&P.

We continuously monitor the creditworthiness of reinsurers in order to determine our risk of recoverability on an individual and aggregate basis, and a provision for uncollectible reinsurance is recorded if needed. No amounts have been deemed unrecoverable in the three-years ended December 31, 2018.

We enter into certain intercompany reinsurance transactions for the Allstate Life operations in order to maintain underwriting control and manage insurance risk among various legal entities. These reinsurance agreements have been approved by the appropriate regulatory authorities. All significant intercompany transactions have been eliminated in consolidation.

## Allstate Benefits Segment



Allstate Benefits offers voluntary benefits products, including life, accident, critical illness, short-term disability and other health products. In 2018, Allstate Benefits represented 3.0% of total revenue, 3.7% of total PIF and 4.2% of total adjusted net income. Our target customers are middle market consumers with family financial protection needs. For additional information on our strategy and outlook, see Part I, Item 1. Business - Strategy and Segment Information.

## Summarized financial information

| (\$ in millions)   | For the years ended December 31, |                |               |
|--|----------------------------------|----------------|---------------|
|  | 2018                             | 2017           | 2016          |
| <b>Revenues</b>  |                                  |                |               |
| Premiums and contract charges  | \$ 1,135                         | \$ 1,084       | \$ 1,011      |
| Net investment income  | 77                               | 72             | 71            |
| Realized capital gains and losses  | (9)                              | 1              | (5)           |
| <b>Total revenues</b>  | <b>1,203</b>                     | <b>1,157</b>   | <b>1,077</b>  |
| <b>Costs and expenses</b>  |                                  |                |               |
| Contract benefits  | (595)                            | (564)          | (509)         |
| Interest credited to contractholder funds  | (35)                             | (35)           | (36)          |
| Amortization of DAC  | (145)                            | (142)          | (145)         |
| Operating costs and expenses   | (285)                            | (266)          | (240)         |
| Restructuring and related charges  | —                                | (3)            | —             |
| <b>Total costs and expenses</b>  | <b>(1,060)</b>                   | <b>(1,010)</b> | <b>(930)</b>  |
| Income tax expense   | (30)                             | (1)            | (51)          |
| <b>Net income applicable to common shareholders</b>                              | <b>\$ 113</b>                    | <b>\$ 146</b>  | <b>\$ 96</b>  |
| <b>Adjusted net income</b>   | <b>\$ 119</b>                    | <b>\$ 95</b>   | <b>\$ 100</b> |
| Realized capital gains and losses, after-tax                                     | (7)                              | —              | (4)           |
| DAC and DSI amortization related to realized capital gains and losses, after-tax | 1                                | —              | —             |
| Tax Legislation benefit  | —                                | 51             | —             |
| <b>Net income applicable to common shareholders</b>                              | <b>\$ 113</b>                    | <b>\$ 146</b>  | <b>\$ 96</b>  |
| Benefit ratio <sup>(1)</sup>   | 52.4                             | 52.0           | 50.3          |
| Operating expense ratio <sup>(2)</sup>   | 25.1                             | 24.5           | 23.7          |
| Reserve for life-contingent contract benefits as of December 31                  | \$ 1,007                         | \$ 979         | \$ 940        |
| Contractholder funds as of December 31   | \$ 898                           | \$ 890         | \$ 881        |
| Policies in force as of December 31 by product type (in thousands)               | 4,208                            | 4,033          | 3,755         |

(1) Benefit ratio is calculated as contract benefits divided by premiums and contract charges.

(2) Operating expense ratio is calculated as operating costs and expenses divided by premiums and contract charges.

*Net income applicable to common shareholders* was \$113 million, \$146 million and \$96 million in 2018, 2017 and 2016, respectively. 2017 results include a tax benefit of \$51 million related to the Tax Legislation.

*Adjusted net income* was \$119 million in 2018 compared to \$95 million in 2017. The increase was 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.

Adjusted net income was \$95 million in 2017 compared to \$100 million in 2016. The decrease was

primarily due to higher contract benefits and operating costs and expenses, partially offset by higher premiums and contract charges.

*Premiums and contract charges* increased 4.7% or \$51 million in 2018 compared to 2017, primarily related to growth in hospital indemnity (included in other health), accident and critical illness products.

Premiums and contract charges increased 7.2% or \$73 million in 2017 compared to 2016, primarily related to growth in critical illness, short-term disability and accident products.

**Premiums and contract charges by product**

| (\$ in millions)                     | For the years ended December 31, |                 |                 |
|--------------------------------------|----------------------------------|-----------------|-----------------|
|                                      | 2018                             | 2017            | 2016            |
| Life                                 | \$ 155                           | \$ 155          | \$ 154          |
| Accident                             | 297                              | 280             | 270             |
| Critical illness                     | 476                              | 468             | 443             |
| Short-term disability                | 108                              | 102             | 78              |
| Other health                         | 99                               | 79              | 66              |
| <b>Premiums and contract charges</b> | <b>\$ 1,135</b>                  | <b>\$ 1,084</b> | <b>\$ 1,011</b> |

*New annualized premium sales* (annualized premiums at initial customer enrollment) decreased 12.4% to \$389 million in 2018 and increased 11.6% to \$444 million in 2017. The decrease in 2018 relates to increased competition and higher initial enrollments for certain accounts in the prior year.

*PIF* increased 4.3% to 4,208 thousand as of December 31, 2018 compared to 4,033 thousand as of December 31, 2017. *PIF* increased 7.4% to 4,033 thousand as of December 31, 2017 compared to 3,755 thousand as of December 31, 2016.

*Contract benefits* increased 5.5% or \$31 million in 2018 compared to 2017 and 10.8% or \$55 million in 2017 compared to 2016. The increase in both periods was primarily due to higher claim experience and growth.

*Benefit ratio* increased to 52.4 in 2018 compared to 52.0 in 2017 due to higher claim experience related to life products, partially offset by lower claim experience in hospital indemnity products. *Benefit ratio* increased to 52.0 in 2017 compared to 50.3 in 2016 due to higher

claims experience in health products, including critical illness and accident.

*Amortization of DAC* increased 2.1% or \$3 million to \$145 million in 2018 compared to 2017, primarily due to growth, partially offset by a favorable adjustment associated with our annual review of assumptions. *Amortization of DAC* decreased 2.1% or \$3 million to \$142 million in 2017 compared to 2016, primarily due to lower amortization associated with our annual comprehensive review of assumptions and lower lapses, partially offset by higher amortization related to growth.

Our annual comprehensive review of assumptions underlying estimated future gross profits for our interest-sensitive life contracts resulted in a deceleration of *DAC* amortization (increase to income) of \$4 million in 2018 compared to an acceleration of *DAC* amortization (decrease to income) of \$1 million and \$4 million in 2017 and 2016, respectively.

**Changes in DAC**

| (\$ in millions)   | For the years ended |               |
|--|---------------------|---------------|
|  | 2018                | 2017          |
| Balance, beginning of year   | \$ 542              | \$ 526        |
| Acquisition costs deferred   | 150                 | 158           |
| Amortization of DAC before amortization relating to changes in assumptions <sup>(1)</sup>            | (150)               | (141)         |
| Amortization relating to realized capital gains and losses <sup>(1)</sup>                            | 1                   | —             |
| Amortization deceleration (acceleration) for changes in assumptions (“DAC unlocking”) <sup>(1)</sup> | 4                   | (1)           |
| Effect of unrealized capital gains and losses <sup>(2)</sup>   | 2                   | —             |
| <b>Ending balance</b>  | <b>\$ 549</b>       | <b>\$ 542</b> |

<sup>(1)</sup> Included as a component of amortization of *DAC* on the Consolidated Statements of Operations.

<sup>(2)</sup> Represents the change in the *DAC* adjustment for unrealized capital gains and losses. The *DAC* adjustment represents the amount by which the amortization of *DAC* would increase or decrease if the unrealized gains and losses in the respective product portfolios were realized.

**Operating costs and expenses**

| (\$ in millions)                          | For the years ended December 31, |               |               |
|---|----------------------------------|---------------|---------------|
|   | 2018                             | 2017          | 2016          |
| Non-deferrable commissions                | \$ 109                           | \$ 98         | \$ 91         |
| General and administrative expenses       | 176                              | 168           | 149           |
| <b>Total operating costs and expenses</b> | <b>\$ 285</b>                    | <b>\$ 266</b> | <b>\$ 240</b> |

*Operating costs and expenses* increased 7.1% or \$19 million in 2018 compared to 2017, primarily due to higher non-deferrable commissions (associated with growth in premiums and contract charges) and employee-related costs consistent with growth.

Operating costs and expenses increased 10.8% or \$26 million in 2017 compared to 2016, primarily due to higher employee-related costs and non-deferrable commissions related to growth, as well as higher technology expenses.

*Operating expense ratio* increased to 25.1 in 2018 compared to 24.5 in 2017, primarily due to policy growth and investments in the business. Operating expense ratio increased to 24.5 in 2017 compared to 23.7 in 2016.

### Analysis of reserves and contractholder funds

#### Reserve for life-contingent contract benefits

| (\$ in millions)                                     | For the years ended December 31, |               |               |
|--|----------------------------------|---------------|---------------|
|  | 2018                             | 2017          | 2016          |
| Traditional life insurance                           | \$ 269                           | \$ 262        | \$ 247        |
| Accident and health insurance                        | 738                              | 717           | 693           |
| <b>Reserve for life-contingent contract benefits</b> | <b>\$ 1,007</b>                  | <b>\$ 979</b> | <b>\$ 940</b> |

*Contractholder funds* relate to interest-sensitive life insurance and totaled \$898 million as of December 31, 2018 compared to \$890 million as of December 31, 2017 and \$881 million as of December 31, 2016.

#### Allstate Benefits reinsurance ceded

The vast majority of our reinsurance relates to the disposition of our long-term care and other closed blocks of business several years ago. We retain primary liability as a direct insurer for all risks ceded to reinsurers.

#### Reinsurance recoverables by reinsurer

| (\$ in millions)            | S&P financial strength rating | Reinsurance recoverable on paid and unpaid benefits |              |
|-----------------------------|-------------------------------|---|--------------|
|                             |                               | For the years ended December 31,                    |              |
|                             |                               | 2018  | 2017         |
| Mutual of Omaha Insurance   | AA-                           | \$ 71   | \$ 68        |
| General Re Life Corporation | AA+                           | 19  | 19           |
| Other <sup>(1)</sup>        |                               | 5   | 5            |
| <b>Total</b>                |                               | <b>\$ 95</b>  | <b>\$ 92</b> |

<sup>(1)</sup> As of both December 31, 2018 and 2017, the other category includes \$4 million of recoverables due from reinsurers rated A- or better by S&P.

We continuously monitor the creditworthiness of reinsurers in order to determine our risk of recoverability on an individual and aggregate basis, and a provision for uncollectible reinsurance is recorded if needed. No amounts have been deemed unrecoverable in the three-years ended December 31, 2018.

We enter into certain intercompany reinsurance transactions for the Allstate Benefits operations in order to maintain underwriting control and manage insurance risk among various legal entities. These reinsurance agreements have been approved by the appropriate regulatory authorities. All significant intercompany transactions have been eliminated in consolidation.

## Allstate Annuities Segment

Allstate Annuities consists primarily of deferred fixed annuities and immediate fixed annuities (including standard and sub-standard structured settlements). In 2018, Allstate Annuities represented 2.4% of total revenue, 0.2% of total PIF and 4.6% of total adjusted net income. We exited the continuing sale of annuities over an eight year period from 2006 to 2014, reflecting our expectations of declining returns. This segment is in run-off, and we manage it with a focus on increasing economic value through our investment strategy. For additional information on our strategy and outlook, see Part I, Item 1. Business - Strategy and Segment Information.

### Summarized financial information

| (\$ in millions)  | For the years ended December 31, |                |                |
|---|----------------------------------|----------------|----------------|
|   | 2018                             | 2017           | 2016           |
| <b>Revenues</b>   |                                  |                |                |
| Contract charges  | \$ 15                            | \$ 14          | \$ 14          |
| Net investment income   | 1,096                            | 1,305          | 1,181          |
| Realized capital gains and losses                               | (166)                            | 44             | (38)           |
| <b>Total revenues</b>   | <b>945</b>                       | <b>1,363</b>   | <b>1,157</b>   |
| <b>Costs and expenses</b>                                       |                                  |                |                |
| Contract benefits   | (569)                            | (594)          | (606)          |
| Interest credited to contractholder funds                       | (334)                            | (373)          | (405)          |
| Amortization of DAC   | (7)                              | (7)            | (7)            |
| Operating costs and expenses                                    | (32)                             | (35)           | (32)           |
| <b>Total costs and expenses</b>                                 | <b>(942)</b>                     | <b>(1,009)</b> | <b>(1,050)</b> |
| Gain on disposition of operations                               | 6                                | 6              | 5              |
| Income tax benefit (expense)                                    | 66                               | 58             | (36)           |
| <b>Net income applicable to common shareholders</b>             | <b>\$ 75</b>                     | <b>\$ 418</b>  | <b>\$ 76</b>   |
| <b>Adjusted net income</b>                                      | <b>\$ 130</b>                    | <b>\$ 204</b>  | <b>\$ 101</b>  |
| Realized capital gains and losses, after-tax                    | (131)                            | 28             | (26)           |
| Valuation changes on embedded derivatives not hedged, after-tax | 3                                | —              | (2)            |
| Gain on disposition of operations, after-tax                    | 4                                | 4              | 3              |
| Tax Legislation benefit   | 69                               | 182            | —              |
| <b>Net income applicable to common shareholders</b>             | <b>\$ 75</b>                     | <b>\$ 418</b>  | <b>\$ 76</b>   |
| Reserve for life-contingent contract benefits as of December 31 | \$ 8,524                         | \$ 8,934       | \$ 8,721       |
| Contractholder funds as of December 31                          | \$ 9,817                         | \$ 10,936      | \$ 11,915      |
| Policies in force as of December 31 (in thousands)              |                                  |                |                |
| Deferred annuities  | 127                              | 142            | 156            |
| Immediate annuities   | 84                               | 89             | 95             |
| <b>Total</b>  | <b>211</b>                       | <b>231</b>     | <b>251</b>     |

*Net income applicable to common shareholders* was \$75 million, \$418 million and \$76 million in 2018, 2017 and 2016, respectively. 2018 and 2017 results include a tax benefit of \$69 million and \$182 million, respectively, related to the Tax Legislation.

*Adjusted net income* was \$130 million in 2018 compared to \$204 million in 2017. The decrease was primarily due to lower net investment income, driven by performance-based investment results and decreased average investment balances, partially offset by a lower effective tax rate from the Tax Legislation, decreased interest credited to contractholder funds and lower contract benefits.

Adjusted net income was \$204 million in 2017 compared to \$101 million in 2016. The increase was primarily due to higher net investment income, lower

interest credited to contractholder funds and lower contract benefits.

*Net investment income* decreased 16.0% or \$209 million in 2018 compared to 2017, primarily due to lower performance-based investment results, mainly from limited partnerships, and lower average investment balances. Net investment income increased 10.5% or \$124 million in 2017 compared to 2016, benefiting from strong performance-based investment results, primarily from limited partnerships, partially offset by lower average investment balances as a result of a decrease in contractholder funds.

The investment portfolio supporting immediate annuities is managed to ensure the assets match the characteristics of the liabilities and provide the long-term returns needed to support this business. To better match the long-term nature of our immediate

annuities, we use performance-based investments in which we have ownership interests, and a greater proportion of return is derived from idiosyncratic asset or operating performance. Performance-based income can vary significantly between periods and is influenced by economic conditions, equity market performance, comparable public company earnings multiples, capitalization rates, operating performance of the underlying investments and the timing of asset sales.

*Net realized capital losses* in 2018 primarily related to decreased valuation of equity investments and losses on sales of fixed income securities. Net realized capital gains in 2017 primarily related to net gains on sales, as well as gains from valuation changes in public securities held in certain limited partnerships, partially offset by impairment write-downs and derivative valuation losses. Net realized capital losses in 2016 primarily related to impairment write-downs, partially offset by net gains on sales in connection with ongoing portfolio management.

*Contract benefits* decreased 4.2% or \$25 million in 2018 compared to 2017, primarily due to immediate annuity mortality experience that was favorable in comparison to the prior year. Contract benefits decreased 2.0% or \$12 million in 2017 compared to 2016, primarily due to immediate annuity mortality experience.

Our annual review of assumptions in 2018 resulted in a \$2 million increase in reserves primarily for guaranteed withdrawal benefits on equity-indexed annuities due to higher projected guaranteed benefits. In 2017, the review resulted in a \$1 million increase in reserves.

As of December 31, 2018 and 2017, our premium deficiency and profits followed by losses evaluations

for our immediate annuities with life contingencies concluded that no adjustments were required to be recognized. For further detail on these evaluations, see Reserve for life-contingent contract benefits estimation in the Application of Critical Accounting Estimates section.

*Benefit spread* reflects our mortality results using the difference between contract charges earned and contract benefits excluding the portion related to the implied interest on immediate annuities with life contingencies. This implied interest totaled \$492 million, \$501 million and \$511 million in 2018, 2017 and 2016, respectively. Total benefit spread was \$(68) million, \$(84) million and \$(86) million in 2018, 2017 and 2016, respectively.

*Interest credited to contractholder funds* decreased 10.5% or \$39 million in 2018 compared to 2017 and decreased 7.9% or \$32 million in 2017 compared to 2016, primarily due to lower average contractholder funds. Valuation changes on derivatives embedded in equity-indexed annuity contracts that are not hedged decreased interest credited to contractholder funds by \$3 million in 2018 compared to increases of \$1 million in 2017 and \$3 million in 2016.

*Investment spread* reflects the difference between net investment income and the sum of interest credited to contractholder funds and the implied interest on immediate annuities with life contingencies, which is included as a component of contract benefits and is used to analyze the impact of net investment income and interest credited to contractholders on net income.

## Investment spread

| (\$ in millions)  | For the years ended December 31, |               |               |
|---|----------------------------------|---------------|---------------|
|   | 2018                             | 2017          | 2016          |
| Investment spread before valuation changes on embedded derivatives not hedged                     | \$ 267                           | \$ 432        | \$ 268        |
| Valuation changes on derivatives embedded in equity-indexed annuity contracts that are not hedged | 3                                | (1)           | (3)           |
| <b>Total investment spread</b>  | <b>\$ 270</b>                    | <b>\$ 431</b> | <b>\$ 265</b> |

Investment spread before valuation changes on embedded derivatives not hedged decreased 38.2% to \$267 million in 2018 compared to \$432 million in 2017, primarily due to lower investment income, mainly from limited partnership interests, partially offset by lower credited interest.

Investment spread before valuation changes on embedded derivatives not hedged increased 61.2% to \$432 million in 2017 compared to \$268 million in 2016, primarily due to higher net investment income and lower credited interest.



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

#### Analysis of investment spread

|   | Weighted average investment yield |      |      | Weighted average interest crediting rate |      |      | Weighted average investment spreads |      |      |
|---|-----------------------------------|------|------|--|------|------|-------------------------------------|------|------|
|   | 2018                              | 2017 | 2016 | 2018                                     | 2017 | 2016 | 2018                                | 2017 | 2016 |
| Deferred fixed annuities                                      | 4.1%                              | 4.2% | 4.1% | 2.8%                                     | 2.8% | 2.8% | 1.3%                                | 1.4% | 1.3% |
| Immediate fixed annuities with and without life contingencies | 6.4                               | 8.0  | 6.5  | 6.0                                      | 6.0  | 5.9  | 0.4                                 | 2.0  | 0.6  |

The following table summarizes the weighted average guaranteed crediting rates and weighted average current crediting rates as of December 31, 2018 for certain fixed annuities where management has the ability to change the crediting rate, subject to a contractual minimum. Other products, including equity-indexed, variable and immediate annuities totaling \$4.37 billion of contractholder funds, have been excluded from the analysis because management does not have the ability to change the crediting rate or the minimum crediting rate is not considered meaningful in this context.

#### Weighted average guaranteed crediting rates and weighted average current crediting rates

| (\$ in millions)   | Weighted average guaranteed crediting rates | Weighted average current crediting rates | Contractholder funds |
|--|---|--|----------------------|
| Annuities with annual crediting rate resets                | 3.14%                                       | 3.14%                                    | \$ 4,585             |
| Annuities with multi-year rate guarantees <sup>(1)</sup> : |   |  |                      |
| Resetable in next 12 months                                | 1.27  | 3.23                                     | 198                  |
| Resetable after 12 months                                  | 2.14  | 2.67                                     | 660                  |

<sup>(1)</sup> These contracts include interest rate guarantee periods which are typically 5, 6 or 10 years.

Operating costs and expenses decreased 8.6% or \$3 million in 2018 compared to 2017, primarily due to a reduction in premium tax accruals and lower employee-related costs.

Operating costs and expenses increased 9.4% or \$3 million in 2017 compared to 2016, primarily due to higher guaranty fund expenses. 2016 included a reduction in the accrual for anticipated guaranty fund expenses.

#### Analysis of reserves and contractholder funds

##### Product liabilities

| (\$ in millions)  | For the years ended December 31, |                  |                  |
|---|----------------------------------|------------------|------------------|
|   | 2018                             | 2017             | 2016             |
| Immediate fixed annuities with life contingencies                                 |                                  |                  |                  |
| Sub-standard structured settlements and group pension terminations <sup>(1)</sup> | \$ 4,990                         | \$ 5,284         | \$ 5,029         |
| Standard structured settlements and SPIA <sup>(2)</sup>                           | 3,425                            | 3,565            | 3,592            |
| Other   | 109                              | 85               | 100              |
| <b>Reserve for life-contingent contract benefits</b>                              | <b>\$ 8,524</b>                  | <b>\$ 8,934</b>  | <b>\$ 8,721</b>  |
| Deferred fixed annuities  | \$ 7,156                         | \$ 8,128         | \$ 8,921         |
| Immediate fixed annuities without life contingencies                              | 2,525                            | 2,700            | 2,874            |
| Other   | 136                              | 108              | 120              |
| <b>Contractholder funds</b>   | <b>\$ 9,817</b>                  | <b>\$ 10,936</b> | <b>\$ 11,915</b> |

<sup>(1)</sup> Comprises structured settlement annuities for annuitants with severe injuries or other health impairments which increased their expected mortality rate at the time the annuity was issued ("sub-standard structured settlements") and group annuity contracts issued to sponsors of terminated pension plans.

<sup>(2)</sup> Comprises structured settlement annuities for annuitants with standard life expectancy ("standard structured settlements") and single premium immediate annuities ("SPIA") with life contingencies.

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

### Changes in contractholder funds

| (\$ in millions)   | For the years ended December 31, |           |           |
|--|----------------------------------|-----------|-----------|
|  | 2018                             | 2017      | 2016      |
| <b>Contractholder funds, beginning balance</b>                 | \$ 10,936                        | \$ 11,915 | \$ 13,070 |
| <b>Deposits</b>  | 15                               | 28        | 42        |
| <b>Interest credited</b>                                       | 331                              | 370       | 403       |
| <b>Benefits, withdrawals, maturities and other adjustments</b> |                                  |           |           |
| Benefits   | (587)                            | (638)     | (705)     |
| Surrenders and partial withdrawals                             | (854)                            | (723)     | (780)     |
| Maturities of and interest payments on institutional products  | —                                | —         | (86)      |
| Contract charges   | (9)                              | (9)       | (9)       |
| Net transfers from separate accounts                           | —                                | 1         | 1         |
| Other adjustments <sup>(1)</sup>                               | (15)                             | (8)       | (21)      |
| Total benefits, withdrawals, maturities and other adjustments  | (1,465)                          | (1,377)   | (1,600)   |
| <b>Contractholder funds, ending balance</b>                    | \$ 9,817                         | \$ 10,936 | \$ 11,915 |

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

Contractholder funds decreased 10.2% and 8.2% in 2018 and 2017, respectively, primarily due to the continued runoff of our deferred fixed annuity business. We discontinued the sale of annuities but still accept additional deposits on existing contracts.

Surrenders and partial withdrawals increased 18.1% to \$854 million in 2018 from \$723 million in 2017. Surrenders and partial withdrawals decreased 7.3% to \$723 million in 2017 from \$780 million in 2016. 2018 had elevated surrenders on fixed annuities resulting from an increased number of contracts reaching the 30-45 day period (typically at their 5, 7 or 10 year anniversary) during which there is no surrender charge. The surrender and partial withdrawal rate on deferred fixed annuities, based on the beginning of year contractholder funds, was 11.4% in 2018 compared to 8.7% in 2017 and 8.6% in 2016.

Maturities of and interest payments on institutional products included an \$85 million maturity in 2016. There were no institutional products outstanding as of December 31, 2018, 2017 or 2016.

### Allstate Annuities reinsurance ceded

We ceded substantially all of the risk associated with our variable annuity business to Prudential Insurance Company of America ("Prudential"). Our reinsurance recoverables from Prudential totaled \$1.36 billion and \$1.35 billion as of December 31, 2018 and 2017, respectively. We also have reinsurance recoverables from other reinsurers of \$17 million as of both December 31, 2018 and 2017.

We retain primary liability as a direct insurer for all risks ceded to reinsurers. We continuously monitor the creditworthiness of reinsurers in order to determine our risk of recoverability on an individual and aggregate basis, and a provision for uncollectible reinsurance is recorded if needed. No amounts have been deemed unrecoverable in the three-years ended December 31, 2018.

## Investments

**Overview and strategy** The return on our investment portfolios is an important component of our ability to offer good value to customers, fund business improvements and create value for shareholders. Investment portfolios are held for Property-Liability, Service Businesses, Allstate Life, Allstate Benefits, Allstate Annuities, and Corporate and Other operations. While taking into consideration the investment portfolio in aggregate, management of the underlying portfolios is significantly influenced by the nature of each respective business and its corresponding liability profile. For each business, we identify a strategic asset allocation which considers both the nature of the liabilities and the risk and return characteristics of the various asset classes in which we invest. This allocation is informed by our long-term and market expectations, as well as other considerations such as risk appetite, portfolio diversification, duration, desired liquidity and capital. Within appropriate ranges relative to strategic allocations, tactical allocations are made in consideration of prevailing and potential future market conditions. We manage risks that involve uncertainty related to interest rates, credit spreads, equity returns and currency exchange rates.

The Property-Liability portfolio emphasizes protection of principal and consistent income generation, within a total return framework. This approach has produced competitive returns over the long term and is designed to ensure financial strength and stability for paying claims, while maximizing economic value and surplus growth. Products, such as auto insurance and discontinued lines and coverages, with lower liquidity needs and capital create capacity to invest in less liquid higher yielding fixed income securities, performance-based investments such as limited partnerships, and equity securities. Products with higher liquidity needs, such as homeowners insurance, are invested primarily in high quality liquid fixed income securities.

The Service Businesses portfolio is focused on protection of principal and consistent income generation, within a total return framework. The portfolio is largely comprised of fixed income securities with a lesser allocation to equity securities and short-term investments.

The Allstate Life portfolio is comprised of assets chosen to generate returns to support corresponding liabilities within an asset-liability framework that targets an appropriate return on capital. This portfolio is well diversified and primarily consists of longer duration fixed income securities and commercial mortgage loans.

The Allstate Benefits portfolio is focused on generating an appropriate return on capital. The portfolio is largely comprised of fixed income securities and commercial mortgage loans with a small allocation to equity securities.

The Allstate Annuities portfolio is managed to ensure the assets match the characteristics of the

liabilities. For longer-term immediate annuity liabilities, we invest primarily in performance-based investments such as limited partnerships and equity securities. For shorter-term annuity liabilities, we invest primarily in fixed income securities and commercial mortgage loans with maturity profiles aligned with liability cash flow requirements.

The Corporate and Other portfolio balances liquidity needs related to the corporate capital structure with the pursuit of returns.

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

**Market-based** strategies include investments primarily in public fixed income and equity securities. *Market-based core* seeks to deliver predictable earnings aligned to business needs and returns consistent with the markets in which we invest. Private fixed income assets, such as commercial mortgages, bank loans and privately placed debt that provide liquidity premiums are also included in this category. *Market-based active* seeks to outperform within the public markets through tactical positioning and by taking advantage of short-term opportunities. This category may generate results that meaningfully deviate from those achieved by market indices, both favorably and unfavorably.

**Performance-based** strategy seeks to deliver attractive risk-adjusted returns and supplement market risk with idiosyncratic risk. Returns are impacted by a variety of factors including general macroeconomic and public market conditions as public benchmarks are often used in the valuation of underlying investments. Variability in earnings will also result from the performance of the underlying assets or business and the timing of sales of those investments. Earnings from the sales of investments may be recorded as net investment income or realized capital gains and losses. The portfolio, which primarily includes private equity and real estate with a majority being limited partnerships, is diversified across a number of characteristics, including managers or partners, vintage years, strategies, geographies (including international) and industry sectors or property types. These investments are generally illiquid in nature, often require specialized expertise, typically involve a third party manager, and often enhance returns and income through transformation at the company or property level. A portion of these investments seek returns in markets or asset classes that are dislocated or special situations, primarily in private markets.

### Outlook

In December 2018, the Federal Open Market Committee ("FOMC") tightened monetary policy by setting the new target range for the federal funds rate

at 2-1/4 percent to 2-1/2 percent and maintained their inflation target of 2 percent. The FOMC noted that some further gradual increases in the federal funds rate will be consistent with sustained expansion of economic activity, strong labor market conditions, and inflation near the target of 2 percent. We plan to focus on the following priorities:

- Enhance investment portfolio returns through use of a dynamic capital allocation framework and focus on tax efficiency.
- Leverage our broad capabilities to shift the portfolio mix to earn higher risk-adjusted returns on capital.
- Invest for the specific needs and characteristics of Allstate's businesses, including its corresponding liability profile.

We continue to increase performance-based investments in our Property-Liability portfolio, consistent with our ongoing strategy to have a greater

proportion of return derived from idiosyncratic asset or operating performance.

Invested assets and market-based income are expected to decline with reductions in contractholder funds and income related to performance-based investments will result in variability of earnings for the Allstate Annuities segment.

**Adopted Recognition and Measurement of Financial Assets and Financial Liabilities** 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 Note 2 of the consolidated financial statements.

### Portfolio composition and strategy by reporting segment <sup>(1)</sup>

| (\$ in millions)                       | As of December 31, 2018 |                    |                  |                   |                    |                     |                  |
|--|-------------------------|--------------------|------------------|-------------------|--------------------|---------------------|------------------|
|  | Property-Liability      | Service Businesses | Allstate Life    | Allstate Benefits | Allstate Annuities | Corporate and Other | Total            |
| Fixed income securities <sup>(2)</sup> | \$ 32,143               | \$ 981             | \$ 7,463         | \$ 1,224          | \$ 14,242          | \$ 1,117            | \$ 57,170        |
| Equity securities <sup>(3)</sup>       | 3,488                   | 131                | 40               | 51                | 1,299              | 27                  | 5,036            |
| Mortgage loans                         | 390                     | —                  | 1,867            | 205               | 2,208              | —                   | 4,670            |
| Limited partnership interests          | 4,222                   | —                  | —                | —                 | 3,283              | —                   | 7,505            |
| Short-term investments <sup>(4)</sup>  | 1,759                   | 91                 | 187              | 27                | 638                | 325                 | 3,027            |
| Other                                  | 1,632                   | —                  | 1,252            | 302               | 666                | —                   | 3,852            |
| <b>Total</b>                           | <b>\$ 43,634</b>        | <b>\$ 1,203</b>    | <b>\$ 10,809</b> | <b>\$ 1,809</b>   | <b>\$ 22,336</b>   | <b>\$ 1,469</b>     | <b>\$ 81,260</b> |
| <b>Percent to total</b>                | <b>53.7%</b>            | <b>1.5%</b>        | <b>13.3%</b>     | <b>2.2%</b>       | <b>27.5%</b>       | <b>1.8%</b>         | <b>100.0%</b>    |
| Market-based core                      | \$ 30,689               | \$ 1,203           | \$ 10,809        | \$ 1,809          | \$ 17,548          | \$ 1,469            | \$ 63,527        |
| Market-based active                    | 8,451                   | —                  | —                | —                 | 1,245              | —                   | 9,696            |
| Performance-based                      | 4,494                   | —                  | —                | —                 | 3,543              | —                   | 8,037            |
| <b>Total</b>                           | <b>\$ 43,634</b>        | <b>\$ 1,203</b>    | <b>\$ 10,809</b> | <b>\$ 1,809</b>   | <b>\$ 22,336</b>   | <b>\$ 1,469</b>     | <b>\$ 81,260</b> |

<sup>(1)</sup> Balances reflect the elimination of related party investments between segments.

<sup>(2)</sup> Fixed income securities are carried at fair value. Amortized cost basis for these securities was \$32.44 billion, \$984 million, \$7.36 billion, \$1.24 billion, \$14.00 billion, \$1.11 billion and \$57.13 billion for Property-Liability, Service Businesses, Allstate Life, Allstate Benefits, Allstate Annuities, Corporate and Other, and in Total, respectively.

<sup>(3)</sup> Equity securities are carried at fair value. The fair value of equity securities held as of December 31, 2018, was \$547 million in excess of cost. These net gains were primarily concentrated in the consumer goods, technology and banking sectors. Beginning January 1, 2018, the periodic changes in fair value are reflected in realized capital gains and losses.

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

Investments totaled \$81.26 billion as of December 31, 2018, decreasing from \$82.80 billion as of December 31, 2017, primarily due to common share repurchases, lower fixed income and equity valuations, issuances and redemptions of debt and preferred stock, net reductions in contractholder funds, dividends paid to shareholders and the acquisition of InfoArmor, partially offset by positive operating cash flows.

**Portfolio composition by investment strategy**

| (\$ in millions)                        | As of December 31, 2018 |                     |                   |                  |
|---|-------------------------|---------------------|-------------------|------------------|
|   | Market-based core       | Market-based active | Performance-based | Total            |
| Fixed income securities                 | \$ 48,903               | \$ 8,193            | \$ 74             | \$ 57,170        |
| Equity securities                       | 4,253                   | 522                 | 261               | 5,036            |
| Mortgage loans                          | 4,670                   | —                   | —                 | 4,670            |
| Limited partnership interests           | 489                     | 158                 | 6,858             | 7,505            |
| Short-term investments                  | 2,346                   | 681                 | —                 | 3,027            |
| Other                                   | 2,866                   | 142                 | 844               | 3,852            |
| <b>Total</b>                            | <b>\$ 63,527</b>        | <b>\$ 9,696</b>     | <b>\$ 8,037</b>   | <b>\$ 81,260</b> |
| <b>Percent to total</b>                 | <b>78.2%</b>            | <b>11.9%</b>        | <b>9.9%</b>       | <b>100.0%</b>    |
| Unrealized net capital gains and losses |                         |                     |                   |                  |
| Fixed income securities                 | \$ 149                  | \$ (112)            | \$ (1)            | \$ 36            |
| Other                                   | (3)                     | —                   | —                 | (3)              |
| <b>Total</b>                            | <b>\$ 146</b>           | <b>\$ (112)</b>     | <b>\$ (1)</b>     | <b>\$ 33</b>     |

During 2018, strategic actions focused on optimizing portfolio yield, return and risk in the rising interest rate environment.

We continued to increase performance-based investments in the Property-Liability portfolio.

We modestly increased the maturity profile of fixed income securities in our Property-Liability portfolio at a duration of 4.1 years, while maintaining duration at 5.6 and 4.2 years for the Allstate Life and Allstate Annuities portfolios, respectively.

In the Allstate Annuities portfolio, invested assets and market-based income declined with reductions in contractholder funds. Performance-based investments and equity securities will continue to be allocated primarily to the longer-term immediate annuity liabilities to reduce the risk that investment returns are below levels required to meet their funding needs while shorter-term annuity liabilities will be invested in market-based investments.

**Fixed income securities by type**

| (\$ in millions)                                | Fair value as of December 31, |                  |
|---|-------------------------------|------------------|
|   | 2018                          | 2017             |
| U.S. government and agencies                    | \$ 5,517                      | \$ 3,616         |
| Municipal                                       | 9,169                         | 8,328            |
| Corporate                                       | 40,136                        | 44,026           |
| Foreign government                              | 747                           | 1,021            |
| Asset-backed securities ("ABS")                 | 1,045                         | 1,272            |
| Residential mortgage-backed securities ("RMBS") | 464                           | 578              |
| Commercial mortgage-backed securities ("CMBS")  | 70                            | 128              |
| Redeemable preferred stock                      | 22                            | 23               |
| <b>Total fixed income securities</b>            | <b>\$ 57,170</b>              | <b>\$ 58,992</b> |

Fixed income securities are rated by third party credit rating agencies and/or are internally rated. As of December 31, 2018, 90.8% of the consolidated fixed income securities portfolio was rated investment grade, which is defined as a security having a rating of Aaa, Aa, A or Baa from Moody's, a rating of AAA, AA, A or BBB from S&P, a comparable rating from another nationally recognized rating agency, or a comparable internal rating if an externally provided rating is not available. Credit ratings below these designations are

considered low credit quality or below investment grade, which includes high yield bonds. Market prices for certain securities may have credit spreads which imply higher or lower credit quality than the current third party rating. Our initial investment decisions and ongoing monitoring procedures for fixed income securities are based on a thorough due diligence process which includes, but is not limited to, an assessment of the credit quality, sector, structure, and liquidity risks of each issue.

## Fair value and unrealized net capital gains (losses) for fixed income securities by credit quality

| (\$ in millions)  | As of December 31, 2018 |                        |                        |                        |                  |                        |
|---|-------------------------|------------------------|------------------------|------------------------|------------------|------------------------|
|   | Investment grade        |                        | Below investment grade |                        | Total            |                        |
|   | Fair value              | Unrealized gain/(loss) | Fair value             | Unrealized gain/(loss) | Fair value       | Unrealized gain/(loss) |
| U.S. government and agencies  | \$ 5,517                | \$ 131                 | \$ —                   | \$ —                   | \$ 5,517         | \$ 131                 |
| Municipal   |                         |                        |                        |                        |                  |                        |
| Tax exempt  | 6,969                   | 6                      | 31                     | —                      | 7,000            | 6                      |
| Taxable   | 2,133                   | 201                    | 36                     | (1)                    | 2,169            | 200                    |
| Corporate   |                         |                        |                        |                        |                  |                        |
| Public  | 26,435                  | (160)                  | 2,835                  | (136)                  | 29,270           | (296)                  |
| Privately placed  | 8,966                   | (10)                   | 1,900                  | (94)                   | 10,866           | (104)                  |
| Foreign government  | 738                     | 8                      | 9                      | —                      | 747              | 8                      |
| ABS   |                         |                        |                        |                        |                  |                        |
| Collateralized debt obligations (“CDO”)                               | 246                     | (3)                    | 23                     | —                      | 269              | (3)                    |
| Consumer and other asset-backed securities (“Consumer and other ABS”) | 765                     | —                      | 11                     | (1)                    | 776              | (1)                    |
| RMBS  |                         |                        |                        |                        |                  |                        |
| U.S. government sponsored entities (“U.S. Agency”)                    | 81                      | 1                      | —                      | —                      | 81               | 1                      |
| Non-agency  | 35                      | 1                      | 348                    | 85                     | 383              | 86                     |
| CMBS  | 30                      | —                      | 40                     | 7                      | 70               | 7                      |
| Redeemable preferred stock  | 22                      | 1                      | —                      | —                      | 22               | 1                      |
| <b>Total fixed income securities</b>                                  | <b>\$ 51,937</b>        | <b>\$ 176</b>          | <b>\$ 5,233</b>        | <b>\$ (140)</b>        | <b>\$ 57,170</b> | <b>\$ 36</b>           |

**Municipal bonds**, including tax exempt and taxable securities, totaled \$9.17 billion as of December 31, 2018 with 99.3% rated investment grade and an unrealized net capital gain of \$206 million. The municipal bond portfolio includes general obligations of state and local issuers and revenue bonds (including pre-refunded bonds, which are bonds for which an irrevocable trust has been established to fund the remaining payments of principal and interest).

Our practice for acquiring and monitoring municipal bonds is predominantly based on the underlying credit quality of the primary obligor. We currently rely on the primary obligor to pay all contractual cash flows and are not relying on bond insurers for payments. As a result of downgrades in the insurers' credit ratings, the ratings of the insured municipal bonds generally reflect the underlying ratings of the primary obligor.

**Corporate bonds**, including publicly traded and privately placed, totaled \$40.14 billion as of December 31, 2018, with 88.2% rated investment grade and an unrealized net capital loss of \$400 million. Privately placed securities primarily consist of corporate issued senior debt securities that are directly negotiated with the borrower or are in unregistered form.

Our \$10.87 billion portfolio of privately placed securities is diversified by issuer, industry sector and country. The portfolio is made up of 448 issuers. Privately placed corporate obligations may contain structural security features such as financial covenants and call protections that provide investors greater protection against credit deterioration, reinvestment risk or fluctuations in interest rates than those typically found in publicly registered debt securities. Additionally, investments in these securities are made

after due diligence of the issuer, typically including discussions with senior management and on-site visits to company facilities. Ongoing monitoring includes direct periodic dialog with senior management of the issuer and continuous monitoring of operating performance and financial position. Every issue not rated by an independent rating agency is internally rated with a formal rating affirmation at least once a year.

Our corporate bonds portfolio includes \$4.74 billion of below investment grade bonds, \$1.90 billion of which are privately placed. These securities are diversified by issuer and industry sector. The below investment grade corporate bonds portfolio is made up of 287 issuers. We employ fundamental analyses of issuers and sectors along with macro and asset class views to identify investment opportunities. This results in a portfolio with broad exposure to the high yield market with an emphasis on idiosyncratic positions reflective of our views of market conditions and opportunities.

**Foreign government securities** totaled \$747 million as of December 31, 2018, with 98.8% rated investment grade and an unrealized net capital gain of \$8 million. Of these securities, 78.2% are in Canadian governmental and provincial securities (73.8% of which are held by our Canadian companies), 19.9% are backed by the U.S. government and the remaining 1.9% are highly diversified in other foreign governments.

**ABS, RMBS and CMBS** are structured securities that are primarily collateralized by consumer or corporate borrowings and residential and commercial real estate loans. The cash flows from the underlying collateral paid to the securitization trust are generally applied in a pre-determined order and are designed so that each security issued by the trust, typically referred to as a “class”, qualifies for a specific original rating.

For example, the “senior” portion or “top” of the capital structure, or rating class, which would originally qualify for a rating of Aaa typically has priority in receiving principal repayments on the underlying collateral and retains this priority until the class is paid in full. In a sequential structure, underlying collateral principal repayments are directed to the most senior rated Aaa class in the structure until paid in full, after which principal repayments are directed to the next most senior Aaa class in the structure until it is paid in full. Senior Aaa classes generally share any losses from the underlying collateral on a pro-rata basis after losses are absorbed by classes with lower original ratings. The payment priority and class subordination included in these securities serves as credit enhancement for holders of the senior or top portions of the structures. These securities continue to retain the payment priority features that existed at the origination of the securitization trust. Other forms of credit enhancement may include structural features embedded in the securitization trust, such as overcollateralization, excess spread and bond insurance. The underlying collateral may contain fixed interest rates, variable interest rates (such as adjustable rate mortgages), or both fixed and variable rate features.

**ABS**, including CDO and Consumer and other ABS, totaled \$1.05 billion as of December 31, 2018, with 96.7% rated investment grade and an unrealized net capital loss of \$4 million. Credit risk is managed by monitoring the performance of the underlying collateral. Many of the securities in the ABS portfolio have credit enhancement with features such as overcollateralization, subordinated structures, reserve funds, guarantees and/or insurance.

CDO totaled \$269 million as of December 31, 2018, with 91.4% rated investment grade and an unrealized net capital loss of \$3 million. CDO consist of obligations collateralized by cash flow CDO, which are structures collateralized primarily by below investment grade senior secured corporate loans.

Consumer and other ABS totaled \$776 million as of December 31, 2018, with 98.6% rated investment grade. Consumer and other ABS consists of \$264 million of consumer auto, \$215 million of credit card and \$297

million of other ABS with unrealized net capital losses of \$1 million, \$1 million and an unrealized net capital gain of \$1 million, respectively.

**RMBS** totaled \$464 million as of December 31, 2018, with 25.0% rated investment grade and an unrealized net capital gain of \$87 million. The RMBS portfolio is subject to interest rate risk, but unlike other fixed income securities, is additionally subject to prepayment risk from the underlying residential mortgage loans. RMBS consists of a U.S. Agency portfolio having collateral issued or guaranteed by U.S. government agencies and a non-agency portfolio consisting of securities collateralized by Prime, Alt-A and Subprime loans. The non-agency portfolio totaled \$383 million as of December 31, 2018, with 9.1% rated investment grade and an unrealized net capital gain of \$86 million.

**CMBS** totaled \$70 million as of December 31, 2018, with 42.9% rated investment grade and an unrealized net capital gain of \$7 million. The CMBS investments are primarily traditional conduit transactions collateralized by commercial mortgage loans, broadly diversified across property types and geographical area.

**Equity securities** primarily include common stocks, exchange traded and mutual funds, non-redeemable preferred stocks and real estate investment trust equity investments. Certain exchange traded and mutual funds have fixed income securities as their underlying investments. The equity securities portfolio was \$5.04 billion as of December 31, 2018.

**Mortgage loans**, which are primarily held in the life and annuity portfolios, totaled \$4.67 billion as of December 31, 2018 and primarily comprise loans secured by first mortgages on developed commercial real estate. Key considerations used to manage our exposure include property type and geographic diversification. For further detail on our mortgage loan portfolio, see Note 5 of the consolidated financial statements.

**Limited partnership interests** include interests in private equity funds, real estate funds and other funds.

#### Carrying value and other information for limited partnership interests

| (\$ in millions) | As of December 31, 2018                         |                    |                                  |                                       |
|------------------|---|--------------------|----------------------------------|---------------------------------------|
|                  | Limited partnership interests <sup>(1)(2)</sup> | Number of managers | Number of individual investments | Largest exposure to single investment |
| Private equity   | \$ 5,724  | 145                | 287                              | \$ 187                                |
| Real estate      | 1,134   | 38                 | 78                               | 109                                   |
| Other            | 647   | 11                 | 12                               | 316                                   |
| <b>Total</b>     | <b>\$ 7,505</b>                                 | <b>194</b>         | <b>377</b>                       |                                       |

(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. See Note 2 of the consolidated financial statements.

(2) We have commitments to invest in additional limited partnership interests totaling \$3.03 billion.

**Short-term investments** totaled \$3.03 billion as of December 31, 2018, which includes securities lending collateral of \$1.19 billion.

**Other investments** primarily comprise \$1.35 billion of bank loans, \$891 million of policy loans, \$791 million of real estate, \$620 million of agent loans (loans issued

to exclusive Allstate agents) and \$117 million of derivatives as of December 31, 2018. For further detail on our use of derivatives, see Note 7 of the consolidated financial statements.

**Unrealized net capital gains** totaled \$33 million as of December 31, 2018 compared to \$2.63 billion as of December 31, 2017.

### Unrealized net capital gains (losses)

| (\$ in millions)   | As of December 31, |                 |
|--|--------------------|-----------------|
|  | 2018               | 2017            |
| U.S. government and agencies                             | \$ 131             | \$ 36           |
| Municipal  | 206                | 275             |
| Corporate  | (400)              | 1,030           |
| Foreign government                                       | 8                  | 16              |
| ABS  | (4)                | 6               |
| RMBS   | 87                 | 98              |
| CMBS   | 7                  | 4               |
| Redeemable preferred stock                               | 1                  | 2               |
| <b>Fixed income securities</b>                           | <b>36</b>          | <b>1,467</b>    |
| Equity securities <sup>(1)</sup>                         | —                  | 1,160           |
| Derivatives  | (3)                | (1)             |
| Equity method of accounting (“EMA”) limited partnerships | —                  | 1               |
| <b>Unrealized net capital gains and losses, pre-tax</b>  | <b>\$ 33</b>       | <b>\$ 2,627</b> |

<sup>(1)</sup> 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 realized capital gains and losses and are no longer included in the table above. 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 accumulated other comprehensive income (“AOCI”) to retained income. See Note 2 of the consolidated financial statements.

We have a comprehensive portfolio monitoring process to identify and evaluate each fixed income security that may be other-than-temporarily impaired. The 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 we may have a concern, are evaluated for potential other-than-temporary impairment using all reasonably available information relevant to the collectability or recovery of the security. Inherent in our evaluation of other-than-temporary impairment for these fixed income 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

- 2) the specific implications of rating agency actions and offering prices;
- 3) the specific reasons that a security is in an unrealized loss position, including overall market conditions which could affect liquidity; and
- 4) the length of time and extent to which the fair value has been less than amortized cost or cost. All investments in an unrealized loss position as of December 31, 2018 were included in our portfolio monitoring process for determining whether declines in value were other than temporary.

The unrealized net capital gain for the fixed income portfolio totaled \$36 million, comprised of \$993 million of gross unrealized gains and \$957 million of gross unrealized losses as of December 31, 2018. This is compared to an unrealized net capital gain for the fixed income portfolio totaling \$1.47 billion, comprised of \$1.75 billion of gross unrealized gains and \$283 million of gross unrealized losses as of December 31, 2017. Fixed income valuations decreased primarily due to an increase in risk-free interest rates and wider credit spreads.



**Gross unrealized gains (losses) on fixed income securities by type and sector**

| (\$ in millions)                              | As of December 31, 2018 |                  |                 |                  | Fair value |
|---|-------------------------|------------------|-----------------|------------------|------------|
|   | Amortized cost          | Gross unrealized |                 |                  |            |
|   |                         | Gains            | Losses          |                  |            |
| Corporate:                                    |                         |                  |                 |                  |            |
| Consumer goods (cyclical and non-cyclical)    | \$ 12,224               | \$ 78            | \$ (285)        | \$ 12,017        |            |
| Capital goods                                 | 4,725                   | 34               | (116)           | 4,643            |            |
| Utilities                                     | 5,410                   | 208              | (104)           | 5,514            |            |
| Banking                                       | 3,929                   | 8                | (69)            | 3,868            |            |
| Energy  | 2,315                   | 36               | (66)            | 2,285            |            |
| Communications                                | 2,740                   | 19               | (66)            | 2,693            |            |
| Technology                                    | 2,678                   | 7                | (61)            | 2,624            |            |
| Financial services                            | 2,403                   | 25               | (46)            | 2,382            |            |
| Basic industry                                | 1,970                   | 30               | (46)            | 1,954            |            |
| Transportation                                | 1,794                   | 41               | (26)            | 1,809            |            |
| Other   | 348                     | 4                | (5)             | 347              |            |
| <b>Total corporate fixed income portfolio</b> | <b>40,536</b>           | <b>490</b>       | <b>(890)</b>    | <b>40,136</b>    |            |
| U.S. government and agencies                  | 5,386                   | 137              | (6)             | 5,517            |            |
| Municipal                                     | 8,963                   | 249              | (43)            | 9,169            |            |
| Foreign government                            | 739                     | 13               | (5)             | 747              |            |
| ABS   | 1,049                   | 6                | (10)            | 1,045            |            |
| RMBS  | 377                     | 89               | (2)             | 464              |            |
| CMBS  | 63                      | 8                | (1)             | 70               |            |
| Redeemable preferred stock                    | 21                      | 1                | —               | 22               |            |
| <b>Total fixed income securities</b>          | <b>\$ 57,134</b>        | <b>\$ 993</b>    | <b>\$ (957)</b> | <b>\$ 57,170</b> |            |

The consumer goods, utilities and capital goods sectors comprise 30%, 14% and 12%, respectively, of the carrying value of our corporate fixed income securities portfolio as of December 31, 2018. The consumer goods, capital goods and utilities sectors had the highest concentration of gross unrealized losses in our corporate fixed income securities portfolio as of December 31, 2018. In general, the gross unrealized losses are related to an increase in market yields, which may include increased risk-free interest rates and/or wider credit spreads since the time of initial

purchase. Similarly, gross unrealized gains reflect a decrease in market yields since the time of initial purchase.

As of December 31, 2018, we have not made the decision to sell and it is not more likely than not we will be required to sell fixed income securities with unrealized losses before recovery of the amortized cost basis.

**Net investment income**

| (\$ in millions)                             | For the years ended December 31, |                 |                 |
|--|----------------------------------|-----------------|-----------------|
|  | 2018                             | 2017            | 2016            |
| Fixed income securities                      | \$ 2,077                         | \$ 2,078        | \$ 2,060        |
| Equity securities                            | 170                              | 174             | 137             |
| Mortgage loans                               | 217                              | 206             | 217             |
| Limited partnership interests <sup>(1)</sup> | 705                              | 889             | 561             |
| Short-term investments                       | 73                               | 30              | 16              |
| Other  | 272                              | 236             | 222             |
| Investment income, before expense            | 3,514                            | 3,613           | 3,213           |
| Investment expense <sup>(2) (3)</sup>        | (274)                            | (212)           | (171)           |
| <b>Net investment income</b>                 | <b>\$ 3,240</b>                  | <b>\$ 3,401</b> | <b>\$ 3,042</b> |
| Market-based core                            | \$ 2,431                         | \$ 2,360        | \$ 2,340        |
| Market-based active                          | 303                              | 301             | 262             |
| Performance-based                            | 780                              | 952             | 611             |
| <b>Investment income, before expense</b>     | <b>\$ 3,514</b>                  | <b>\$ 3,613</b> | <b>\$ 3,213</b> |

<sup>(1)</sup> 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.

<sup>(2)</sup> Investment expense includes \$71 million, \$40 million and \$36 million of investee level expenses in 2018, 2017 and 2016, respectively, and has increased compared to prior year primarily due to growth in real estate investments. Investee level expenses include depreciation and asset level operating expenses on directly held real estate and other consolidated investments.

<sup>(3)</sup> Investment expense includes \$28 million, \$10 million and \$1 million related to the portion of reinvestment income on securities lending collateral paid to the counterparties in 2018, 2017 and 2016, respectively.

Net investment income decreased 4.7% or \$161 million in 2018 compared to 2017, after increasing 11.8% or \$359 million in 2017 compared to 2016. The 2018 decrease was primarily due to lower performance-based results, primarily from limited partnerships, partially offset by higher market-based income. The

2017 increase benefited from strong performance-based results, primarily from limited partnerships, an increase in invested assets and stable market-based yields, partially offset by higher employee-related expenses.

**Performance-based investment income**

| (\$ in millions)                                    | For the years ended December 31, |               |               |
|---|----------------------------------|---------------|---------------|
|   | 2018                             | 2017          | 2016          |
| Limited partnerships                                |                                  |               |               |
| Private equity                                      | \$ 582                           | \$ 725        | \$ 455        |
| Real estate   | 123                              | 164           | 106           |
| <b>Performance-based - limited partnerships</b>     | <b>705</b>                       | <b>889</b>    | <b>561</b>    |
| Non-limited partnerships                            |                                  |               |               |
| Private equity                                      | 9                                | 19            | 9             |
| Real estate   | 66                               | 44            | 41            |
| <b>Performance-based - non-limited partnerships</b> | <b>75</b>                        | <b>63</b>     | <b>50</b>     |
| Total   |                                  |               |               |
| Private equity                                      | 591                              | 744           | 464           |
| Real estate   | 189                              | 208           | 147           |
| <b>Total performance-based</b>                      | <b>\$ 780</b>                    | <b>\$ 952</b> | <b>\$ 611</b> |
| Investee level expenses <sup>(1)</sup>              | \$ (64)                          | \$ (35)       | \$ (32)       |

<sup>(1)</sup> Investee level expenses include depreciation and asset level operating expenses reported in investment expense.

Performance-based investment income decreased 18.1% or \$172 million in 2018 compared to an increase of 55.8% or \$341 million in 2017. The 2018 decrease reflects lower asset appreciation and fewer gains on sales of underlying investments held by limited partnerships compared to prior year. The 2017 increase reflects asset appreciation, sales of underlying investments, and the continued growth of our performance-based portfolio.

The five highest contributing performance-based investments in 2018 and 2017 generated investment income of \$159 million and \$210 million, respectively. Performance-based results and income can vary significantly between periods and are influenced by economic conditions, equity market performance, comparable public company earnings multiples, capitalization rates, operating performance of the underlying investments and the timing of asset sales.

**Components of realized capital gains (losses) and the related tax effect**

| (\$ in millions)                                    | For the year December 31, |               |                |
|---|---------------------------|---------------|----------------|
|   | 2018                      | 2017          | 2016           |
| Impairment write-downs                              |                           |               |                |
| Fixed income securities                             | \$ (10)                   | \$ (26)       | \$ (44)        |
| Equity securities <sup>(1)</sup>                    | —                         | (38)          | (125)          |
| Mortgage Loans                                      | —                         | (1)           | —              |
| Limited partnership interests                       | (3)                       | (32)          | (56)           |
| Other investments                                   | (1)                       | (5)           | (9)            |
| <b>Total impairment write-downs</b>                 | <b>(14)</b>               | <b>(102)</b>  | <b>(234)</b>   |
| Change in intent write-downs <sup>(1)</sup>         | —                         | (48)          | (69)           |
| <b>Net OTTI losses recognized in earnings</b>       | <b>(14)</b>               | <b>(150)</b>  | <b>(303)</b>   |
| Sales <sup>(1)</sup>                                | (215)                     | 641           | 213            |
| Valuation of equity investments <sup>(1)</sup>      | (691)                     | —             | —              |
| Valuation and settlements of derivative instruments | 43                        | (46)          | —              |
| <b>Realized capital gains and losses, pre-tax</b>   | <b>(877)</b>              | <b>445</b>    | <b>(90)</b>    |
| Income tax benefit (expense)                        | 189                       | (147)         | 34             |
| <b>Realized capital gains and losses, after-tax</b> | <b>\$ (688)</b>           | <b>\$ 298</b> | <b>\$ (56)</b> |
| Market-based core                                   | \$ (794)                  | \$ 309        | \$ (40)        |
| Market-based active                                 | (152)                     | 177           | 21             |
| Performance-based                                   | 69                        | (41)          | (71)           |
| <b>Realized capital gains and losses, pre-tax</b>   | <b>\$ (877)</b>           | <b>\$ 445</b> | <b>\$ (90)</b> |

<sup>(1)</sup> 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.

*Realized capital losses* in 2018 related primarily to decreased valuation of equity investments and sales of fixed income securities.

*Impairment write-downs* totaled \$14 million, \$102 million and \$234 million in 2018, 2017 and 2016, respectively. Impairment write-downs on limited partnership interests and fixed income securities in 2018 and 2017 related to investment specific circumstances.

Impairment write-downs on fixed income securities in 2016 were primarily driven by corporate fixed income securities impacted by issuer specific circumstances. Limited partnership write-downs primarily related to investments with exposure to the energy sector, partially offset by the recovery in value of a limited partnership that was previously written-down.

Equity securities were written down in 2017 and 2016 primarily due to the length of time and extent to which fair value was below cost, considering our assessment of the financial condition and prospects of the issuer, including relevant industry conditions and trends. Beginning January 1, 2018, 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.

*Sales* resulted in \$215 million of net realized capital losses and \$641 million and \$213 million of net realized capital gains in 2018, 2017 and 2016, respectively.

Sales in 2018 related primarily to fixed income securities in connection with ongoing portfolio management.

Sales in 2017 and 2016 included sales of equity and fixed income securities in connection with ongoing portfolio management, as well as gains from valuation changes in public securities held in certain limited partnerships. Sales in first quarter 2016 included \$105 million of losses on \$1.90 billion of sales to reduce our exposure to the energy, metals and mining sectors.

*Valuation of equity investments* resulted in losses of \$691 million in 2018, which included \$594 million of declines in the valuation of equity securities and \$97 million of declines in value primarily for certain limited partnerships where the underlying assets are predominately public equity securities.

*Valuation and settlements of derivative instruments* generated gains of \$43 million in 2018, losses of \$46 million in 2017 and gains and losses that netted to zero in 2016. 2018 primarily comprised gains on foreign currency contracts due to the strengthening of the U.S. dollar and gains on equity options used for risk management due to a decrease in equity indices, partially offset by losses on total return swaps and equity options and futures used for asset replication due to decreases in equity indices. 2017 primarily comprised losses on foreign currency contracts due to the weakening of the U.S. dollar and losses on equity futures used for risk management due to increases in equity indices. 2016 primarily comprised gains on foreign currency contracts due to the strengthening of the U.S. dollar, offset by losses on equity futures used for risk management due to increases in equity indices and losses on credit default swaps due to the tightening of credit spreads on the underlying credit names.

**Realized capital gains (losses) for performance-based investments**

| (\$ in millions)                                    | For the years ended December 31, |                |                |
|---|----------------------------------|----------------|----------------|
|   | 2018                             | 2017           | 2016           |
| Impairment write-downs                              | \$ (3)                           | \$ (32)        | \$ (90)        |
| Change in intent write-downs                        | —                                | —              | (1)            |
| <b>Net OTTI losses recognized in earnings</b>       | <b>(3)</b>                       | <b>(32)</b>    | <b>(91)</b>    |
| Sales   | 7                                | 15             | 9              |
| Valuation of equity investments                     | 36                               | —              | —              |
| Valuation and settlements of derivative instruments | 29                               | (24)           | 11             |
| <b>Total performance-based</b>                      | <b>\$ 69</b>                     | <b>\$ (41)</b> | <b>\$ (71)</b> |

Performance based investments generated realized capital gains of \$69 million in 2018 and realized capital losses of \$41 million and \$71 million in 2017 and 2016, respectively. 2018 primarily related to increased valuation on equity investments and gains on valuation and settlements of derivative instruments. 2017 included impairment write-downs on private equity investments and derivative losses related to the hedging of foreign currency risk, partially offset by gains on sale of real estate investments. 2016 included impairment write-downs on certain investments with exposure to the energy sector, partially offset by the recovery in value of a limited partnership that was previously written-down.

## Market Risk

Market risk is the risk that we will incur losses due to adverse changes in interest rates, credit spreads, equity prices, commodity prices or currency exchange rates. Adverse changes to these rates and prices may occur due to changes in fiscal policy, the economic climate, the liquidity of a market or market segment, insolvency or financial distress of key market makers or participants or changes in market perceptions of credit worthiness and/or risk tolerance. Our primary market risk exposures are to changes in interest rates, credit spreads and equity prices. We also have direct and indirect exposure to commodity price changes through our diversified investments in timber, agriculture, infrastructure and energy primarily held in limited partnership interests and consolidated subsidiaries.

The active management of market risk is integral to our results of operations. We may use the following approaches to manage exposure to market risk within defined tolerance ranges: 1) rebalancing existing asset or liability portfolios, 2) changing the type of investments purchased in the future and 3) using derivative instruments to modify the market risk characteristics of existing assets and liabilities or assets expected to be purchased. For a more detailed discussion of our use of derivative instruments, see Note 7 of the consolidated financial statements.

**Overview** In formulating and implementing guidelines for investing funds, we seek to earn attractive risk-adjusted returns that enhance our ability to offer competitive rates and prices to customers while contributing to stable profits and long-term capital growth. Accordingly, our investment decisions and objectives are informed by the underlying risks and product profiles. Investment policies define the overall framework for managing market and other investment risks, including accountability and controls over risk management activities. Subsidiaries that conduct investment activities follow policies that have been approved by their respective boards of directors and which specify the investment limits and strategies that are appropriate given the liquidity, surplus, product profile and regulatory requirements of the subsidiary. Executive oversight of investment activities is conducted primarily through the subsidiaries' boards of directors and legal entity investment committees, and aggregate portfolio risks are overseen by our board of directors and its committees.

For life and annuity products, the asset-liability management ("ALM") policies further define the overall framework for managing market and investment risks and are approved by the subsidiaries' respective boards of directors. ALM focuses on strategies to enhance yields, mitigate market risks and optimize capital to improve profitability and returns while incorporating future expected cash requirements to repay liabilities. These ALM policies specify limits, ranges and/or targets for investments that best meet business objectives in light of the unique demands and characteristics of the product liabilities and are intended to result in a prudent, methodical and effective adjudication of market risk and return.

We use widely-accepted quantitative and qualitative approaches to measure, monitor and manage market risk. We evaluate our market risk exposure using multiple measures including but not limited to:

- *Duration*, a measure of the price sensitivity of assets and liabilities to changes in interest rates
- *Value-at-risk*, a statistical estimate of the probability that the change in fair value of a portfolio will exceed a certain amount over a given time horizon
- *Scenario analysis*, an estimate of the potential changes in the fair value of a portfolio that could occur under hypothetical market conditions defined by changes to multiple market risk factors: interest rates, credit spreads, equity prices or currency exchange rates
- *Sensitivity analysis*, an estimate of the potential changes in the fair value of a portfolio that could occur using hypothetical shocks to a market risk factor

In general, we establish investment portfolio asset allocation and market risk limits based upon a combination of duration, value-at-risk, scenario analysis and sensitivity analysis. The asset allocation limits place restrictions on the total funds that may be invested within an asset class. Comprehensive day-to-day management of market risk within defined tolerance ranges occurs as portfolio managers buy and sell within their respective markets based upon the acceptable boundaries established by investment policies. Although we apply a similar overall philosophy to market risk, the underlying business frameworks and the accounting and regulatory environments may differ between our products and therefore affect investment decisions and risk parameters.

**Interest rate risk** is the risk that we will incur a loss due to adverse changes in interest rates relative to the characteristics of our interest-bearing assets and liabilities. Interest rate risk includes risks related to changes in U.S. Treasury yields and other key risk-free reference yields. This risk arises from many of our primary activities, as we invest substantial funds in interest-sensitive assets and issue interest-sensitive liabilities. Changes in interest rates can have favorable and unfavorable effects on our results. For example, increases in rates can improve investment income, but decrease the fair value of our fixed income securities portfolio and increase policyholder surrenders requiring us to liquidate assets. Decreases in rates could increase the fair value of our fixed income securities portfolio while decreasing investment income due to reinvesting at lower market yields and accelerating pay-downs and prepayments of certain investments.

For our corporate debt, we monitor market interest rates and evaluate refinancing opportunities as maturity dates approach. To mitigate this risk, we ladder the maturity dates of our debt. For our noncumulative perpetual preferred stock, we monitor market dividend rates and evaluate opportunities to redeem or refinance on or after specified dates. For further detail regarding our debt and our preferred stock, see Note 12 of the consolidated financial

statements and the Capital Resources and Liquidity section of this Item.

We manage the interest rate risk in our assets relative to the interest rate risk in our liabilities and our assessment of overall economic and capital risk. One of the measures used to quantify this exposure is duration. The difference in the duration of our assets relative to our liabilities is our duration gap. To calculate the duration gap between assets and liabilities, we project asset and liability cash flows and calculate their net present value using a risk-free market interest rate adjusted for credit quality, sector attributes, liquidity and other specific risks. Duration is calculated by revaluing these cash flows at alternative interest rates and determining the percentage change in aggregate fair value. The cash flows used in this calculation include the expected maturity and repricing characteristics of our derivative financial instruments, all other financial instruments, and certain other items including, unearned premiums, claims and claims expense reserves, annuity liabilities and other interest-sensitive liabilities.

The projections include assumptions (based upon historical market experience and our experience) that reflect the effect of changing interest rates on the prepayment, lapse, leverage and/or option features of instruments, where applicable. The preceding assumptions relate primarily to callable municipal and corporate bonds, fixed rate single and flexible premium deferred annuities, mortgage-backed securities and municipal housing bonds. Additionally, the calculations include assumptions regarding the renewal of property and casualty products.

As of December 31, 2018, the difference between our asset and liability duration was a (1.16) gap compared to a (2.16) gap as of December 31, 2017. The calculation excludes traditional and interest-sensitive life insurance and accident and health insurance products that are not considered financial instruments. A negative duration gap indicates that the fair value of our liabilities is more sensitive to interest rate movements than the fair value of our assets, while a positive duration gap indicates that the fair value of our assets is more sensitive to interest rate movements than the fair value of our liabilities. Due to the relatively short duration of our property and casualty liabilities, primarily related to auto and homeowners claims, the investments generally maintain a positive duration gap between assets and liabilities. In contrast, for our annuity products the duration gap may be positive or negative as the assets and liabilities vary based on the characteristics of the products in-force and investing activity. As of December 31, 2018, property and casualty products had a positive duration gap while annuity products had a negative duration gap.

To reduce the risk that investment returns are below levels required to meet the funding needs of certain liabilities, we are executing our performance-based strategy that supplements market risk with idiosyncratic risk. We are using these investments, in addition to public equity securities, to support a portion of our property and casualty products and

long-term annuity liabilities. Shorter-term annuity liabilities will continue to be invested in market-based investments to generate cash flows that will fund future claims, benefits and expenses, and that will earn stable returns across a wide variety of interest rate and economic scenarios. Performance-based investments and public equity securities are generally not interest-bearing; accordingly, using them to support interest-bearing liabilities contributes toward a negative duration gap.

Based upon the information and assumptions used in the duration calculation, and market interest rates as of December 31, 2018, we estimate that a 100 basis point immediate, parallel increase in interest rates ("rate shock") would increase the fair value of the assets net of liabilities by \$889 million, compared to an increase of \$1.65 billion as of December 31, 2017, reflecting year to year changes in duration and the amount of assets and liabilities. The selection of a 100 basis point immediate, parallel change in interest rates should not be construed as our prediction of future market events, but only as an illustration of the potential effect of such an event.

The estimate excludes traditional and interest-sensitive life insurance and accident and health insurance products that are not considered financial instruments and the \$11.07 billion of assets supporting them and the associated liabilities. The \$11.07 billion of assets excluded from the calculation increased from \$11.06 billion as of December 31, 2017. Based on assumptions described above, in the event of a 100 basis point immediate increase in interest rates, the assets supporting the excluded products would decrease in value by \$593 million compared to a decrease of \$620 million as of December 31, 2017. To the extent that conditions differ from the assumptions we used in these calculations, duration and rate shock measures could be significantly impacted. Additionally, our calculations assume the current relationship between short-term and long-term interest rates (the term structure of interest rates) will remain constant over time. As a result, these calculations may not fully capture the effect of non-parallel changes in the term structure of interest rates and/or large changes in interest rates.

**Credit spread risk** is the risk that we will incur a loss due to adverse changes in credit spreads ("spreads"). Credit spread is the additional yield on fixed income securities and loans above the risk-free rate (typically referenced as the yield on U.S. Treasury securities) that market participants require to compensate them for assuming credit, liquidity and/or prepayment risks. The magnitude of the spread will depend on the likelihood that a particular issuer will default. This risk arises from many of our primary activities, as we invest substantial funds in spread-sensitive fixed income assets. We manage the spread risk in our assets. One of the measures used to quantify this exposure is spread duration. Spread duration measures the price sensitivity of the assets to changes in spreads. For example, if spreads increase 100 basis points, the fair value of an asset exhibiting a

spread duration of 5 is expected to decrease in value by 5%.

Spread duration is calculated similarly to interest rate duration. As of December 31, 2018, the spread duration was 4.28, compared to 3.99 as of December 31, 2017. Based upon the information and assumptions we use in this spread duration calculation, and market spreads as of December 31, 2018, we estimate that a 100 basis point immediate, parallel increase in spreads across all asset classes, industry sectors and credit ratings ("spread shock") would decrease the net fair value of the assets by \$2.49 billion compared to \$2.46 billion as of December 31, 2017. Reflected in the spread duration calculation are the effects of tactical positions that include the use of credit default swaps to manage spread risk. The selection of a 100 basis point immediate parallel change in spreads should not be construed as our prediction of future market events, but only as an illustration of the potential effect of such an event.

**Equity price risk** is the risk that we will incur losses due to adverse changes in the general levels of the equity markets. As of December 31, 2018, we held \$4.78 billion in common stocks and exchange traded and mutual funds and \$7.76 billion in other investments with equity risk (including primarily limited partnership interests and non-redeemable preferred securities), compared to \$6.33 billion and \$7.03 billion, respectively, as of December 31, 2017. 68.4% of the common stocks and exchange traded and mutual funds and 57.2% of the other securities with equity risk supported property and casualty products as of December 31, 2018, compared to 71.1% and 54.8%, respectively, as of December 31, 2017.

As of December 31, 2018, our portfolio of common stocks and other investments with equity risk had a cash market portfolio beta of 1.07, compared to a beta of 1.03 as of December 31, 2017. Beta represents a widely used methodology to describe, quantitatively, an investment's market risk characteristics relative to an index such as the Standard & Poor's 500 Composite Price Index ("S&P 500"). Based on the beta analysis, we estimate that if the S&P 500 increases or decreases by 10%, the fair value of our equity investments will increase or decrease by 10.7%, respectively. Based upon the information and assumptions we used to calculate beta as of December 31, 2018, we estimate that an immediate increase or decrease in the S&P 500 of 10% would increase or decrease the net fair value of our equity investments by \$1.34 billion, of which approximately 40% relates to public securities, compared to \$1.37 billion as of December 31, 2017.

We periodically use put options to reduce equity price risk or call options to adjust our equity risk profile. Put options provide an offset to declines in equity market values below a targeted level, while call options provide participation in equity market appreciation above a targeted level. Options can expire, terminate early or the option can be exercised. If the equity index does not fall below the put's strike price or rise above the call's strike price, the maximum loss on purchased puts and calls is limited to the amount of the premium paid. Based on the equity put and call

options in place at December 31, 2018, we would recognize \$18 million of losses in the event of a 10% increase in the S&P 500 index and \$28 million in gains in the event of a 10% decrease.

The selection of a 10% immediate increase or decrease in the S&P 500 should not be construed as our prediction of future market events, but only as an illustration of the potential effect of such an event. The beta of our common stocks and other investments with equity risk was determined by calculating the change in the fair value of the portfolio resulting from stressing the equity market up and down 10%. For limited partnership interests, quarterly changes in fair values may not be highly correlated to equity indices in the short-term and changes in value of these investments are generally recognized on a three-month delay due to the availability of the related investee financial statements. The illustrations noted above may not reflect our actual experience if the future composition of the portfolio (hence its beta) and correlation relationships differ from the historical relationships.

As of December 31, 2018 and 2017, we had separate account assets related to variable annuity and variable life contracts with account values totaling \$2.81 billion and \$3.44 billion, respectively. Equity risk exists for contract charges based on separate account balances and guarantees for death and/or income benefits provided by our variable products. In 2006, we disposed of substantially all of the variable annuity business through reinsurance agreements with The Prudential Insurance Company of America, a subsidiary of Prudential Financial Inc. and therefore mitigated this aspect of our risk. Equity risk for our variable life business relates to contract charges and policyholder benefits. Total direct and assumed variable life contract charges for 2018 and 2017 were \$44 million and \$41 million, respectively. Separate account liabilities related to variable life contracts were \$68 million and \$70 million as of December 31, 2018 and 2017, respectively.

As of December 31, 2018 and 2017, we had \$1.83 billion and \$1.85 billion, respectively, in equity-indexed life and annuity liabilities that provide customers with interest crediting rates based on the performance of the S&P 500. We hedge the majority of the risk associated with these liabilities using equity-indexed options and futures and eurodollar futures, maintaining risk within specified value-at-risk limits.

**Foreign currency exchange rate risk** is the risk that we will incur economic losses due to adverse changes in foreign currency exchange rates. This risk primarily arises from our foreign equity investments, including common stocks, limited partnership interests, and our Canadian, Northern Ireland and Indian operations. We use foreign currency derivative contracts to partially offset this risk.

As of December 31, 2018, we also have \$96 million in certain fixed income securities and emerging market fixed income funds that are denominated in foreign currencies, of which approximately 0.4% used derivatives to hedge foreign currency risk.

As of December 31, 2018, we had \$2.10 billion in foreign currency denominated equity investments, including the impact of foreign currency derivative contracts, \$860 million net investment in our foreign subsidiaries, primarily related to our Canadian operations, and \$96 million in unhedged non-U.S. dollar fixed income securities. These amounts were \$2.18 billion, \$1.02 billion, and \$112 million, respectively, as of December 31, 2017.

Based upon the information and assumptions used, including the impact of foreign currency derivative contracts, as of December 31, 2018, we estimate that a 10% immediate unfavorable change in each of the foreign currency exchange rates to which we are exposed would decrease the value of our foreign currency denominated instruments by \$306 million, compared with an estimated \$326 million decrease as of December 31, 2017. The selection of a 10% immediate decrease in all currency exchange rates should not be construed as our prediction of future market events, but only as an illustration of the potential effect of such an event.

The modeling technique we use to report our currency exposure does not take into account correlation among foreign currency exchange rates. Even though we believe it is very unlikely that all of the foreign currency exchange rates that we are exposed to would simultaneously decrease by 10%, we nonetheless stress test our portfolio under this and other hypothetical extreme adverse market scenarios. Our actual experience may differ from these results because of assumptions we have used or because significant liquidity and market events could occur that we did not foresee.



## Pension and Other Postretirement Plans

Our defined benefit pension plans cover most full-time employees, certain part-time employees and employee-agents. Benefits are based primarily on a cash balance formula; however, certain participants have a significant portion of their benefits attributable to a former final average pay formula. 87% of the projected benefit obligation ("PBO") of our primary qualified employee plan is related to the former final average pay formula. See Note 17 of the consolidated financial statements for a discussion of these plans and their effect on the consolidated financial statements.

Our pension and other postretirement benefit costs are calculated using various actuarial assumptions and methodologies. These assumptions include discount rates, compensation increases, health care cost trend rates, inflation, expected returns on plan assets, mortality and other factors. The assumptions utilized in recording the obligations under our pension plans represent our best estimates and we believe they are reasonable based on information as to historical experience and performance as well as other factors that might cause future expectations to differ from past trends.

**2019 change in pension and other postretirement plan accounting** At January 1, 2019, we changed our accounting principle for recognizing actuarial gains and losses and expected return on plan assets for our pension and other postretirement plans to a more preferable policy under U.S. GAAP. Prior to 2019, actuarial gains and losses were recognized as a component of AOCI, and were generally amortized into earnings in future periods. Under the new principle, actuarial gains and losses will be immediately recognized through earnings ("fair value accounting").

In addition, we changed our policy for recognizing expected returns on plan assets by eliminating the permitted accounting practice allowing the five-year smoothing of equity returns and moving to an unadjusted fair value method.

We believe that fair value accounting is preferable as it provides greater transparency of our economic obligations in accounting results and better aligns with the fair value accounting principles by recognizing the effects of economic and interest rate changes on pension and other postretirement plan assets and liabilities in the year in which the gains and losses are incurred. These changes will be applied retrospectively thereby requiring restatement of prior periods presented and upon adoption will have no impact on shareholders' equity or book value per share.

**Differences in actual experience or changes in assumptions** After the January 1, 2019 change to fair value accounting, differences in actual experience or changes in assumptions will affect our pension and other postretirement obligations and future expense. The primary factors contributing to actuarial gains and losses are 1) changes in the discount rate used to value pension and postretirement obligations as of the measurement date, 2) differences between the expected and the actual return on plan assets, 3)

changes in demographic assumptions, including mortality, and 4) participant experience different from demographic assumptions.

**Impact of assumption changes to net periodic pension and benefit costs, following a retrospective change to fair value accounting** The discount rate is based on rates at which expected pension benefits attributable to past employee service could effectively be settled on a present value basis at the measurement date. We develop the assumed discount rate by utilizing the weighted average yield of a theoretical dedicated portfolio derived from non-callable bonds and bonds with a make-whole provision available in the Bloomberg corporate bond universe having ratings of at least "AA" by S&P or at least "Aa" by Moody's on the measurement date with cash flows that match expected plan benefit requirements. Significant changes in discount rates, such as those caused by changes in the credit spreads, yield curve, the mix of bonds available in the market, the duration of selected bonds and expected benefit payments, may result in volatility in pension cost.

Holding other assumptions constant, a hypothetical decrease of 100 basis points in the discount rate would result in an increase of \$612 million, pre-tax, in net periodic pension cost as of December 31, 2018. A hypothetical increase of 100 basis points in the discount rate would decrease net periodic pension cost by \$515 million, pre-tax, as of December 31, 2018. This non-symmetrical range results from the non-linear relationship between discount rates and pension obligations.

The expected long-term rate of return on plan assets reflects the average rate of earnings expected on plan assets. While this rate reflects long-term assumptions and is consistent with long-term historical returns, sustained changes in the market or changes in the mix of plan assets may lead to revisions in the assumed long-term rate of return on plan assets that may result in variability of pension cost. Differences between the actual return on plan assets and the expected long-term rate of return on plan assets are immediately recognized through earnings upon the annual remeasurement in the fourth quarter, or on an interim basis as triggering events warrant remeasurement. Short-term asset performance can differ significantly from the expected rate of return, especially in volatile markets.

Holding other assumptions constant, a hypothetical increase or decrease of 100 basis points in the expected long-term rate of return on plan assets would result in a decrease or increase, respectively, of \$55 million, pre-tax, in net periodic pension cost as of December 31, 2018.

Assumed health care cost trend rates have a significant effect on the amounts reported for the postretirement health care plans. A one percentage-point increase in assumed health care cost trend rates would increase net periodic benefit cost for other postretirement benefits by \$27 million. A one

percentage-point decrease in assumed health care cost trend rates would decrease net periodic benefit cost for other postretirement benefits by \$24 million.

*Target funding levels* are established in accordance with applicable regulations, including those under the Internal Revenue Code for U.S. pension plans, and generally accepted actuarial principles. Our funding levels were within our targeted range as of December 31, 2018. In 2018, we contributed \$16 million to our unfunded non-qualified plans and zero to the qualified funded pension plans. We expect to contribute \$26 million and zero to these plans, respectively, for the 2019 fiscal year. This estimate could change significantly based on market conditions.

## Capital Resources and Liquidity

**Capital resources** consist of shareholders' equity and debt, representing funds deployed or available to be deployed to support business operations or for general corporate purposes.

| (\$ in millions)  | As of December 31, |                  |                  |
|---|--------------------|------------------|------------------|
|   | 2018               | 2017             | 2016             |
| Preferred stock, common stock, treasury stock, retained income and other shareholders' equity items | \$ 22,869          | \$ 22,245        | \$ 20,989        |
| Accumulated other comprehensive (loss) income   | (1,557)            | 306              | (416)            |
| <b>Total shareholders' equity</b>   | <b>21,312</b>      | <b>22,551</b>    | <b>20,573</b>    |
| Debt  | 6,451              | 6,350            | 6,347            |
| <b>Total capital resources</b>  | <b>\$ 27,763</b>   | <b>\$ 28,901</b> | <b>\$ 26,920</b> |
| Ratio of debt to shareholders' equity   | 30.3%              | 28.2%            | 30.9%            |
| Ratio of debt to capital resources  | 23.2%              | 22.0%            | 23.6%            |

**Shareholders' equity** decreased in 2018, primarily due to decreased net unrealized capital gains on investments, common share repurchases and dividends paid to shareholders, partially offset by net income and issuance of preferred stock. In 2018, we paid dividends of \$614 million and \$134 million related to our common and preferred shares, respectively. Shareholders' equity increased in 2017, primarily due to net income, increased unrealized net capital gains on investments and lower unrecognized pension and other postretirement benefit costs, partially offset by common share repurchases and dividends paid to shareholders.

**Preferred stock and debt issuances** On March 29, 2018, we issued 23,000 shares of 5.625% Fixed Rate Noncumulative Perpetual Preferred Stock, Series G, for aggregate proceeds of \$575 million, \$250 million of Floating Rate Senior Notes due 2021 and \$250 million of Floating Rate Senior Notes due 2023. The proceeds of these issuances were for general corporate purposes, including the redemption, repayment or repurchase of certain preferred stock or debt.

**Redemption and repayment of preferred stock and debt** On May 13, 2018, we redeemed our \$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, we repaid \$176 million of 6.75% Senior Debentures at maturity.

On October 15, 2018, we redeemed all 15,400 shares of our Fixed Rate Noncumulative Perpetual Preferred Stock, Series C and the corresponding depository shares for \$385 million. The redemption price in excess of the carrying value for the preferred shares was recognized as part of preferred stock dividends on the Consolidated Statements of Operations and Consolidated Statements of Shareholders' Equity.

For additional details on these transactions, see Note 12 of the consolidated financial statements.

**Debt** \$317 million of senior debt is scheduled to mature in May 2019. As of December 31, 2018 and 2017, there were no outstanding commercial paper

borrowings. For further information on outstanding debt, see Note 12 of the consolidated financial statements.

**Common share repurchases** On October 31, 2018, the Board authorized a new \$3.00 billion common share repurchase program that is expected to be completed by April 2020. Funding for the repurchase program may include potential preferred stock issuances of up to \$1.00 billion. As of December 31, 2018, there was \$2.07 billion remaining on the repurchase program.

In November 2018, we completed the \$2.00 billion common share repurchase program that commenced in August 2017.

In December 2018, we entered into an accelerated share repurchase agreement ("ASR agreement") with Wells Fargo Bank, National Association ("Wells Fargo"), to purchase \$1.00 billion of our outstanding common stock. Under the ASR agreement, we paid \$1.00 billion upfront and initially acquired 10.7 million shares. The actual number of shares we repurchase under this ASR agreement, and the average price paid per share, will be determined at the completion of the ASR agreement based on the volume weighted average price of Allstate's common stock during the period of Wells Fargo's purchases. This ASR agreement is expected to be completed on or before May 2019.

During 2018, we repurchased 25.0 million common shares for \$2.20 billion. The common share repurchases were completed through open market transactions and ASR agreements.

Since 1995, we have acquired 707 million shares of our common stock at a cost of \$33.33 billion, primarily as part of various stock repurchase programs. We have reissued 141 million common shares since 1995, primarily associated with our equity incentive plans, the 1999 acquisition of American Heritage Life Investment Corporation and the 2001 redemption of certain mandatorily redeemable preferred securities. Since 1995, total common shares outstanding has decreased by 567 million shares or 63.1%, primarily due to our repurchase programs.

**Common shareholder dividends** On January 2, 2018, April 2, 2018, July 2, 2018 and October 1, 2018, we paid common shareholder dividends of \$0.37, \$0.46, \$0.46 and \$0.46, respectively. On November 16, 2018, we declared a common shareholder dividend of \$0.46,

payable on January 2, 2019. On February 8, 2019, we declared a common shareholder dividend of \$0.50, payable on April 1, 2019.

## Financial ratings and strength

### Senior long-term debt, commercial paper and insurance financial strength ratings

|  | As of December 31, 2018 |                    |           |
|--|-------------------------|--------------------|-----------|
|  | Moody's                 | S&P Global Ratings | A.M. Best |
| The Allstate Corporation (debt)                                | A3                      | A-                 | a         |
| The Allstate Corporation (short-term issuer)                   | P-2                     | A-2                | AMB-1+    |
| Allstate Insurance Company (insurance financial strength)      | Aa3                     | AA-                | A+        |
| Allstate Life Insurance Company (insurance financial strength) | A1                      | A+                 | A+        |
| Allstate Assurance Company (insurance financial strength)      | A1                      | N/A                | A+        |

Our ratings are influenced by many factors including our operating and financial performance, asset quality, liquidity, asset/liability management, overall portfolio mix, financial leverage (i.e., debt), exposure to risks such as catastrophes and the current level of operating leverage. The preferred stock and subordinated debentures are viewed as having a common equity component by certain rating agencies and are given equity credit up to a pre-determined limit in our capital structure as determined by their respective methodologies. These respective methodologies consider the existence of certain terms and features in the instruments such as the noncumulative dividend feature in the preferred stock.

In August 2018, Moody's affirmed The Allstate Corporation's debt and short-term issuer ratings of A3 and P-2, respectively, and the insurance financial strength ratings of Aa3 for AIC and A1 for both Allstate Life Insurance Company ("ALIC") and Allstate Assurance Company ("AAC"). The outlook for the ratings is stable. In August 2018, S&P affirmed The Allstate Corporation's debt and short-term issuer ratings of A- and A-2, respectively, and the insurance financial strength ratings of AA- for AIC and A+ for ALIC. The outlook for the ratings is stable. In April 2018, A.M. Best upgraded The Allstate Corporation's debt and short-term issuer ratings of a- and AMB-1 to a and AMB-1+, respectively, and affirmed the insurance financial strength ratings of A+ for AIC, ALIC and AAC. The outlook for the ratings is stable.

We have distinct and separately capitalized groups of subsidiaries licensed to sell property and casualty insurance that maintain separate group ratings. The ratings of these groups are influenced by the risks that relate specifically to each group. Many mortgage companies require property owners to have insurance from an insurance carrier with a secure financial strength rating from an accredited rating agency. In April 2018, A.M. Best affirmed the ANJ, which writes auto and homeowners insurance, rating of A, and affirmed the North Light, our excess and surplus lines carrier, rating of A+. The outlook for the ANJ rating and North Light rating is stable. ANJ also has a Financial Stability Rating® of A+ from Demotech, which was

affirmed in November 2018. In February 2018, A.M. Best affirmed the CKIC, which underwrites personal lines property insurance in Florida, rating of B-. CKIC also has a Financial Stability Rating of A+ from Demotech that was affirmed in November 2018. ANJ, North Light and CKIC do not have support agreements with AIC.

Allstate's domestic property and casualty and life insurance subsidiaries prepare their statutory-basis financial statements in conformity with accounting practices prescribed or permitted by the insurance department of the applicable state of domicile. Statutory surplus is a measure that is often used as a basis for determining dividend paying capacity, operating leverage and premium growth capacity, and it is also reviewed by rating agencies in determining their ratings.

The property and casualty business is comprised of 29 insurance companies, each of which has individual company dividend limitations. As of December 31, 2018, total statutory surplus is \$18.15 billion compared to \$18.63 billion as of December 31, 2017. Property and casualty subsidiaries surplus was \$14.33 billion as of December 31, 2018, compared to \$14.90 billion as of December 31, 2017. Life insurance subsidiaries surplus was \$3.82 billion as of December 31, 2018, compared to \$3.73 billion as of December 31, 2017.

The National Association of Insurance Commissioners ("NAIC") has developed financial relationships or tests known as the Insurance Regulatory Information System to assist state insurance regulators in monitoring the financial condition of insurance companies and identifying companies that require special attention or actions by state insurance regulators. The NAIC analyzes financial data provided by insurance companies using prescribed ratios, each with defined "usual ranges". Additional regulatory scrutiny may occur if a company's ratios fall outside the usual ranges for four or more of the ratios. Our domestic insurance companies have no significant departure from these ranges.

**Liquidity sources and uses** Our potential sources and uses of funds principally include the following activities below.

| <b>Activities for potential sources of funds</b>                                |                           |                           |                      |                          |                           |                            |
|---|---------------------------|---------------------------|----------------------|--------------------------|---------------------------|----------------------------|
|   | <i>Property-Liability</i> | <i>Service Businesses</i> | <i>Allstate Life</i> | <i>Allstate Benefits</i> | <i>Allstate Annuities</i> | <i>Corporate and Other</i> |
| Receipt of insurance premiums   | ü                         | ü                         | ü                    | ü                        | ü                         |                            |
| Recurring service fees  |                           | ü                         |                      | ü                        |                           |                            |
| Contractholder fund deposits  |                           |                           | ü                    | ü                        | ü                         |                            |
| Reinsurance and indemnification program recoveries                              | ü                         | ü                         | ü                    | ü                        | ü                         |                            |
| Receipts of principal, interest and dividends on investments                    | ü                         | ü                         | ü                    | ü                        | ü                         | ü                          |
| Sales of investments  | ü                         | ü                         | ü                    | ü                        | ü                         | ü                          |
| Funds from securities lending, commercial paper and line of credit agreements   | ü                         |                           | ü                    |                          | ü                         | ü                          |
| Intercompany loans  | ü                         | ü                         | ü                    | ü                        | ü                         | ü                          |
| Capital contributions from parent   | ü                         | ü                         | ü                    | ü                        | ü                         |                            |
| Dividends or return of capital from subsidiaries                                | ü                         |                           | ü                    |                          | ü                         | ü                          |
| Tax refunds/settlements   | ü                         | ü                         | ü                    | ü                        | ü                         | ü                          |
| Funds from periodic issuance of additional securities                           |                           |                           |                      |                          |                           | ü                          |
| Receipt of intercompany settlements related to employee benefit plans           |                           |                           |                      |                          |                           | ü                          |
| <b>Activities for potential uses of funds</b>                                   |                           |                           |                      |                          |                           |                            |
|   | <i>Property-Liability</i> | <i>Service Businesses</i> | <i>Allstate Life</i> | <i>Allstate Benefits</i> | <i>Allstate Annuities</i> | <i>Corporate and Other</i> |
| Payment of claims and related expenses  | ü                         | ü                         |                      |                          |                           |                            |
| Payment of contract benefits, maturities, surrenders and withdrawals            |                           |                           | ü                    | ü                        | ü                         |                            |
| Reinsurance cessions and indemnification program payments                       | ü                         | ü                         | ü                    | ü                        | ü                         |                            |
| Operating costs and expenses  | ü                         | ü                         | ü                    | ü                        | ü                         | ü                          |
| Purchase of investments   | ü                         | ü                         | ü                    | ü                        | ü                         | ü                          |
| Repayment of securities lending, commercial paper and line of credit agreements | ü                         |                           | ü                    |                          | ü                         | ü                          |
| Payment or repayment of intercompany loans                                      | ü                         | ü                         | ü                    | ü                        | ü                         | ü                          |
| Capital contributions to subsidiaries   | ü                         |                           | ü                    |                          | ü                         | ü                          |
| Dividends or return of capital to shareholders/parent company                   | ü                         | ü                         | ü                    | ü                        | ü                         | ü                          |
| Tax payments/settlements  | ü                         | ü                         | ü                    | ü                        | ü                         |                            |
| Common share repurchases  |                           |                           |                      |                          |                           | ü                          |
| Debt service expenses and repayment   | ü                         |                           |                      |                          |                           | ü                          |
| Payments related to employee and employee-agent benefit plans                   | ü                         | ü                         | ü                    | ü                        | ü                         | ü                          |
| Payments for acquisitions   | ü                         | ü                         | ü                    | ü                        | ü                         | ü                          |

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

As of December 31, 2018, we held \$8.96 billion of cash, U.S. government and agencies fixed income securities, and public equity securities (excluding non-redeemable preferred stocks and foreign equities)

which, under normal market conditions, we would expect to be able to liquidate within one week. In addition, we regularly estimate how much of the total portfolio, which includes high quality corporate fixed income and municipal holdings, can be reasonably liquidated within one quarter. These estimates are subject to considerable uncertainty associated with evolving market conditions. As of December 31, 2018, estimated liquidity available within one quarter without generating significant net realized capital losses was \$21.34 billion. As of December 31, 2018, gross unrealized losses related to fixed income securities totaled \$957 million.

Certain remote events and circumstances could constrain our liquidity. Those events and circumstances include, for example, a catastrophe resulting in extraordinary losses, a downgrade in our senior long-term debt ratings to non-investment grade status, or a downgrade in AIC's or ALIC's financial strength ratings. The rating agencies also consider the interdependence of our individually rated entities; therefore, a rating change in one entity could potentially affect the ratings of other related entities.

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

In addition to the Liquidity Agreement, the Corporation also has an intercompany loan agreement with certain of its subsidiaries, which include, but are not limited to, AIC and ALIC. The amount of intercompany loans available to the Corporation's subsidiaries is at the discretion of the Corporation. The maximum amount of loans the Corporation will have outstanding to all its eligible subsidiaries at any given point in time is limited to \$1.00 billion. The Corporation may use commercial paper borrowings, bank lines of credit and securities lending to fund intercompany borrowings.

**Parent company capital capacity** At the parent holding company level, we have deployable assets totaling \$1.50 billion as of December 31, 2018, comprising cash and investments that are generally saleable within one quarter. The substantial earnings capacity of the operating subsidiaries is the primary source of capital generation for the Corporation.

The payment of dividends by AIC to The Allstate Corporation is limited by Illinois insurance law to formula amounts based on statutory net income and statutory surplus, as well as the timing and amount of dividends paid in the preceding twelve months. Based on the greater of 2018 statutory net income or 10% of statutory surplus, the maximum amount of dividends that AIC will be able to pay, without prior Illinois Department of Insurance approval, at a given point in time in 2019 is estimated at \$2.73 billion, less dividends paid during the preceding twelve months measured at that point in time. Notification and approval of intercompany lending activities are also required by the Illinois Department of Insurance for those transactions that exceed formula amounts based on statutory admitted assets and statutory surplus.

This provides funds for the parent company's fixed charges and other corporate purposes.

Intercompany dividends were paid in 2018, 2017 and 2016 between the following companies: AIC, Allstate Insurance Holdings, LLC ("AIH"), the Corporation, ALIC, American Heritage Life Insurance Company ("AHL") and Allstate Financial Insurance Holdings Corporation ("AFIHC").

| <b>Intercompany dividends</b> |             |             |             |
|-------------------------------|-------------|-------------|-------------|
| <b>(\$ in millions)</b>       | <b>2018</b> | <b>2017</b> | <b>2016</b> |
| AIC to AIH                    | \$ 2,874    | \$ 1,555    | \$ 1,905    |
| AIH to the Corporation        | 2,897       | 1,613       | 1,865       |
| ALIC to AIC                   | 250         | 600         | —           |
| AHL to AFIHC                  | 55          | 70          | 55          |

Dividends may not be paid or declared on our common stock and shares of common stock may not be repurchased unless the full dividends for the latest completed dividend period on our preferred stock have been declared and paid or provided for. We are prohibited from declaring or paying dividends on our preferred stock if we fail to meet specified capital adequacy, net income or shareholders' equity levels, except out of the net proceeds of common stock issued during the 90 days prior to the date of declaration. As of December 31, 2018, we satisfied all of the tests with no current restrictions on the payment of preferred stock dividends. There were no capital contributions paid by the Corporation to AIC in 2018, 2017 or 2016. There were no capital contributions by AIC to ALIC in 2018, 2017 or 2016.

The terms of our outstanding subordinated debentures also prohibit us from declaring or paying any dividends or distributions on our common or preferred stock or redeeming, purchasing, acquiring, or making liquidation payments on our common stock or preferred stock if we have elected to defer interest payments on the subordinated debentures, subject to certain limited exceptions. In 2018, we did not defer interest payments on the subordinated debentures.

Additional borrowings to support liquidity are as follows:

- The Corporation has access to a commercial paper facility with a borrowing limit of \$1.00 billion to cover short-term cash needs. As of December 31, 2018, there were no balances outstanding and therefore the remaining borrowing capacity was \$1.00 billion; however, the outstanding balance can fluctuate daily.
- The Corporation, AIC and ALIC have access to a \$1.00 billion unsecured revolving credit facility that is available for short-term liquidity requirements. The maturity date of this facility is April 2021. The facility is fully subscribed among 11 lenders with the largest commitment being \$115 million. The commitments of the lenders are several and no lender is responsible for any other lender's commitment if such lender fails to make a loan under the facility. This facility contains an increase provision that would allow up to an additional \$500

million of borrowing. This facility has a financial covenant requiring that we not exceed a 37.5% debt to capitalization ratio as defined in the agreement. This ratio was 16.0% as of December 31, 2018. Although the right to borrow under the facility is not subject to a minimum rating requirement, the costs of maintaining the facility and borrowing under it are based on the ratings of our senior unsecured, unguaranteed long-term debt. There were no borrowings under the credit facility during 2018.

- The Corporation has access to a universal shelf registration statement with the Securities and

Exchange Commission that expires in 2021. We can use this shelf registration to issue an unspecified amount of debt securities, common stock (including 568 million shares of treasury stock as of December 31, 2018), preferred stock, depositary shares, warrants, stock purchase contracts, stock purchase units and securities of trust subsidiaries. The specific terms of any securities we issue under this registration statement will be provided in the applicable prospectus supplements.

*Liquidity exposure* Contractholder funds were \$18.37 billion as of December 31, 2018.

#### Contractholder funds by contractual withdrawal provisions

| (\$ in millions)   | December 31, 2018 | Percent to total |
|--|-------------------|------------------|
| Not subject to discretionary withdrawal                                | \$ 2,848          | 15.5%            |
| Subject to discretionary withdrawal with adjustments:                  |                   |                  |
| Specified surrender charges <sup>(1)</sup>                             | 4,753             | 25.9             |
| Market value adjustments <sup>(2)</sup>                                | 996               | 5.4              |
| Subject to discretionary withdrawal without adjustments <sup>(3)</sup> | 9,774             | 53.2             |
| <b>Total contractholder funds <sup>(4)</sup></b>                       | <b>\$ 18,371</b>  | <b>100.0%</b>    |

<sup>(1)</sup> Includes \$870 million of liabilities with a contractual surrender charge of less than 5% of the account balance.

<sup>(2)</sup> \$512 million of the contracts with market value adjusted surrenders have a 30-45 day period at the end of their initial and subsequent interest rate guarantee periods (which are typically 1, 5, 7 or 10 years) during which there is no surrender charge or market value adjustment. \$225 million of these contracts have their 30-45 day window period in 2019.

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

<sup>(4)</sup> Includes \$732 million of contractholder funds on variable annuities reinsured to The Prudential Insurance Company of America, a subsidiary of Prudential Financial Inc., in 2006.

Retail life and annuity products may be surrendered by customers for a variety of reasons. Reasons unique to individual customers include a current or unexpected need for cash or a change in life insurance coverage needs. Other key factors that may impact the likelihood of customer surrender include the level of the contract surrender charge, the length of time the contract has been in force, distribution channel, market interest rates, equity market conditions and potential tax implications.

In addition, the propensity for retail life insurance policies to lapse is lower than it is for fixed annuities because of the need for the insured to be re-underwritten upon policy replacement.

The surrender and partial withdrawal rate on deferred fixed annuities and interest-sensitive life insurance products, based on the beginning of year contractholder funds, was 7.2% and 6.1% in 2018 and 2017, respectively. We strive to promptly pay customers who request cash surrenders; however, statutory regulations generally provide up to six months in most states to fulfill surrender requests.

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

**Contractual obligations and commitments** Our contractual obligations as of December 31, 2018, and the payments due by period are shown in the following table.

| Contractual obligations and payments due by period                          | As of December 31, 2018 |                  |                  |                         |                  |
|---|-------------------------|------------------|------------------|-------------------------|------------------|
|   | Total                   | Less than 1 year | 1 to 3 years     | Over 3 years to 5 years | Over 5 years     |
| (\$ in millions)  |                         |                  |                  |                         |                  |
| Liabilities for collateral (1)  | \$ 1,458                | \$ 1,458         | \$ —             | \$ —                    | \$ —             |
| Contractholder funds (2)  | 37,570                  | 2,185            | 4,094            | 3,736                   | 27,555           |
| Reserve for life-contingent contract benefits (2)                           | 38,787                  | 1,425            | 2,661            | 2,428                   | 32,273           |
| Long-term debt (3)  | 13,429                  | 625              | 843              | 1,320                   | 10,641           |
| Operating leases (4)  | 650                     | 139              | 217              | 144                     | 150              |
| Unconditional purchase obligations (4)                                      | 568                     | 287              | 274              | 6                       | 1                |
| Defined benefit pension plans and other postretirement benefit plans (4)(5) | 958                     | 47               | 113              | 117                     | 681              |
| Reserve for property and casualty insurance claims and claims expense (6)   | 27,423                  | 12,498           | 8,692            | 3,040                   | 3,193            |
| Other liabilities and accrued expenses (7)(8)                               | 5,918                   | 5,634            | 259              | 12                      | 13               |
| Net unrecognized tax benefits (9)   | 70                      | 58               | 12               | —                       | —                |
| <b>Total contractual cash obligations</b>                                   | <b>\$ 126,831</b>       | <b>\$ 24,356</b> | <b>\$ 17,165</b> | <b>\$ 10,803</b>        | <b>\$ 74,507</b> |

(1) Liabilities for collateral are typically fully secured with cash or short-term investments. We manage our short-term liquidity position to ensure the availability of a sufficient amount of liquid assets to extinguish short-term liabilities as they come due in the normal course of business, including utilizing potential sources of liquidity as disclosed previously.

(2) Contractholder funds represent interest-bearing liabilities arising from the sale of products such as interest-sensitive life and fixed annuities, including immediate annuities without life contingencies. The reserve for life-contingent contract benefits relates primarily to traditional life insurance, immediate annuities with life contingencies and voluntary accident and health insurance. These amounts reflect the present value of estimated cash payments to be made to contractholders and policyholders. Certain of these contracts, such as immediate annuities without life contingencies, involve payment obligations where the amount and timing of the payment are essentially fixed and determinable. These amounts relate to (i) policies or contracts where we are currently making payments and will continue to do so and (ii) contracts where the timing of a portion or all of the payments has been determined by the contract. Other contracts, such as interest-sensitive life, fixed deferred annuities, traditional life insurance and voluntary accident and health insurance, involve payment obligations where a portion or all of the amount and timing of future payments is uncertain. For these contracts, we are not currently making payments and will not make payments until (i) the occurrence of an insurable event such as death or illness or (ii) the occurrence of a payment triggering event such as the surrender or partial withdrawal on a policy or deposit contract, which is outside of our control. For immediate annuities with life contingencies, the amount of future payments is uncertain since payments will continue as long as the annuitant lives. We have estimated the timing of payments related to these contracts based on historical experience and our expectation of future payment patterns. Uncertainties relating to these liabilities include mortality, morbidity, expenses, customer lapse and withdrawal activity, estimated additional deposits for interest-sensitive life contracts, and renewal premium for life policies, which may significantly impact both the timing and amount of future payments. Such cash outflows reflect adjustments for the estimated timing of mortality, retirement, and other appropriate factors, but are undiscounted with respect to interest. As a result, the sum of the cash outflows shown for all years in the table exceeds the corresponding liabilities of \$18.37 billion for contractholder funds and \$12.21 billion for reserve for life-contingent contract benefits as included in the Consolidated Statements of Financial Position as of December 31, 2018. The liability amount in the Consolidated Statements of Financial Position reflects the discounting for interest as well as adjustments for the timing of other factors as described above. Future premium collections are not included in the amounts presented in the table above.

(3) Amount differs from the balance presented on the Consolidated Statements of Financial Position as of December 31, 2018, because the long-term debt amount above includes interest and excludes debt issuance costs.

(4) Our payment obligations relating to operating leases, unconditional purchase obligations and pension and other postretirement benefits ("OPEB") contributions are managed within the structure of our intermediate to long-term liquidity management program.

(5) The pension plans' obligations in the next 12 months represent our planned contributions to certain unfunded non-qualified plans where the benefit obligation exceeds the assets, and the remaining years' contributions are projected based on the average remaining service period using the current underfunded status of the plans. The OPEB plans' obligations are estimated based on the expected benefits to be paid. These liabilities are discounted with respect to interest, and as a result the sum of the cash outflows shown for all years in the table exceeds the corresponding liability amount of \$510 million included in other liabilities and accrued expenses on the Consolidated Statements of Financial Position.

(6) Reserve for property and casualty insurance claims and claims expense is an estimate of amounts necessary to settle all outstanding claims, including claims that have been IBNR as of the balance sheet date. We have estimated the timing of these payments based on our historical experience and our expectation of future payment patterns. However, the timing of these payments may vary significantly from the amounts shown above, especially for IBNR claims. The ultimate cost of losses may vary materially from recorded amounts that are our best estimates.

(7) Other liabilities primarily include accrued expenses and certain benefit obligations and claim payments and other checks outstanding. Certain of these long-term liabilities are discounted with respect to interest, as a result the sum of the cash outflows shown for all years in the table exceeds the corresponding liability amount by \$4 million.



- (8) Balance sheet liabilities not included in the table above include unearned and advance premiums of \$15.29 billion and gross deferred tax liabilities of \$1.58 billion. These items were excluded as they do not meet the definition of a contractual liability as we are not contractually obligated to pay these amounts to third parties. Rather, they represent an accounting mechanism that allows us to present our financial statements on an accrual basis. In addition, other liabilities of \$252 million were not included in the table above because they did not represent a contractual obligation or the amount and timing of their eventual payment was sufficiently uncertain.
- (9) Net unrecognized tax benefits represent our potential future obligation to the taxing authority for a tax position that was not recognized in the consolidated financial statements. We believe it is reasonably possible that a decrease of up to \$58 million in unrecognized tax benefits may occur within the next twelve months due to IRS settlements. The resolution of this obligation may be for an amount different than what we have accrued.

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**Contractual commitments and periods in which commitments expire**


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| (\$ in millions)                  | As of December 31, 2018 |                  |               |                         |                 |
|-----------------------------------|-------------------------|------------------|---------------|-------------------------|-----------------|
|                                   | Total                   | Less than 1 year | 1 to 3 years  | Over 3 years to 5 years | Over 5 years    |
| Other commitments – conditional   | \$ 280                  | \$ 81            | \$ 97         | \$ 45                   | \$ 57           |
| Other commitments – unconditional | 3,028                   | 243              | 270           | 333                     | 2,182           |
| <b>Total commitments</b>          | <b>\$ 3,308</b>         | <b>\$ 324</b>    | <b>\$ 367</b> | <b>\$ 378</b>           | <b>\$ 2,239</b> |

Contractual commitments represent investment commitments such as private placements, limited partnership interests and other loans. Limited partnership interests are typically funded over the commitment period which is shorter than the contractual expiration date of the partnership and as a result, the actual timing of the funding may vary.

We have agreements in place for services we conduct, generally at cost, between subsidiaries relating to insurance, reinsurance, loans and capitalization. All material intercompany transactions have been appropriately eliminated in consolidation. Intercompany transactions among insurance subsidiaries and affiliates have been approved by the appropriate departments of insurance as required.

For a more detailed discussion of our off-balance sheet arrangements, see Note 7 of the consolidated financial statements.

## Enterprise Risk and Return Management

In addition to the normal risks of the business, Allstate is subject to significant risks as an insurer and a provider of other products and financial services. These risks are discussed in more detail in the Risk Factors section of this document. We regularly identify, measure, monitor and report all significant risks. The major categories of enterprise risks are insurance, financial, investment, operational and strategic.

Allstate manages these risks through Enterprise Risk and Return Management ("ERRM") governance practices, culture, and activities that are performed on an integrated, enterprise-wide basis, following our risk and return principles. Our legal and capital structures are designed to manage capital and solvency on a legal entity basis. Our risk-return principles define how we operate and guide decision-making around risk and return. These principles state that our priority is to protect solvency, comply with laws and act with integrity. Building upon this foundation, we strive to build strategic value and optimize risk and return.

**Governance** ERRM governance includes board oversight, an executive management committee structure, and enterprise and business unit chief risk officers.

- The Allstate Corporation Board of Directors ("Allstate Board") has overall responsibility for oversight of management's design and implementation of ERRM.
- The Risk and Return Committee ("RRC") of the Allstate Board oversees effectiveness of the ERRM framework, governance structure and decision-making, while focusing on the Company's overall risk profile.
- The Audit Committee oversees effectiveness of management's control framework for risks and cybersecurity.
- The Enterprise Risk and Return Council ("ERRC") is Allstate's senior risk management committee that directs ERRM by establishing risk-return targets, determining economic capital levels and directing integrated strategies and actions from an enterprise perspective. The ERRC consists of Allstate's chief executive officer and president, vice chair, chief financial officer, business unit presidents, chief investment and corporate strategy officer, chief risk officer, general counsel, treasurer, vice president of operational risk, business unit chief risk officers, and business unit chief financial officers.
- Other key committees work with the ERRC to direct ERRM activities, including the Operating Committee, the Operational Risk Council, the Corporate Asset Liability Committee, legal entity liability governance committees, and legal entity investment committees.

Key risks are assessed and reported quarterly through a comprehensive ERRM risk dashboard prepared for senior management and the RRC. The

risk dashboard communicates alignment of Allstate's risk profile with risk and return principles while providing a perspective on quarterly risk position. Dashboard discussion promotes active engagement with management and the RRC. Internal controls over key risks are managed and reported to senior management and the Audit Committee of the Company through a semiannual risk control dashboard. Annually, we communicate with both the Allstate Board and the RRC about economic capital and risks related to the strategic plan, operating plan, and incentive compensation programs.

**Framework** We apply these principles using an integrated ERRM framework that focuses on measurement, transparency and dialogue. Our framework provides a comprehensive view of risks and is used by senior management and business managers to drive strategic and business decisions. We continually validate and improve our ERRM practices by benchmarking and obtaining external perspectives.

Allstate's risk appetite is integrated with planning through our economic capital framework. Management and the ERRC rely on internal and external perspectives to determine an appropriate level of target economic capital. Internal perspectives include enterprise solvency and volatility measures, stress scenarios, model assumptions, and management judgment. External considerations include NAIC risk-based capital as well as S&P's, Moody's, and A.M. Best's capital adequacy measurement. Our economic capital reflects management's view of the aggregate level of capital necessary to satisfy stakeholder interests, manage Allstate's risk profile and maintain financial strength over a multi-year time horizon. The impact of strategic initiatives on enterprise risk is evaluated through the economic capital framework.

The NAIC has adopted the Risk Management and Own Risk and Solvency Assessment Model Act ("ORSA Model Act"), which has been enacted by our insurance subsidiaries' domiciliary states. The ORSA Model Act requires that insurers maintain a risk management framework and conduct an internal own risk and solvency assessment of the insurer's material risks in normal and stressed environments. The assessment must be documented in a confidential annual summary report, a copy of which must be made available to regulators as required or upon request.

The enterprise risk appetite is cascaded into individual risk limits which set boundaries on the amount of risk we are willing to accept from one specific risk category before escalating for further management discussion and action. Risk limits are established based upon expected returns, volatility, potential tail losses, and impact on the enterprise portfolio. To effectively operate within risk limits and for risk-return optimization, business units establish risk limits and capital targets specific to their businesses. Allstate's risk management strategies adapt to changes in business and market environments.

**Process** Our shared ERRM framework establishes a basis for transparency and dialogue across the enterprise and for continuous learning by embedding our risk and return management culture of identifying, measuring, managing, monitoring and reporting risks within the organization. Allstate designs business and enterprise strategies that seek to optimize risk-adjusted returns on capital. Risks are managed at both the legal entity and enterprise level. A summary of our process to manage each of our major risk categories follows:

**Insurance risk management** addresses fluctuations in the timing, frequency, and severity of benefits, expenses, and premiums relative to the return expectations at the time of pricing inclusive of systemic risk, concentration of insurance exposures, policy terms, reinsurance coverage, and claims handling practices. This includes credit risk that arises when an external party fails to meet a contractual obligation such as reinsurance for ceded claims.

Insurance risk exposures include our operating results and financial conditions, claims frequency and severity, catastrophes and severe weather, and mortality and morbidity risk.

Insurance risk exposures are measured and monitored with different approaches including:

- Stochastic methods: measures and monitors risks such as natural catastrophes and severe weather. We develop probabilistic estimates of risk based on our exposures, historical observed volatility and/or industry-recognized models in the case of catastrophe risk.
- Scenario analysis: measures and monitors risks and estimated losses due to extreme but plausible insurance-related events such as multiple hurricanes and/or wildfires. Scenarios evaluated include combined multiple event scenarios across risk categories and time periods, considering the effects of macroeconomic conditions.

**Financial risk management** addresses the risk of insufficient cash flows to meet corporate or policyholder needs, risk of inadequate aggregate capital or capital within any subsidiary, inability to access capital markets or risk associated with a business counterparty default.

Financial risk exposures include capital resources and liquidity sources and uses.

We actively manage our capital and liquidity levels in light of changing market, economic, and business conditions. Our capital position, capital generation capacity, and targeted risk profile provide strategic and financial flexibility.

We generally assess solvency on a statutory accounting basis, but also consider GAAP volatility. Current enterprise capital, which exceeds economic targeted levels, is based on a combination of statutory surplus and invested assets at the parent holding company level which were \$18.15 billion and \$1.50 billion, respectively, as of December 31, 2018.

**Investment risk management** addresses financial loss due to changes in the valuations of assets held in the Allstate investment portfolio. Such losses may be caused by macro developments, such as rising interest rates, widening credit spreads, and falling equity prices, or could be specific to individual investments in the portfolio. These losses can encompass both daily market volatility and permanent impairments of capital due to credit defaults and equity write-downs.

Investment risk exposures include interest rate risk, credit spread risk, equity price risk and foreign currency exchange rate risk.

Investment risk exposures are measured and monitored in a number of ways including:

- Sensitivity analysis: measures the impact from a unit change in a market risk input.
- Stochastic and probabilistic estimation of potential losses: combines portfolio risk exposures with historical or recent market volatilities and correlations to assess the potential span of future investment results.
- Scenario analysis: measures material adverse outcomes such as shock scenarios applied to credit, public and private equity markets. Some of the stress scenarios are a combination of multiple scenarios across risk categories and over multiple time periods, considering the effects of macroeconomic conditions.

**Operational risk management** addresses loss as a result of the failure of people, processes, systems and culture. Operational risk exposures include human resources, privacy, regulatory compliance, ethics, fraud, system availability, cybersecurity, data quality, disaster recovery and business continuity.

Operational risk is managed at the enterprise and business unit levels, with business units identifying, measuring, monitoring, managing, and reporting these and other operational risks at a more detailed level.

**Strategic risk management** addresses loss associated with inadequate or flawed business planning or strategy setting, including product mix, mergers or acquisitions and market positioning, and unexpected changes within the market or regulatory environment in which Allstate operates. This includes reputational risk, which is the potential for negative publicity regarding a company's conduct or business practices to adversely impact its profitability, operations, consumer base, or require costly litigation and other defensive measures.

We manage strategic risk through the Allstate Board and senior management strategy reviews that include a risk and return assessment of our strategic plans and ongoing monitoring of our strategic actions and the external competitive environment. Using the ERRM framework, Allstate designs strategies that seek to optimize risk-adjusted returns on economic capital for risk types including interest rate risk, credit risk to equity investments with idiosyncratic return potential, auto profitability, and growing property exposure.

## Application of Critical Accounting Estimates

The preparation of financial statements in conformity with GAAP requires management to adopt accounting policies and make estimates and assumptions that affect amounts reported in the consolidated financial statements. The most critical estimates, presented in the order they appear in the Consolidated Statements of Financial Position, include those used in determining:

- Fair value of financial assets
- Impairment of fixed income securities
- Deferred policy acquisition costs amortization
- Evaluation of goodwill for impairment
- Reserve for property and casualty insurance claims and claims expense estimation
- Reserve for life-contingent contract benefits estimation

In making these determinations, management makes subjective and complex judgments that frequently require estimates about matters that are inherently uncertain. Many of these policies, estimates and related judgments are common in the insurance and financial services industries; others are specific to our businesses and operations. It is reasonably likely that changes in these estimates could occur from period to period and result in a material impact on our consolidated financial statements.

A summary of each of these critical accounting estimates follows. For a more detailed discussion of the effect of these estimates on our consolidated financial statements, and the judgments and assumptions related to these estimates, see the referenced sections of this document. For a more detailed summary of our significant accounting policies, see the notes to the consolidated financial statements.

**Fair value of financial assets** 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. We are responsible for the determination of fair value of financial assets and the supporting assumptions and methodologies. We use independent third-party valuation service providers, broker quotes and internal pricing methods to determine fair values. We obtain or calculate only one single quote or price for each financial instrument.

Valuation service providers typically obtain data about market transactions and other key valuation model inputs from multiple sources and, through the use of proprietary models, produce valuation information in the form of a single fair value for individual fixed income and other securities for which a fair value has been requested under the terms of our agreements. The inputs used by the valuation service providers include, but are not limited to, market prices from recently completed transactions and transactions of comparable securities, interest rate yield curves, credit spreads, liquidity spreads, currency rates, and

other information, as applicable. Credit and liquidity spreads are typically implied from completed transactions and transactions of comparable securities. Valuation service providers also use proprietary discounted cash flow models that are widely accepted in the financial services industry and similar to those used by other market participants to value the same financial instruments. The valuation models take into account, among other things, market observable information as of the measurement date, as described above, as well as the specific attributes of the security being valued including its term, interest rate, credit rating, industry sector, and where applicable, collateral quality and other issue or issuer specific information. Executing valuation models effectively requires seasoned professional judgment and experience. For certain equity securities, valuation service providers provide market quotations for completed transactions on the measurement date. In cases where market transactions or other market observable data is limited, the extent to which judgment is applied varies inversely with the availability of market observable information.

For certain of our financial assets measured at fair value, where our valuation service providers cannot provide fair value determinations, we obtain a single non-binding price quote from a broker familiar with the security who, similar to our valuation service providers, may consider transactions or activity in similar securities among other information. The brokers providing price quotes are generally from the brokerage divisions of financial institutions with market making, underwriting and distribution expertise regarding the security subject to valuation.

The fair value of certain financial assets, including privately placed corporate fixed income securities and free-standing derivatives, for which our valuation service providers or brokers do not provide fair value determinations, is developed using valuation methods and models widely accepted in the financial services industry. Our internal pricing methods are primarily based on models using discounted cash flow methodologies that develop a single best estimate of fair value. Our models generally incorporate inputs that we believe are representative of inputs other market participants would use to determine fair value of the same instruments, including yield curves, quoted market prices of comparable securities or instruments, published credit spreads, and other applicable market data as well as instrument-specific characteristics that include, but are not limited to, coupon rates, expected cash flows, sector of the issuer, and call provisions. Because judgment is required in developing the fair values of these financial assets, they may differ from the amount actually received to sell an asset in an orderly transaction between market participants at the measurement date. Moreover, the use of different valuation assumptions may have a material effect on the financial assets' fair values.

For most of our financial assets measured at fair value, all significant inputs are based on or corroborated by market observable data, and

significant management judgment does not affect the periodic determination of fair value. The determination of fair value using discounted cash flow models involves management judgment when significant model inputs are not based on or corroborated by market observable data. However, where market observable data is available, it takes precedence, and as a result, no range of reasonably likely inputs exists from which the basis of a sensitivity analysis could be constructed.

We gain assurance that our financial assets 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, our 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, we assess 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. We perform procedures to understand and assess the methodologies, processes and controls of valuation service providers. In addition, we 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. We perform 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, we validate them through reviews by members of management who have relevant expertise and who are independent of those charged with executing investment transactions.

We also perform an analysis to determine whether there has been a significant decrease in the volume and level of activity for the asset when compared to normal market activity, and if so, whether transactions may not be orderly. Among the indicators we consider in determining whether a significant decrease in the volume and level of market activity for a specific asset has occurred include the level of new issuances in the primary market, trading volume in the secondary market, level of credit spreads over historical levels, bid-ask spread, and price consensus among market participants and sources. If evidence indicates that prices are based on transactions that are not orderly, we place little, if any, weight on the transaction price and will estimate fair value using an internal model. As of December 31, 2018 and 2017, we did not adjust fair values provided by our valuation service providers or brokers or substitute them with an internal model for such securities.

#### Fixed income, equity securities and short-term investments by source of fair value determination

| (\$ in millions)                                    | December 31, 2018 |                  |
|---|-------------------|------------------|
|   | Fair value        | Percent to total |
| Fair value based on internal sources                | \$ 3,138          | 4.8%             |
| Fair value based on external sources <sup>(1)</sup> | 62,095            | 95.2             |
| <b>Total</b>  | <b>\$ 65,233</b>  | <b>100.0%</b>    |

<sup>(1)</sup> Includes \$379 million that are valued using broker quotes and \$268 million that are valued using quoted prices or quoted net asset values from deal sponsors.

For additional detail on fair value measurements, see Note 6 of the consolidated financial statements.

**Impairment of fixed income securities** For fixed income securities classified as available-for-sale, the difference between fair value and amortized cost, net of certain other items and deferred income taxes (as disclosed in Note 5 of the consolidated financial statements), is reported as a component of AOCI on the Consolidated Statements of Financial Position and is not reflected in the operating results of any period until reclassified to net income upon the consummation of a transaction with an unrelated third party or when a write-down is recorded due to an other-than-temporary decline in fair value. We have 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, we assess whether management with the appropriate authority has made the decision to sell or

whether it is more likely than not we 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 we have not made the decision to sell the fixed income security and it is not more likely than not we will be required to sell the fixed income security before recovery of its amortized cost basis, we evaluate whether we expect to receive cash flows sufficient to recover the entire amortized cost basis of the security. We use our best estimate of future cash flows expected to be collected from the fixed income security, discounted at the security's original or current effective rate, as appropriate, to calculate a recovery value and determine whether a credit loss exists. The determination of cash flow estimates is inherently subjective and methodologies may vary depending on facts and circumstances specific to the security. All reasonably available information relevant to the

collectability of the security, including past events, current conditions, and reasonable and supportable assumptions and forecasts, is 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, 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 we determine that the security is dependent on the liquidation of collateral for ultimate settlement. If the estimated recovery value is less than the amortized cost of the security, a credit loss exists and an other-than-temporary impairment for the difference between the estimated recovery value and amortized cost is recorded in earnings. The portion of the unrealized loss related to factors other than credit remains classified in AOCI. If we determine that the fixed income security does not have sufficient cash flow or other information to estimate a recovery value for the security, we may conclude that the entire decline in fair value is deemed to be credit related and the loss is recorded in earnings.

Once assumptions and estimates are made, any number of changes in facts and circumstances could cause us to subsequently determine that a fixed income security is other-than-temporarily impaired, including: 1) general economic conditions that are worse than previously forecast or that have a greater adverse effect on a particular issuer or industry sector than originally estimated; 2) changes in the facts and circumstances related to a particular issue or issuer's ability to meet all of its contractual obligations; and 3) changes in facts and circumstances that result in management's decision to sell or result in our assessment that it is more likely than not we will be required to sell before recovery of the amortized cost basis. Changes in assumptions, facts and circumstances could result in additional charges to earnings in future periods to the extent that losses are realized. The charge to earnings, while potentially significant to net income, would not have a significant effect on shareholders' equity, since our fixed income securities are designated as available-for-sale and carried at fair value and as a result, any related unrealized loss, net of deferred income taxes and related DAC, deferred sales inducement costs and reserves for life-contingent contract benefits, would already be reflected as a component of AOCI in shareholders' equity.

The determination of the amount of other-than-temporary impairment is an inherently subjective process based on periodic evaluations of the factors described above. Such evaluations and assessments

are revised as conditions change and new information becomes available. We update our evaluations regularly and reflect changes in other-than-temporary impairments in our results of operations as such evaluations are revised. The use of different methodologies and assumptions in the determination of the amount of other-than-temporary impairments may have a material effect on the amounts recognized and presented within the consolidated financial statements.

For additional detail on investment impairments, see Note 5 of the consolidated financial statements.

**Deferred policy acquisition costs amortization** We incur significant costs in connection with acquiring insurance policies and investment contracts. In accordance with GAAP, costs that are related directly to the successful acquisition of new or renewal insurance policies and investment contracts are deferred and recorded as an asset on the Consolidated Statements of Financial Position.

DAC related to property and casualty contracts is amortized into income as premiums are earned, typically over periods of six or twelve months for personal lines policies or generally one to five years for protection plans and other contracts (primarily related to finance and insurance products).

DAC related to traditional life and voluntary accident and health insurance is amortized over the premium paying period of the related policies in proportion to the estimated revenues on such business. Significant assumptions relating to estimated premiums, investment returns, as well as mortality, persistency and expenses to administer the business are established at the time the policy is issued and are generally not revised during the life of the policy. The assumptions for determining the timing and amount of DAC amortization are consistent with the assumptions used to calculate the reserve for life-contingent contract benefits. Any deviations from projected business in force resulting from actual policy terminations differing from expected levels and any estimated premium deficiencies may result in a change to the rate of amortization in the period such events occur. Generally, the amortization periods for these policies approximate the estimated lives of the policies. The recovery of DAC is dependent upon the future profitability of the business. We periodically review the adequacy of reserves and recoverability of DAC for these policies using actual experience and current assumptions. Prior to fourth quarter 2017, we evaluated our traditional life insurance products and immediate annuities with life contingencies on an aggregate basis. In conjunction with the segment changes that occurred in the fourth quarter of 2017, traditional life insurance products, immediate annuities with life contingencies, and voluntary accident and health insurance products are reviewed individually. In the event actual experience and current assumptions are adverse compared to the original assumptions and a premium deficiency is determined to exist, any remaining unamortized DAC balance must be expensed to the extent not recoverable and a premium deficiency reserve may be required if the remaining

DAC balance is insufficient to absorb the deficiency. In 2018, 2017 and 2016, our reviews concluded that no premium deficiency adjustments were necessary. For additional detail on reserve adequacy, see the Reserve for life-contingent contract benefits estimation section.

DAC related to interest-sensitive life insurance is amortized in proportion to the incidence of the total present value of gross profits, which includes both actual historical gross profits ("AGP") and estimated future gross profits ("EGP") expected to be earned over the estimated lives of the contracts. The amortization is net of interest on the prior period DAC balance using rates established at the inception of the contracts. Actual amortization periods generally range from 15-30 years; however, incorporating estimates of the rate of customer surrenders, partial withdrawals and deaths generally results in the majority of the DAC being amortized during the surrender charge period, which is typically 10-20 years for interest-sensitive life. The rate of DAC amortization is reestimated and adjusted by a cumulative charge or credit to income when there is a difference between the incidence of actual versus expected gross profits in a reporting period or when there is a change in total EGP.

AGP and EGP primarily consist of the following components: contract charges for the cost of insurance less mortality costs and other benefits (benefit margin); investment income and realized capital gains and losses less interest credited (investment margin); and surrender and other contract charges less maintenance expenses (expense margin). The principal assumptions for determining the amount of EGP are mortality, persistency, expenses, investment returns, including capital gains and losses on assets supporting contract liabilities, interest crediting rates to contractholders, and the effects of any hedges, and these assumptions are reasonably likely to have the greatest impact on the amount of DAC amortization. Changes in these assumptions can be offsetting and we are unable to reasonably predict their future movements or offsetting impacts over time.

Each reporting period, DAC amortization is recognized in proportion to AGP for that period adjusted for interest on the prior period DAC balance.

This amortization process includes an assessment of AGP compared to EGP, the actual amount of business remaining in force and realized capital gains and losses on investments supporting the product liability. The impact of realized capital gains and losses on amortization of DAC depends upon which product liability is supported by the assets that give rise to the gain or loss. If the AGP is greater than EGP in the period, but the total EGP is unchanged, the amount of DAC amortization will generally increase, resulting in a current period decrease to earnings. The opposite result generally occurs when the AGP is less than the EGP in the period, but the total EGP is unchanged. However, when DAC amortization or a component of gross profits for a quarterly period is potentially negative (which would result in an increase of the DAC balance) as a result of negative AGP, the specific facts and circumstances surrounding the potential negative amortization are considered to determine whether it is appropriate for recognition in the consolidated financial statements. Negative amortization is only recorded when the increased DAC balance is determined to be recoverable based on facts and circumstances. For products whose supporting investments are exposed to capital losses in excess of our expectations which may cause periodic AGP to become temporarily negative, EGP and AGP utilized in DAC amortization may be modified to exclude the excess capital losses.

Annually, we review and update the assumptions underlying the projections of EGP, including mortality, persistency, expenses, investment returns, comprising investment income and realized capital gains and losses, interest crediting rates and the effect of any hedges, using our experience and industry experience. At each reporting period, we assess whether any revisions to assumptions used to determine DAC amortization are required. These reviews and updates may result in amortization acceleration or deceleration, which are referred to as "DAC unlocking". If the update of assumptions causes total EGP to increase, the rate of DAC amortization will generally decrease, resulting in a current period increase to earnings. A decrease to earnings generally occurs when the assumption update causes the total EGP to decrease.

#### Effect on DAC amortization of changes in assumptions relating to gross profit components

| (\$ in millions)                | For the years ended December 31, |         |        |
|---------------------------------|----------------------------------|---------|--------|
|                                 | 2018                             | 2017    | 2016   |
| Investment margin               | \$ 10                            | \$ 12   | \$ (1) |
| Benefit margin                  | (11)                             | (23)    | 1      |
| Expense margin                  | 2                                | (2)     | (2)    |
| Net acceleration (deceleration) | \$ 1                             | \$ (13) | \$ (2) |

In 2018, DAC amortization acceleration for changes in the investment margin component of EGP related to interest-sensitive life insurance and was due to lower projected investment returns. The deceleration related to benefit margin primarily related to interest-sensitive life insurance and was due to a decrease in projected mortality.

In 2017, DAC amortization acceleration for changes in the investment margin component of EGP related to interest-sensitive life insurance and was due to continued low interest rates and lower projected investment returns. The deceleration related to benefit margin primarily related to interest-sensitive life insurance and was due to a decrease in projected mortality.

In 2016, DAC amortization deceleration for changes in the investment margin component of EGP related to interest-sensitive life insurance and was due to increased projected investment margins from a favorable asset portfolio mix. The acceleration related to benefit margin primarily related to interest-sensitive life insurance and was due to lower than expected persistency on non-guaranteed products. The expense margin deceleration related primarily to

variable life insurance and was due to a decrease in projected expenses.

The following table displays the sensitivity of reasonably likely changes in assumptions included in the gross profit components of investment margin or benefit margin to amortization of the DAC balance as of December 31, 2018.

| (\$ in millions)   | Increase/(reduction) |
|--|----------------------|
| Increase in future investment margins of 25 basis points | \$ 57                |
| Decrease in future investment margins of 25 basis points | (63)                 |
| Decrease in future life mortality by 1%                  | \$ 15                |
| Increase in future life mortality by 1%                  | (16)                 |

Any potential changes in assumptions discussed above are measured without consideration of correlation among assumptions. Therefore, it would be inappropriate to add them together in an attempt to estimate overall variability in amortization.

For additional detail related to DAC, see the Allstate Life Segment section of the MD&A.

**Evaluation of goodwill for impairment** Goodwill represents the excess of amounts paid for acquiring businesses over the fair value of the net assets acquired, less any impairment of goodwill recognized. Our goodwill reporting units are equivalent to our reportable segments: Allstate Protection, Service Businesses, Allstate Life and Allstate Benefits to which goodwill has been assigned.

#### Goodwill by reporting unit

| (\$ in millions)    | As of December 31, |                 |
|---------------------|--------------------|-----------------|
|                     | 2018               | 2017            |
| Allstate Protection | \$ 810             | \$ 810          |
| Service Businesses  | 1,449              | 1,100           |
| Allstate Life       | 175                | 175             |
| Allstate Benefits   | 96                 | 96              |
| <b>Total</b>        | <b>\$ 2,530</b>    | <b>\$ 2,181</b> |

Goodwill is recognized when acquired and allocated to reporting units based on which unit is expected to benefit from the synergies of the business combination. Goodwill is not amortized but is tested for impairment at least annually. We perform our annual goodwill impairment testing during the fourth quarter of each year based upon data as of the close of the third quarter. We also review goodwill for impairment whenever events or changes in circumstances, such as deteriorating or adverse market conditions, indicate that it is more likely than not that the carrying amount of goodwill may exceed its implied fair value. Goodwill impairment is 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 goodwill impairment analysis is performed at the reporting unit level which is equal to our reportable segments. The fair value of our goodwill reporting units exceeded their carrying values.

Upon acquisition, the purchase price of the acquired business is assumed to be its fair value. Subsequently, we estimate the fair value of our businesses in each goodwill reporting unit, utilizing a combination of widely accepted valuation techniques including a stock price and market capitalization analysis, discounted cash flow ("DCF") calculations and an estimate of a business's fair value using market to book multiples derived from peer company analysis. The stock price and market capitalization analysis takes into consideration the quoted market price of our outstanding common stock and includes a control premium, derived from relevant historical acquisition activity, in determining the estimated fair value of the consolidated entity before allocating that fair value to individual reporting units. The DCF analysis utilizes long term assumptions for revenues, investment income, benefits, claims, other operating expenses and income taxes to produce projections of both income and cash flows available for dividends that are present valued using weighted average cost of capital. Market to book multiples represent the mean market to book multiple for selected peer companies with operations similar to our goodwill reporting units to which the multiple is applied. The outputs from these methods are weighted based on the nature of the business and the relative amount of market observable assumptions supporting the estimates. The computed values are then weighted to reflect the fair value estimate based on the specific attributes of each goodwill reporting unit.

Estimating the fair value of reporting units is a subjective process that involves the use of significant estimates by management. Changes in market inputs or other events impacting the fair value of these businesses, including discount rates, operating results, investment returns, strategies and growth rate assumptions or increases in the level of equity required to support these businesses, could result in goodwill impairments, resulting in a charge to income. Most of our goodwill reporting units are comprised of a combination of legacy and acquired businesses and as a result have substantial internally generated and unrecognized intangibles and fair values that significantly exceed their carrying values. Our Service Businesses goodwill reporting unit is more heavily comprised of newly acquired businesses and as



a result does not have a significant excess of fair value over its carrying value. Therefore, this reporting unit may be more susceptible to goodwill impairment based on changes to growth or margin assumptions.

The most significant assumptions utilized in the determination of the estimated fair value of the Service Businesses reporting unit are the earnings growth rate and discount rate. The growth rate utilized in our fair value estimates is consistent with our plans to grow these businesses rapidly over the near-term with more moderated growth rates in later years.

The discount rate, which is consistent with the weighted average cost of capital expected by a market participant, is based upon industry specific required rates of return, including consideration of both debt and equity components of the capital structure. Our discount rate may be impacted by changes in the risk free rate, cost of debt, equity risk premium and entity specific risks.

Changes in our growth assumptions, including the risk of loss of key customers, or adverse changes in the discount rates could result in a decline in fair value and result in a goodwill impairment charge.

**Reserve for property and casualty insurance claims and claims expense estimation** Reserves are established to provide for the estimated costs of paying claims and claims expenses under insurance policies we have issued. Underwriting results are significantly influenced by estimates of property and casualty insurance claims and claims expense reserves. These reserves are an estimate of amounts necessary to settle all outstanding claims, including IBNR, as of the financial statement date.

**Characteristics of reserves** Reserves are established independently of business segment management for each business segment and line of business based on estimates of the ultimate cost to settle claims, less losses that have been paid. The significant lines of business are auto, homeowners, and other personal lines for Allstate Protection, and asbestos, environmental, and other discontinued lines for Discontinued Lines and Coverages. Allstate Protection's claims are typically reported promptly with relatively little reporting lag between the date of occurrence and the date the loss is reported. Auto and homeowners liability losses generally take an average of about two years to settle, while auto physical damage, homeowners property and other personal lines have an average settlement time of less than one year. Discontinued Lines and Coverages involve long-tail losses, such as those related to asbestos and environmental claims, which often involve substantial reporting lags and extended times to settle.

Reserves are the difference between the estimated ultimate cost of losses incurred and the amount of paid losses as of the reporting date. Reserves are estimated for both reported and unreported claims, and include estimates of all expenses associated with processing and settling all incurred claims. We update most of our reserve estimates quarterly and as new information becomes available or as events emerge that may affect the

resolution of unsettled claims. Changes in prior reserve estimates (reserve reestimates), which may be material, are determined by comparing updated estimates of ultimate losses to prior estimates, with the differences recorded as property and casualty insurance claims and claims expense in the Consolidated Statements of Operations in the period such changes are determined. Estimating the ultimate cost of claims and claims expenses is an inherently uncertain and complex process involving a high degree of judgment and is subject to the evaluation of numerous variables.

**The actuarial methods used to develop reserve estimates** Reserve estimates are derived by using several different actuarial estimation methods that are variations on one primary actuarial technique. The actuarial technique is known as a "chain ladder" estimation process in which historical loss patterns are applied to actual paid losses and reported losses (paid losses plus individual case reserves established by claim adjusters) for an accident year or a report year to create an estimate of how losses are likely to develop over time. An accident year refers to classifying claims based on the year in which the claims occurred. A report year refers to classifying claims based on the year in which the claims are reported. Both classifications are used to prepare estimates of required reserves for payments to be made in the future. The key assumptions affecting our reserve estimates comprise data elements including claim counts, paid losses, case reserves, and development factors calculated with this data.

See Discontinued and Lines and Coverages reserve estimates section for specific disclosures of industry and actuarial best practices for this segment.

In the chain ladder estimation technique, a ratio (development factor) is calculated which compares current period results to results in the prior period for each accident year. A three-year or two-year average development factor, based on historical results, is usually multiplied by the current period experience to estimate the development of losses of each accident year into the next time period. The development factors for the future time periods for each accident year are compounded over the remaining future periods to calculate an estimate of ultimate losses for each accident year. The implicit assumption of this technique is that an average of historical development factors is predictive of future loss development, as the significant size of our experience database achieves a high degree of statistical credibility in actuarial projections of this type. The effects of inflation are implicitly considered in the reserving process, the implicit assumption being that a multi-year average development factor includes an adequate provision. The development factor estimation methodology may require modification when data changes due to changing claim reporting practices, changing claim settlement patterns, external regulatory or financial influences, or contractual coverage changes. In these situations, actuarial estimation techniques are applied to appropriately modify the "chain ladder" assumptions. These actuarial techniques are

necessary to analyze the effects of changing loss data to develop modified development factor selections. The actuarial estimation techniques include exclusion of unusual losses or aberrations and adjustment of historical data to present conditions. Actuarially modified patterns of development are calculated with the adjusted historical data. Actuarial judgment is then applied to make appropriate development factor assumptions needed to develop a best estimate of gross ultimate losses. These developments are discussed further in the Allstate brand loss ratio disclosures in the Allstate Protection Segment section of the MD&A.

*How reserve estimates are established and updated* Reserve estimates are developed at a very detailed level, and the results of these numerous micro-level best estimates are aggregated to form a consolidated reserve estimate. For example, over one thousand actuarial estimates of the types described above are prepared each quarter to estimate losses for each line of insurance, major components of losses (such as coverages and perils), major states or groups of states and for reported losses and IBNR. The actuarial methods described above are used to analyze the settlement patterns of claims by determining the development factors for specific data elements that are necessary components of a reserve estimation process. Development factors are calculated quarterly and periodically throughout the year for data elements such as claim counts reported and settled, paid losses, and paid losses combined with case reserves. The calculation of development factors from changes in these data elements also impacts claim severity trends. The historical development patterns for these data elements are used as the assumptions to calculate reserve estimates.

Often, several different estimates are prepared for each detailed component, incorporating alternative analyses of changing claim settlement patterns and other influences on losses, from which we select our best estimate for each component, occasionally incorporating additional analyses and actuarial judgment, as described above. These micro-level estimates are not based on a single set of assumptions. Actuarial judgments that may be applied to these components of certain micro-level estimates generally do not have a material impact on the consolidated level of reserves. Moreover, this detailed

micro-level process does not permit or result in a compilation of a company-wide roll up to generate a range of needed loss reserves that would be meaningful. Based on our review of these estimates, our best estimate of required reserves for each state/line/coverage component is recorded for each accident year, and the required reserves for each component are summed to create the reserve balance carried on our Consolidated Statements of Financial Position.

Reserves are reestimated quarterly and periodically throughout the year, by combining historical results with current actual results to calculate new development factors. This process continuously incorporates the historic and latest actual trends, and other underlying changes in the data elements used to calculate reserve estimates. New development factors are likely to differ from previous development factors used in prior reserve estimates because actual results (claims reported or settled, losses paid, or changes to case reserves) occur differently than the implied assumptions contained in the previous development factor calculations. If claims reported, paid losses, or case reserve changes are greater or less than the levels estimated by previous development factors, reserve reestimates increase or decrease. When actual development of these data elements is different than the historical development pattern used in a prior period reserve estimate, a new reserve is determined. The difference between indicated reserves based on new reserve estimates and recorded reserves (the previous estimate) is the amount of reserve reestimate and is recognized as an increase or decrease in claims and claims expense in the Consolidated Statements of Operations. Total net reserve reestimates, after-tax, impact on net income applicable to common shareholders were 9.6% favorable in 2018, 10.6% favorable in 2017 and 0.6% favorable in 2016. The 3-year average of net reserve reestimates as a percentage of total reserves was a favorable 1.9% for Allstate Protection, an unfavorable 6.8% for Discontinued Lines and Coverages and an unfavorable 2.5% for Service Businesses, each of these results being consistent within a reasonable actuarial tolerance for the respective businesses. A more detailed discussion of reserve reestimates is presented in the Claims and Claims Expense Reserves section of the MD&A.

**Net claims and claims expense reserves by segment and line of business**

| (\$ in millions)                                    | As of December 31, |                  |                  |
|---|--------------------|------------------|------------------|
|   | 2018               | 2017             | 2016             |
| Allstate Protection                                 |                    |                  |                  |
| Auto  | \$ 14,378          | \$ 14,051        | \$ 13,530        |
| Homeowners  | 2,157              | 2,205            | 1,989            |
| Other lines   | 2,290              | 2,105            | 2,078            |
| <b>Total Allstate Protection</b>                    | <b>18,825</b>      | <b>18,361</b>    | <b>17,597</b>    |
| Discontinued Lines and Coverages                    |                    |                  |                  |
| Asbestos  | 866                | 884              | 912              |
| Environmental                                       | 170                | 166              | 179              |
| Other discontinued lines                            | 355                | 357              | 354              |
| <b>Total Discontinued Lines and Coverages</b>       | <b>1,391</b>       | <b>1,407</b>     | <b>1,445</b>     |
| <b>Total Service Businesses</b>                     | <b>52</b>          | <b>86</b>        | <b>24</b>        |
| <b>Total net claims and claims expense reserves</b> | <b>\$ 20,268</b>   | <b>\$ 19,854</b> | <b>\$ 19,066</b> |

*Allstate Protection reserve estimate*

*Factors affecting reserve estimates* Reserve estimates are developed based on the processes and historical development trends described above. These estimates are considered in conjunction with known facts and interpretations of circumstances and factors including our 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. When we experience changes of the type previously mentioned, we may need to apply actuarial judgment in the determination and selection of development factors considered more reflective of the new trends, such as combining shorter or longer periods of historical results with current actual results to produce development factors based on two-year, three-year, or longer development periods to reestimate our reserves. For example, if a legal change is expected to have a significant impact on the development of claim severity for a coverage which is part of a particular line of insurance in a specific state, actuarial judgment is applied to determine appropriate development factors that will most accurately reflect the expected impact on that specific estimate. Another example would be when a change in economic conditions is expected to affect the cost of repairs to damaged autos or property for a particular line, coverage, or state, actuarial judgment is applied to determine appropriate development factors to use in the reserve estimate that will most accurately reflect the expected impacts on severity development.

As claims are reported, for certain liability claims of sufficient size and complexity, the field adjusting staff establishes case reserve estimates of ultimate cost, based on their assessment of facts and circumstances related to each individual claim. For other claims which occur in large volumes and settle in a relatively short time frame, it is not practical or efficient to set case reserves for each claim, and a statistical case reserve is set for these claims based on estimation techniques described above. In the normal course of business, we may also supplement our 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.

Historically, the case reserves set by the field adjusting staff have not proven to be an entirely accurate estimate of the ultimate cost of claims. To provide for this, a development reserve is estimated using the processes described above, and allocated to pending claims as a supplement to case reserves. Typically, the case, including statistical case, and supplemental development reserves comprise about 90% of total reserves.

Another major component of reserves is IBNR, which comprises about 10% of total reserves. IBNR can be a small percentage of reserves for relatively short-term claims, such as auto physical damage claims, or a large percentage of reserves for claims that have uncertain payout requirements over a long period of time, such as auto injury and MCCA claims. All major components of reserves are affected by changes in claim frequency as well as claim severity.

Generally, the initial reserves for a new accident year are established based on actual claim frequency and severity assumptions for different business segments, lines and coverages based on historical relationships to relevant inflation indicators. Reserves for prior accident years are statistically determined using processes described above. Changes in auto claim frequency may result from changes in mix of business, the rate of distracted driving, miles driven or other macroeconomic factors. Changes in auto current year claim severity are generally influenced by inflation in the medical and auto repair sectors of the economy and the effectiveness and efficiency of our claim practices. We mitigate these effects through various loss management programs. Injury claims are affected largely by medical cost inflation while physical damage claims are affected largely by auto repair cost inflation and used car prices. For auto physical damage coverages, we monitor our rate of increase in average cost per claim against the auto maintenance, repair, parts and equipment price indices. We believe our claim settlement initiatives, such as improvements to the claim review and settlement process, the use of special investigative units to detect fraud and handle suspect claims, litigation management and defense strategies, as well as various other loss management

initiatives underway, contribute to the mitigation of injury and physical damage severity trends.

Changes in homeowners current year claim severity are generally influenced by inflation in the cost of building materials, the cost of construction and property repair services, the cost of replacing home furnishings and other contents, the types of claims that qualify for coverage, deductibles, other economic and environmental factors and the effectiveness and efficiency of our claim practices. We employ various loss management programs to mitigate the effect of these factors.

As loss experience for the current year develops for each type of loss, it is monitored relative to initial assumptions until it is judged to have sufficient statistical credibility. From that point in time and forward, reserves are reestimated using statistical actuarial processes to reflect the impact actual loss trends have on development factors incorporated into the actuarial estimation processes. Statistical credibility is usually achieved by the end of the first calendar year; however, when trends for the current accident year exceed initial assumptions sooner, they are usually determined to be credible, and reserves are increased accordingly.

The very detailed processes for developing reserve estimates, and the lack of a need and existence of a common set of assumptions or development factors, limits aggregate reserve level testing for variability of data elements. However, by applying standard actuarial methods to consolidated historic accident year loss data for major loss types, comprising auto injury losses, auto physical damage losses and homeowner losses, we develop variability analyses consistent with the way we develop reserves by measuring the potential variability of development factors, as described in the section titled "Potential Reserve Estimate Variability" below.

**Causes of reserve estimate uncertainty** Since reserves are estimates of unpaid portions of claims and claims expenses that have occurred, including IBNR losses, the establishment of appropriate reserves, including reserves for catastrophe losses, requires regular reevaluation and refinement of estimates to determine our ultimate loss estimate.

At each reporting date, the highest degree of uncertainty in estimates for most of our losses from ongoing businesses arise from claims remaining to be settled for the current accident year and the most recent preceding accident year. The greatest degree of uncertainty exists in the current accident year because the current accident year contains the greatest proportion of losses that have not been reported or settled but must be estimated as of the current reporting date. Most of these losses relate to damaged property such as automobiles and homes, and medical care for injuries from accidents. During the first year after the end of an accident year, a large portion of the total losses for that accident year are settled. When accident year losses paid through the end of the first year following the initial accident year are incorporated into updated actuarial estimates, the

trends inherent in the settlement of claims emerge more clearly. Consequently, this is the point in time at which we tend to make our largest reestimates of losses for an accident year. After the second year, the losses that we pay for an accident year typically relate to claims that are more difficult to settle, such as those involving serious injuries or litigation. Private passenger auto insurance provides a good illustration of the uncertainty of future loss estimates: our typical annual percentage payout of reserves remaining at December 31 for an accident year is approximately 45% in the first year after the end of the accident year, 20% in the second year, 15% in the third year, 10% in the fourth year, and the remaining 10% thereafter.

**Reserves for catastrophe losses** Catastrophe losses are an inherent risk of the property and casualty insurance industry that have contributed, and will continue to contribute, to potentially material year-to-year fluctuations in our results of operations and financial position. We define a "catastrophe" as an event that produces pre-tax losses before reinsurance in excess of \$1 million and involves multiple first party policyholders, or a winter weather event that produces a number of claims in excess of a preset, per-event threshold of average claims in a specific area, occurring within a certain amount of time following the event. Catastrophes are caused by various natural events including high winds, winter storms and freezes, tornadoes, hailstorms, wildfires, tropical storms, hurricanes, earthquakes and volcanoes. We are also exposed to man-made catastrophic events, such as certain types of terrorism or industrial accidents. The nature and level of catastrophes in any period cannot be reliably predicted.

The estimation of claims and claims expense reserves for catastrophe losses also comprises estimates of losses from reported claims and IBNR, primarily for damage to property. In general, our estimates for catastrophe reserves are based on claim adjuster inspections and the application of historical loss development factors as described above. However, depending on the nature of the catastrophe, the estimation process can be further complicated. For example, for hurricanes, complications could include the inability of insureds to promptly report losses, limitations placed on claims adjusting staff affecting their ability to inspect losses, determining whether losses are covered by our homeowners policy (generally for damage caused by wind or wind driven rain) or specifically excluded coverage caused by flood, estimating additional living expenses, and assessing the impact of demand surge, exposure to mold damage, and the effects of numerous other considerations, including the timing of a catastrophe in relation to other events, such as at or near the end of a financial reporting period, which can affect the availability of information needed to estimate reserves for that reporting period. In these situations, we may need to adapt our practices to accommodate these circumstances in order to determine a best estimate of our losses from a catastrophe. For example, to complete estimates for certain areas affected by catastrophes not yet inspected by our claims adjusting staff, or where we believed our historical loss

development factors were not predictive, we rely on analysis of actual claim notices received compared to total PIF, as well as visual, governmental and third party information, including aerial photos using drones and satellites, area observations, and data on wind speed and flood depth to the extent available.

**Potential reserve estimate variability** The aggregation of numerous micro-level estimates for each business segment, line of insurance, major components of losses (such as coverages and perils), and major states or groups of states for reported losses and IBNR forms the reserve liability recorded in the Consolidated Statements of Financial Position. Because of this detailed approach to developing our reserve estimates, there is not a single set of assumptions that determines our reserve estimates at the consolidated level. Given the numerous micro-level estimates for reported losses and IBNR, management does not believe the processes that we follow will produce a statistically credible or reliable actuarial reserve range that would be meaningful. Reserve estimates, by their very nature, are very complex to determine and subject to significant judgment, and do not represent an exact determination for each outstanding claim. Accordingly, as actual claims, paid losses, and/or case reserve results emerge, our estimate of the ultimate cost to settle will be different than previously estimated.

To develop a statistical indication of potential reserve variability within reasonably likely possible outcomes, an actuarial technique (stochastic modeling) is applied to the countrywide consolidated data elements for paid losses and paid losses combined with case reserves separately for injury losses, auto physical damage losses, and homeowners losses excluding catastrophe losses. Based on the combined historical variability of the development factors calculated for these data elements, an estimate of the standard error or standard deviation around these reserve estimates is calculated within each accident year for the last twelve years for each type of loss. The variability of these reserve estimates within one standard deviation of the mean (a measure of frequency of dispersion often viewed to be an acceptable level of accuracy) is believed by management to represent a reasonable and statistically probable measure of potential variability. Based on our products and coverages, historical experience, the statistical credibility of our extensive data and stochastic modeling of actuarial chain ladder methodologies used to develop reserve estimates, we estimate that the potential variability of our Allstate Protection reserves, excluding reserves for catastrophe losses, within a reasonable probability of other possible outcomes, may be approximately plus or minus 4%, or plus or minus \$750 million in net income applicable to common shareholders. A lower level of variability exists for auto injury losses, which comprise approximately 80% of reserves, due to their relatively stable development patterns over a longer duration of time required to settle claims. Other types of losses, such as auto physical damage, homeowners losses and other personal lines losses, which comprise about 20% of reserves, tend to have greater variability but are

settled in a much shorter period of time. Although this evaluation reflects most reasonably likely outcomes, it is possible the final outcome may fall below or above these amounts. Historical variability of reserve estimates is reported in the Claims and Claims Expense Reserves section of the MD&A.

**Reserves for Michigan and New Jersey unlimited personal injury protection** Claims and claims expense reserves include reserves for Michigan mandatory unlimited personal injury protection coverage to insureds involved in qualifying motor vehicle accidents. The administration of this program is through the MCCA, a state-mandated, non-profit association of which all insurers actively writing automobile coverage in Michigan are members.

The process employed to estimate MCCA covered losses involves a number of activities including the comprehensive review and interpretation of MCCA actuarial reports, other MCCA members' reports and our personal injury protection loss trends which have increased in severity over time. A significant portion of incurred claim reserves can be attributed to a small number of catastrophic claims and thus a large portion of the recoverable is similarly concentrated. We conduct comprehensive claim file reviews to develop case reserve type estimates of specific claims, which have increased our view of future claim development and longevity of claimants. Each year, we update the actuarial estimate of our ultimate reserves and recoverables. We report our paid and unpaid claims based on MCCA requirements. The MCCA has its own reserving estimates based on its own reserve methodologies, which may not align with our estimations. The MCCA does not provide member companies with its estimate of a company's claim costs. We continue to update each comprehensive claim file case reserve estimate when there is a significant change in the status of the claimant, or once every three years if there have been no significant changes.

We provide similar personal injury protection coverage in New Jersey for auto policies issued or renewed in New Jersey prior to 1991 that is administered by PLIGA. We use similar actuarial estimating techniques as for the MCCA exposures to estimate loss reserves for unlimited personal injury protection coverage for policies covered by PLIGA. We continue to update our estimates for these claims as the status of claimant's changes. However, unlimited coverage was no longer offered after 1991, therefore no new claimants are being added.

Reserve estimates are confidential and proprietary and by their nature are very complex to determine and subject to significant judgments. Reserve estimates do not represent an exact determination for each outstanding claim. Claims may be subject to litigation. As actual claims, paid losses and/or case reserve results emerge, our estimate of the ultimate cost to settle may be materially greater or less than previously estimated amounts.

**Adequacy of reserve estimates** We believe our net claims and claims expense reserves are appropriately

established based on available methodologies, facts, technology, laws and regulations. We calculate and record a single best reserve estimate, in conformance with generally accepted actuarial standards and practices, for each line of insurance, its components (coverages and perils) and state, for reported losses and for IBNR losses, and as a result we believe that no other estimate is better than our recorded amount. Due to the uncertainties involved, the ultimate cost of losses may vary materially from recorded amounts, which are based on our best estimates.

#### *Discontinued Lines and Coverages reserve estimates*

**Characteristics of Discontinued Lines exposure** Our exposure to asbestos, environmental and other discontinued lines claims arise principally from assumed reinsurance coverage written during the 1960s through the mid-1980s, including reinsurance on primary insurance written on large U.S. companies, and from direct excess commercial insurance written from 1972 through 1985, including substantial excess general liability coverages on large U.S. companies. Additional exposure stems from direct primary commercial insurance written during the 1960s through the mid-1980s. Asbestos claims relate primarily to bodily injuries asserted by claimants who were exposed to asbestos or products containing asbestos. Environmental claims relate primarily to pollution and related clean-up costs. Other discontinued lines exposures primarily relate to general liability and product liability mass tort claims, such as those for medical devices and other products, workers' compensation claims and claims for various other coverage exposures other than asbestos and environmental.

In 1986, the general liability policy form used by us and others in the property and casualty industry was amended to introduce an "absolute pollution exclusion," which excluded coverage for environmental damage claims, and to add an asbestos exclusion. Most general liability policies issued prior to 1987 contain annual aggregate limits for product liability coverage. General liability policies issued in 1987 and thereafter contain annual aggregate limits for product liability coverage and annual aggregate limits for all coverages. Our experience to date is that these policy form changes have limited the extent of our exposure to environmental and asbestos claim risks.

Our exposure to liability for asbestos, environmental and other discontinued lines losses manifests differently depending on whether it arises from assumed reinsurance coverage, direct excess commercial insurance or direct primary commercial insurance. The direct insurance coverage we provided that covered asbestos, environmental and other discontinued lines was substantially "excess" in nature.

Direct excess commercial insurance and reinsurance involve coverage written by us for specific layers of protection above retentions and other insurance plans. The nature of excess coverage and reinsurance provided to other insurers limits our exposure to loss to specific layers of protection in excess of policyholder retention on primary insurance

plans. Our exposure is further limited by the significant reinsurance that we had purchased on our direct excess business.

Our assumed reinsurance business involved writing generally small participations in other insurers' reinsurance programs. The reinsured losses in which we participate may be a proportion of all eligible losses or eligible losses in excess of defined retentions. The majority of our assumed reinsurance exposure, approximately 85%, is for excess of loss coverage, while the remaining 15% is for pro-rata coverage.

Our direct primary commercial insurance business did not include coverage to large asbestos manufacturers. This business comprises a cross section of policyholders engaged in many diverse business sectors throughout the country.

**How reserve estimates are established and updated** We conduct an annual review in the third quarter to evaluate and establish asbestos, environmental and other discontinued lines reserves. Changes to reserves are recorded in the reporting period in which they are determined. Using established industry and actuarial best practices and assuming no change in the regulatory or economic environment, this detailed and comprehensive methodology determines asbestos reserves based on assessments of the characteristics of exposure (i.e. claim activity, potential liability, jurisdiction, products versus non-products exposure) presented by individual policyholders, and determines environmental reserves based on assessments of the characteristics of exposure (i.e. environmental damages, respective shares of liability of potentially responsible parties, appropriateness and cost of remediation) to pollution and related clean-up costs. The number and cost of these claims are affected by advertising by trial lawyers seeking asbestos plaintiffs, and entities with asbestos exposure seeking bankruptcy protection as a result of asbestos liabilities, initially causing a delay in the reporting of claims, often followed by an acceleration and an increase in claims and claims expenses as settlements occur.

After evaluating our insureds' probable liabilities for asbestos and/or environmental claims, we evaluate our insureds' coverage programs for such claims. We consider our insureds' total available insurance coverage, including the coverage we issued. We also consider relevant judicial interpretations of policy language and applicable coverage defenses or determinations, if any.

Evaluation of both the insureds' estimated liabilities and our exposure to the insureds depends heavily on an analysis of the relevant legal issues and litigation environment. This analysis is conducted by our specialized claims adjusting staff and legal counsel. Based on these evaluations, case reserves are established by claims adjusting staff and actuarial analysis is employed to develop an IBNR reserve, which includes estimated potential reserve development and claims that have occurred but have not been reported. As of December 31, 2018 and 2017, IBNR was 50% and

53%, respectively, of combined net asbestos and environmental reserves.

For both asbestos and environmental reserves, we also evaluate our historical direct net loss and expense paid and incurred experience to assess any emerging trends, fluctuations or characteristics suggested by the aggregate paid and incurred activity.

#### Other Discontinued Lines and Coverages

**Characteristics of other exposures** Other mass torts includes direct excess commercial and

reinsurance general liability coverage provided for cumulative injury losses other than asbestos and environmental. Workers' compensation and commercial and other include run-off from discontinued direct primary, direct excess commercial and reinsurance commercial insurance operations of various coverage exposures other than asbestos and environmental. Reserves are based on considerations similar to those described above, as they relate to the characteristics of specific individual coverage exposures.

#### Reserves for other discontinued lines

| (\$ in millions)                | As of December 31, |               |               |
|---------------------------------|--------------------|---------------|---------------|
|                                 | 2018               | 2017          | 2016          |
| Other mass torts                | \$ 148             | \$ 150        | \$ 142        |
| Workers' compensation           | 69                 | 73            | 76            |
| Commercial and other            | 138                | 134           | 136           |
| <b>Other discontinued lines</b> | <b>\$ 355</b>      | <b>\$ 357</b> | <b>\$ 354</b> |

**Potential reserve estimate variability** Establishing Discontinued Lines and Coverages net loss reserves for asbestos, environmental and other discontinued lines claims is subject to uncertainties that are much greater than those presented by other types of property and casualty claims. Among the complications are lack of historical data, long reporting delays, uncertainty as to the number and identity of insureds with potential exposure and unresolved legal issues regarding policy coverage; unresolved legal issues regarding the determination, availability and timing of exhaustion of policy limits; plaintiffs' evolving and expanding theories of liability; availability and collectability of recoveries from reinsurance; retrospectively determined premiums and other contractual agreements; estimates of the extent and timing of any contractual liability; the impact of bankruptcy protection sought by various asbestos producers and other asbestos defendants; and other uncertainties. There are also complex legal issues concerning the interpretation of various insurance policy provisions and whether those losses are covered, or were ever intended to be covered, and could be recoverable through retrospectively determined premium, reinsurance or other contractual agreements. Courts have reached different and sometimes inconsistent conclusions as to when losses are deemed to have occurred and which policies provide coverage; what types of losses are covered; whether there is an insurer obligation to defend; how policy limits are determined; how policy exclusions and conditions are applied and interpreted; and whether clean-up costs represent insured property damage. Our reserves for asbestos and environmental exposures could be affected by tort reform, class action litigation, and other potential legislation and judicial decisions. Environmental exposures could also be affected by a change in the existing federal Superfund law and similar state statutes. There can be no assurance that any reform legislation will be enacted or that any such legislation will provide for a fair, effective and cost-efficient system for settlement of asbestos or environmental claims. We believe these issues are not likely to be resolved in the near future, and the ultimate costs may vary materially from the

amounts currently recorded resulting in material changes in loss reserves. Historical variability of reserve estimates is demonstrated in the Claims and Claims Expense Reserves section of the MD&A.

**Adequacy of reserve estimates** Management believes its net loss reserves for environmental, asbestos and other discontinued lines exposures are appropriately established based on available facts, technology, laws, regulations, and assessments of other pertinent factors and characteristics of exposure (i.e. claim activity, potential liability, jurisdiction, products versus non-products exposure) presented by individual policyholders, assuming no change in the legal, legislative or economic environment. Due to the uncertainties and factors described above, management believes it is not practicable to develop a meaningful range for any such additional net loss reserves that may be required.

**Further discussion of reserve estimates** For further discussion of these estimates and quantification of the impact of reserve estimates, reserve reestimates and assumptions, see Notes 8 and 14 of the consolidated financial statements and the Claims and Claims Expense Reserves section of the MD&A.

**Reserve for life-contingent contract benefits estimation** Due to the long term nature of traditional life insurance, life-contingent immediate annuities and voluntary accident and health insurance products, benefits are payable over many years; accordingly, the reserves are calculated as the present value of future expected benefits to be paid, reduced by the present value of future expected net premiums. Long-term actuarial assumptions of future investment yields, mortality, morbidity, policy terminations and expenses are used when establishing the reserve for life-contingent contract benefits payable under these insurance policies. These assumptions, which for traditional life insurance are applied using the net level premium method, include provisions for adverse deviation and generally vary by characteristics such as type of coverage, year of issue and policy duration. Future investment yield assumptions are determined

based upon prevailing investment yields as well as estimated reinvestment yields. Mortality, morbidity and policy termination assumptions are based on our experience and industry experience. Expense assumptions include the estimated effects of inflation and expenses to be incurred beyond the premium-paying period. These assumptions are established at the time the policy is issued, are consistent with assumptions for determining DAC amortization for these policies, and are generally not changed during the policy coverage period. However, if actual experience emerges in a manner that is significantly adverse relative to the original assumptions, adjustments to DAC or reserves may be required resulting in a charge to earnings which could have a material effect on our operating results and financial condition.

We periodically review the adequacy of reserves and recoverability of DAC for these policies using actual experience and current assumptions. In the event actual experience and current assumptions are adverse compared to the original assumptions and a premium deficiency is determined to exist, any remaining unamortized DAC balance must be expensed to the extent not recoverable and the establishment of a premium deficiency reserve may be required.

Prior to fourth quarter 2017, we evaluated our traditional life insurance products and immediate annuities with life contingencies on an aggregate basis. In conjunction with the segment changes that occurred in the fourth quarter of 2017, traditional life insurance products, immediate annuities with life contingencies, and voluntary accident and health insurance are reviewed individually. In 2018, 2017 and 2016, our reviews concluded that no premium deficiency

adjustments were necessary. As of December 31, 2018, traditional life insurance and accident and health insurance both have a substantial sufficiency. As of December 31, 2018, there is marginal sufficiency in the evaluation of immediate annuities with life contingencies which has been adversely impacted primarily by sub-standard structured settlement mortality expectations. The sufficiency represents approximately 4% of applicable reserves for Allstate Annuities as of December 31, 2018. Additional reserves may be required in future periods if the evaluation results in a premium deficiency.

In 2016, we completed a mortality study for our structured settlement annuities with life contingencies. The study indicated that annuitants are living longer and receiving benefits for a longer period than originally estimated due to medical advances and access to medical care. The results of the study were included in the premium deficiency and profits followed by losses evaluations as of December 31, 2016, and no adjustments were recognized.

In 2016, there was a favorable change in the long-term investment yield assumptions due to investment strategy changes to increase performance-based investments and equity securities. The favorable impact of higher long-term investment yield assumptions more than offset the impact of unfavorable mortality assumptions. The investment strategy changes for immediate annuities are discussed further in the Allstate Annuities Segment section of the MD&A.

The following table displays the sensitivity of changes in the future investment yield assumption included in the annuity premium deficiency evaluation to the sufficiency balance as of December 31, 2018.

| (\$ in millions)  | Increase/(reduction)<br>in sufficiency | Change in sufficiency as a percentage of<br>applicable reserves |
|---|--|---|
| Increase in future investment yields of 25 basis points | \$198                                  | 3%  |
| Decrease in future investment yields of 25 basis points | \$(205)                                | (3)%  |

We also review these policies for circumstances where projected profits would be recognized in early years followed by projected losses in later years. In 2018, 2017 and 2016, our reviews concluded that there were no projected losses following projected profits in each long-term projection.

We will continue to monitor the experience of our traditional life insurance and immediate annuities. We anticipate that mortality, investment and reinvestment yields, and policy terminations are the factors that would be most likely to require premium deficiency adjustments to these reserves or related DAC. Mortality rates and investment and reinvestment yields are the factors that would be most likely to require a profits followed by losses liability accrual.

For further detail on the reserve for life-contingent contract benefits, see Note 9 of the consolidated financial statements.



## Regulation and Legal Proceedings

We are subject to extensive regulation and we are involved in various legal and regulatory actions, all of which have an effect on specific aspects of our business. For a detailed discussion of the legal and regulatory actions in which we are involved, see Note 14 of the consolidated financial statements.

## Pending Accounting Standards

There are several pending accounting standards that we have not implemented because the implementation date has not yet occurred. For a discussion of these pending standards, see Note 2 of the consolidated financial statements.

The effect of implementing certain accounting standards on our financial results and financial condition is often based in part on market conditions at the time of implementation of the standard and other factors we are unable to determine prior to implementation. For this reason, we are sometimes unable to estimate the effect of certain pending accounting standards until the relevant authoritative body finalizes these standards or until we implement them.

## Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Information required for Item 7A is incorporated by reference to the material under the caption "Market Risk" in Part II, Item 7 of this report.

**Item 8. Financial Statements and Supplementary Data****Consolidated Financial Statements**

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**Notes to Consolidated Financial Statements**

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**The Allstate Corporation and Subsidiaries**  
**Consolidated Statements of Operations**

| (\$ in millions, except per share data)   | Years Ended December 31, |                 |                 |
|---|--------------------------|-----------------|-----------------|
|   | 2018                     | 2017            | 2016            |
| <b>Revenues</b>   |                          |                 |                 |
| Property and casualty insurance premiums (net of reinsurance ceded and indemnification programs of \$1,016, \$971 and \$987)                      | \$ 34,048                | \$ 32,300       | \$ 31,307       |
| Life premiums and contract charges (net of reinsurance ceded of \$290, \$303 and \$309)   | 2,465                    | 2,378           | 2,275           |
| Other revenue   | 939                      | 883             | 865             |
| Net investment income   | 3,240                    | 3,401           | 3,042           |
| Realized capital gains and losses:  |                          |                 |                 |
| Total other-than-temporary impairment ("OTTI") losses   | (13)                     | (146)           | (313)           |
| OTTI losses reclassified (from) to other comprehensive income ("OCI")   | (1)                      | (4)             | 10              |
| <b>Net OTTI losses recognized in earnings</b>   | <b>(14)</b>              | <b>(150)</b>    | <b>(303)</b>    |
| Sales and valuation changes on equity investments and derivatives   | (863)                    | 595             | 213             |
| <b>Total realized capital gains and losses</b>  | <b>(877)</b>             | <b>445</b>      | <b>(90)</b>     |
| <b>Total revenues</b>   | <b>39,815</b>            | <b>39,407</b>   | <b>37,399</b>   |
| <b>Costs and expenses</b>   |                          |                 |                 |
| Property and casualty insurance claims and claims expense (net of reinsurance ceded and indemnification programs of \$1,378, \$1,807 and \$1,116) | 22,839                   | 21,929          | 22,221          |
| Life contract benefits (net of reinsurance ceded of \$240, \$179 and \$208)   | 1,973                    | 1,923           | 1,857           |
| Interest credited to contractholder funds (net of reinsurance ceded of \$24, \$25 and \$26)   | 654                      | 690             | 726             |
| Amortization of deferred policy acquisition costs   | 5,222                    | 4,784           | 4,550           |
| Operating costs and expenses  | 5,869                    | 5,442           | 4,939           |
| Amortization of purchased intangible assets   | 105                      | 99              | 32              |
| Restructuring and related charges   | 83                       | 109             | 30              |
| Goodwill impairment   | —                        | 125             | —               |
| Interest expense  | 332                      | 335             | 295             |
| <b>Total costs and expenses</b>   | <b>37,077</b>            | <b>35,436</b>   | <b>34,650</b>   |
| Gain on disposition of operations   | 6                        | 20              | 5               |
| <b>Income from operations before income tax expense</b>   | <b>2,744</b>             | <b>3,991</b>    | <b>2,754</b>    |
| Income tax expense  | 492                      | 802             | 877             |
| <b>Net income</b>   | <b>2,252</b>             | <b>3,189</b>    | <b>1,877</b>    |
| Preferred stock dividends   | 148                      | 116             | 116             |
| <b>Net income applicable to common shareholders</b>   | <b>\$ 2,104</b>          | <b>\$ 3,073</b> | <b>\$ 1,761</b> |
| <b>Earnings per common share:</b>   |                          |                 |                 |
| Net income applicable to common shareholders per common share - Basic   | \$ 6.05                  | \$ 8.49         | \$ 4.72         |
| Weighted average common shares - Basic  | 347.8                    | 362.0           | 372.8           |
| Net income applicable to common shareholders per common share - Diluted   | \$ 5.96                  | \$ 8.36         | \$ 4.67         |
| Weighted average common shares - Diluted  | 353.2                    | 367.8           | 377.3           |

See notes to consolidated financial statements.

**The Allstate Corporation and Subsidiaries**  
**Consolidated Statements of Comprehensive Income**

| (\$ in millions)   | Years Ended December 31, |                 |                 |
|--|--------------------------|-----------------|-----------------|
|  | 2018                     | 2017            | 2016            |
| <b>Net income</b>  | \$ 2,252                 | \$ 3,189        | \$ 1,877        |
| <b>Other comprehensive (loss) income, after-tax</b>        |                          |                 |                 |
| Changes in:  |                          |                 |                 |
| Unrealized net capital gains and losses                    | (754)                    | 319             | 433             |
| Unrealized foreign currency translation adjustments        | (55)                     | 47              | 10              |
| Unrecognized pension and other postretirement benefit cost | (144)                    | 307             | (104)           |
| <b>Other comprehensive (loss) income, after-tax</b>        | <b>(953)</b>             | <b>673</b>      | <b>339</b>      |
| <b>Comprehensive income</b>                                | <b>\$ 1,299</b>          | <b>\$ 3,862</b> | <b>\$ 2,216</b> |

See notes to consolidated financial statements.

**The Allstate Corporation and Subsidiaries**  
**Consolidated Statements of Financial Position**

| (\$ in millions, except par value data)   | December 31,      |                   |
|---|-------------------|-------------------|
|   | 2018              | 2017              |
| <b>Assets</b>   |                   |                   |
| Investments   |                   |                   |
| Fixed income securities, at fair value (amortized cost \$57,134 and \$57,525)   | \$ 57,170         | \$ 58,992         |
| Equity securities, at fair value (cost \$4,489 and \$5,461)   | 5,036             | 6,621             |
| Mortgage loans  | 4,670             | 4,534             |
| Limited partnership interests   | 7,505             | 6,740             |
| Short-term, at fair value (amortized cost \$3,027 and \$1,944)  | 3,027             | 1,944             |
| Other   | 3,852             | 3,972             |
| <b>Total investments</b>  | <b>81,260</b>     | <b>82,803</b>     |
| Cash  | 499               | 617               |
| Premium installment receivables, net  | 6,154             | 5,786             |
| Deferred policy acquisition costs   | 4,784             | 4,191             |
| Reinsurance and indemnification recoverables, net   | 9,565             | 8,921             |
| Accrued investment income   | 600               | 569               |
| Property and equipment, net   | 1,045             | 1,072             |
| Goodwill  | 2,530             | 2,181             |
| Other assets  | 3,007             | 2,838             |
| Separate Accounts   | 2,805             | 3,444             |
| <b>Total assets</b>   | <b>\$ 112,249</b> | <b>\$ 112,422</b> |
| <b>Liabilities</b>  |                   |                   |
| Reserve for property and casualty insurance claims and claims expense   | \$ 27,423         | \$ 26,325         |
| Reserve for life-contingent contract benefits   | 12,208            | 12,549            |
| Contractholder funds  | 18,371            | 19,434            |
| Unearned premiums   | 14,510            | 13,473            |
| Claim payments outstanding  | 1,007             | 875               |
| Deferred income taxes   | 425               | 782               |
| Other liabilities and accrued expenses  | 7,737             | 6,639             |
| Long-term debt  | 6,451             | 6,350             |
| Separate Accounts   | 2,805             | 3,444             |
| <b>Total liabilities</b>  | <b>90,937</b>     | <b>89,871</b>     |
| <b>Commitments and Contingent Liabilities (Note 7, 8 and 14)</b>  |                   |                   |
| <b>Shareholders' equity</b>   |                   |                   |
| Preferred stock and additional capital paid-in, \$1 par value, 25 million shares authorized, 79.8 thousand and 72.2 thousand issued and outstanding, \$1,995 and \$1,805 aggregate liquidation preference | 1,930             | 1,746             |
| Common stock, \$.01 par value, 2.0 billion shares authorized and 900 million issued, 332 million and 355 million shares outstanding   | 9                 | 9                 |
| Additional capital paid-in  | 3,310             | 3,313             |
| Retained income   | 45,708            | 43,162            |
| Deferred Employee Stock Ownership Plan ("ESOP") expense   | (3)               | (3)               |
| Treasury stock, at cost (568 million and 545 million shares)  | (28,085)          | (25,982)          |
| Accumulated other comprehensive income:   |                   |                   |
| Unrealized net capital gains and losses:  |                   |                   |
| Unrealized net capital gains and losses on fixed income securities with OTTI  | 75                | 85                |
| Other unrealized net capital gains and losses   | (51)              | 1,981             |
| Unrealized adjustment to DAC, DSI and insurance reserves  | (26)              | (404)             |
| <b>Total unrealized net capital gains and losses</b>  | <b>(2)</b>        | <b>1,662</b>      |
| Unrealized foreign currency translation adjustments   | (64)              | (9)               |
| Unrecognized pension and other postretirement benefit cost  | (1,491)           | (1,347)           |
| <b>Total accumulated other comprehensive (loss) income ("AOCI")</b>   | <b>(1,557)</b>    | <b>306</b>        |
| <b>Total shareholders' equity</b>   | <b>21,312</b>     | <b>22,551</b>     |
| <b>Total liabilities and shareholders' equity</b>   | <b>\$ 112,249</b> | <b>\$ 112,422</b> |

See notes to consolidated financial statements.



**The Allstate Corporation and Subsidiaries**  
**Consolidated Statements of Shareholders' Equity**

| (\$ in millions)  | Years Ended December 31, |                  |                  |
|---|--------------------------|------------------|------------------|
|   | 2018                     | 2017             | 2016             |
| <b>Preferred stock par value</b>  | \$ —                     | \$ —             | \$ —             |
| <b>Preferred stock additional capital paid-in</b>                           |                          |                  |                  |
| Balance, beginning of year  | 1,746                    | 1,746            | 1,746            |
| Preferred stock issuance  | 557                      | —                | —                |
| Preferred stock redemption  | (373)                    | —                | —                |
| <b>Balance, end of year</b>   | <b>1,930</b>             | <b>1,746</b>     | <b>1,746</b>     |
| <b>Common stock par value</b>   | <b>9</b>                 | <b>9</b>         | <b>9</b>         |
| <b>Common stock additional capital paid-in</b>                              |                          |                  |                  |
| Balance, beginning of year  | 3,313                    | 3,303            | 3,245            |
| Forward contract on accelerated share repurchase agreement                  | (105)                    | (45)             | —                |
| Equity incentive plans activity   | 102                      | 55               | 58               |
| <b>Balance, end of year</b>   | <b>3,310</b>             | <b>3,313</b>     | <b>3,303</b>     |
| <b>Retained income</b>  |                          |                  |                  |
| Balance, beginning of year  | 43,162                   | 40,678           | 39,413           |
| Cumulative effect of change in accounting principle                         | 1,088                    | —                | —                |
| Net income  | 2,252                    | 3,189            | 1,877            |
| Dividends on common stock (declared per share of \$1.84, \$1.48 and \$1.32) | (646)                    | (540)            | (496)            |
| Dividends on preferred stock  | (148)                    | (116)            | (116)            |
| Reclassification of tax effects due to change in accounting principle       | —                        | (49)             | —                |
| <b>Balance, end of year</b>   | <b>45,708</b>            | <b>43,162</b>    | <b>40,678</b>    |
| <b>Deferred ESOP expense</b>  |                          |                  |                  |
| Balance, beginning of year  | (3)                      | (6)              | (13)             |
| Payments  | —                        | 3                | 7                |
| <b>Balance, end of year</b>   | <b>(3)</b>               | <b>(3)</b>       | <b>(6)</b>       |
| <b>Treasury stock</b>   |                          |                  |                  |
| Balance, beginning of year  | (25,982)                 | (24,741)         | (23,620)         |
| Shares acquired   | (2,198)                  | (1,423)          | (1,341)          |
| Shares reissued under equity incentive plans, net                           | 95                       | 182              | 220              |
| <b>Balance, end of year</b>   | <b>(28,085)</b>          | <b>(25,982)</b>  | <b>(24,741)</b>  |
| <b>Accumulated other comprehensive income (loss)</b>                        |                          |                  |                  |
| Balance, beginning of year  | 306                      | (416)            | (755)            |
| Cumulative effect of change in accounting principle                         | (910)                    | —                | —                |
| Change in unrealized net capital gains and losses                           | (754)                    | 319              | 433              |
| Change in unrealized foreign currency translation adjustments               | (55)                     | 47               | 10               |
| Change in unrecognized pension and other postretirement benefit cost        | (144)                    | 307              | (104)            |
| Reclassification of tax effects due to change in accounting principle       | —                        | 49               | —                |
| <b>Balance, end of year</b>   | <b>(1,557)</b>           | <b>306</b>       | <b>(416)</b>     |
| <b>Total shareholders' equity</b>   | <b>\$ 21,312</b>         | <b>\$ 22,551</b> | <b>\$ 20,573</b> |

See notes to consolidated financial statements.

**The Allstate Corporation and Subsidiaries**  
**Consolidated Statements of Cash Flows**

| (\$ in millions)  | Years Ended December 31, |                |                |
|---|--------------------------|----------------|----------------|
|   | 2018                     | 2017           | 2016           |
| <b>Cash flows from operating activities</b>                                       |                          |                |                |
| Net income  | \$ 2,252                 | \$ 3,189       | \$ 1,877       |
| Adjustments to reconcile net income to net cash provided by operating activities: |                          |                |                |
| Depreciation, amortization and other non-cash items                               | 511                      | 483            | 382            |
| Realized capital gains and losses   | 877                      | (445)          | 90             |
| Gain on disposition of operations   | (6)                      | (20)           | (5)            |
| Interest credited to contractholder funds   | 654                      | 690            | 726            |
| Goodwill impairment   | —                        | 125            | —              |
| Changes in:   |                          |                |                |
| Policy benefits and other insurance reserves                                      | 469                      | 302            | 631            |
| Unearned premiums   | 915                      | 463            | 362            |
| Deferred policy acquisition costs   | (296)                    | (214)          | (165)          |
| Premium installment receivables, net  | (396)                    | (131)          | (42)           |
| Reinsurance recoverables, net   | (656)                    | (211)          | (264)          |
| Income taxes  | (356)                    | (245)          | 417            |
| Other operating assets and liabilities  | 1,207                    | 328            | (16)           |
| <b>Net cash provided by operating activities</b>                                  | <b>5,175</b>             | <b>4,314</b>   | <b>3,993</b>   |
| <b>Cash flows from investing activities</b>                                       |                          |                |                |
| Proceeds from sales   |                          |                |                |
| Fixed income securities   | 33,183                   | 25,341         | 25,061         |
| Equity securities   | 6,859                    | 6,504          | 5,546          |
| Limited partnership interests   | 764                      | 1,125          | 881            |
| Other investments   | 533                      | 274            | 262            |
| Investment collections  |                          |                |                |
| Fixed income securities   | 3,466                    | 4,194          | 4,533          |
| Mortgage loans  | 529                      | 600            | 501            |
| Other investments   | 488                      | 642            | 421            |
| Investment purchases  |                          |                |                |
| Fixed income securities   | (36,960)                 | (31,145)       | (27,990)       |
| Equity securities   | (5,936)                  | (6,585)        | (5,950)        |
| Limited partnership interests   | (1,679)                  | (1,440)        | (1,450)        |
| Mortgage loans  | (664)                    | (646)          | (646)          |
| Other investments   | (864)                    | (999)          | (885)          |
| Change in short-term investments, net   | (505)                    | 2,610          | (2,446)        |
| Change in other investments, net  | (98)                     | (30)           | (51)           |
| Purchases of property and equipment, net  | (277)                    | (299)          | (313)          |
| Acquisition of operations   | (558)                    | (1,356)        | —              |
| <b>Net cash used in investing activities</b>                                      | <b>(1,719)</b>           | <b>(1,210)</b> | <b>(2,526)</b> |
| <b>Cash flows from financing activities</b>                                       |                          |                |                |
| Proceeds from issuance of long-term debt  | 498                      | —              | 1,236          |
| Redemption and repayment of long-term debt  | (400)                    | —              | (17)           |
| Proceeds from issuance of preferred stock   | 557                      | —              | —              |
| Redemption of preferred stock   | (385)                    | —              | —              |
| Contractholder fund deposits  | 1,010                    | 1,025          | 1,049          |
| Contractholder fund withdrawals   | (1,967)                  | (1,890)        | (2,087)        |
| Dividends paid on common stock  | (614)                    | (525)          | (486)          |
| Dividends paid on preferred stock   | (134)                    | (116)          | (116)          |
| Treasury stock purchases  | (2,303)                  | (1,495)        | (1,337)        |
| Shares reissued under equity incentive plans, net                                 | 73                       | 135            | 164            |
| Excess tax benefits on share-based payment arrangements                           | —                        | —              | 32             |
| Other   | 91                       | (57)           | 36             |
| <b>Net cash used in financing activities</b>                                      | <b>(3,574)</b>           | <b>(2,923)</b> | <b>(1,526)</b> |
| <b>Net (decrease) increase in cash</b>  | <b>(118)</b>             | <b>181</b>     | <b>(59)</b>    |



|                            |           |            |           |            |           |            |
|----------------------------|-----------|------------|-----------|------------|-----------|------------|
| Cash at beginning of year  |           | 617        |           | 436        |           | 495        |
| <b>Cash at end of year</b> | <b>\$</b> | <b>499</b> | <b>\$</b> | <b>617</b> | <b>\$</b> | <b>436</b> |

See notes to consolidated financial statements.

## Notes to Consolidated Financial Statements

### Note 1 General

#### Basis of presentation

The accompanying 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 consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP"). All significant intercompany accounts and transactions have been eliminated.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

On December 22, 2017, 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.

#### Nature of operations

Allstate is engaged, principally in the United States, in the property and casualty insurance and life insurance businesses. Allstate is one of the country's largest personal property and casualty insurers and is organized into seven reportable segments: Allstate Protection, Discontinued Lines and Coverages, Service Businesses, Allstate Life, Allstate Benefits, Allstate Annuities, and Corporate and Other.

Allstate's primary business is the sale of private passenger auto and homeowners insurance. The Company also offers several other personal property

and casualty insurance products, select commercial property and casualty coverages, consumer product protection plans, device and mobile data collection services and analytic solutions, roadside assistance, finance and insurance products, life insurance, voluntary accident and health insurance and identity protection. Allstate primarily distributes its products through exclusive agencies, financial specialists, independent agencies and brokers, major retailers, contact centers and the internet.

#### Risks and uncertainties

Allstate has exposure to catastrophes, an inherent risk of the property and casualty insurance business, which have contributed, and will continue to contribute, to material year-to-year fluctuations in the Company's results of operations and financial position (see Note 8). The nature and level of catastrophic loss caused by natural events (high winds, winter storms, tornadoes, hailstorms, wildfires, tropical storms, hurricanes, earthquakes and volcanoes) and man-made events (terrorism and industrial accidents) experienced in any period cannot be predicted and could be material to results of operations and financial position. The Company considers the greatest areas of potential catastrophe losses due to wildfires to generally be in the states of California, Colorado, Arizona and Texas. The Company considers the greatest areas of potential catastrophe losses due to hurricanes to generally be major metropolitan centers in counties along the eastern and gulf coasts of the United States. The Company considers the greatest areas of potential catastrophe losses due to hailstorms to generally be in the states of Texas, Illinois, Colorado and Georgia. The Company considers the greatest areas of potential catastrophe losses due to earthquakes and fires following earthquakes to be major metropolitan areas near fault lines in the states of California, Oregon, Washington, South Carolina, Missouri, Kentucky and Tennessee. The Company also has exposure to asbestos, environmental and other discontinued lines claims (see Notes 8 and 14).

### Note 2 Summary of Significant Accounting Policies

#### Investments

Fixed income securities include bonds, asset-backed securities ("ABS"), residential mortgage-backed securities ("RMBS"), commercial mortgage-backed securities ("CMBS") and redeemable preferred stocks. Fixed income securities, which may be sold prior to their contractual maturity, are designated as available-for-sale and are carried at fair value. The difference between amortized cost and fair value, net of deferred income taxes and related life and annuity deferred policy acquisition costs ("DAC"), deferred sales inducement costs ("DSI") and reserves for life-contingent contract benefits, is reflected as a component of AOCI. Cash received from calls and make-whole payments is reflected as a component of

proceeds from sales and cash received from maturities and pay-downs is reflected as a component of investment collections within the Consolidated Statements of Cash Flows.

Equity securities primarily include common stocks, exchange traded and mutual funds, non-redeemable preferred stocks and real estate investment trust equity investments. Certain exchange traded and mutual funds have fixed income securities as their underlying 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 Consolidated Statements of Operations effective January 1, 2018.

Mortgage loans are carried at unpaid principal balances, net of unamortized premium or discount and valuation allowances. Valuation allowances are established for impaired loans when it is probable that contractual principal and interest will not be collected.

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

Short-term investments, including commercial paper, U.S. Treasury bills, money market funds and other short-term investments, are carried at fair value. 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.

Investment income primarily consists of interest, dividends, income from limited partnership interests, rental income from real estate, and income from certain derivative transactions. Interest is recognized on an accrual basis using the effective yield method and dividends are recorded at the ex-dividend date. Interest income for ABS, RMBS and CMBS is determined considering estimated pay-downs, including prepayments, obtained from third party data sources and internal estimates. Actual prepayment experience is periodically reviewed and effective yields are recalculated when differences arise between the prepayments originally anticipated and the actual prepayments received and currently anticipated. For ABS, RMBS and CMBS of high credit quality with fixed interest rates, the effective yield is recalculated on a retrospective basis. For all others, the effective yield is recalculated on a prospective basis. Accrual of income is suspended for other-than-temporarily impaired fixed income securities when the timing and amount of cash flows expected to be received is not reasonably estimable. Accrual of income is suspended for mortgage loans, bank loans and agent loans that are in default or when full and timely collection of principal and interest payments is not probable. Cash receipts on investments on nonaccrual status are generally recorded as a reduction of carrying value. 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 from investees.

Realized capital gains and losses include gains and losses on investment sales, write-downs in value due to other-than-temporary declines in fair value, adjustments to valuation allowances on mortgage loans and agent loans, valuation changes of equity investments, including equity securities and certain limited partnerships where the underlying assets are predominately public equity securities, and periodic changes in fair value and settlements of certain derivatives including hedge ineffectiveness. Realized capital gains and losses on investment sales are determined on a specific identification basis.

#### Derivative and embedded derivative financial instruments

Derivative financial instruments include interest rate swaps, credit default swaps, futures (interest rate and equity), options (including swaptions), interest rate caps, warrants and rights, foreign currency swaps, foreign currency forwards, total return swaps and certain investment risk transfer reinsurance agreements. Derivatives required to be separated from the host instrument and accounted for as derivative financial instruments ("subject to bifurcation") are embedded in equity-indexed life and annuity contracts and reinsured variable annuity contracts.

All derivatives are accounted for on a fair value basis and reported as other investments, other assets, other liabilities and accrued expenses or contractholder funds. Embedded derivative instruments subject to bifurcation are also accounted for on a fair value basis and are reported together with the host contract. The change in fair value of derivatives embedded in life and annuity product contracts and subject to bifurcation is reported in life and annuity contract benefits or interest credited to contractholder funds. Cash flows from embedded derivatives subject to bifurcation and derivatives receiving hedge accounting are reported consistently with the host contracts and hedged risks, respectively, within the Consolidated Statements of Cash Flows. Cash flows from other derivatives are reported in cash flows from investing activities within the Consolidated Statements of Cash Flows.

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 hedged item may be either all or a specific portion of a recognized asset, liability or an unrecognized firm commitment attributable to a particular risk for fair value hedges. At the inception of the hedge, the Company formally documents the hedging relationship and risk management objective and strategy. The documentation identifies the hedging instrument, the hedged item, the nature of the risk being hedged and

the methodology used to assess the effectiveness of the hedging instrument in offsetting the exposure to changes in the hedged item's fair value attributable to the hedged risk. For a cash flow hedge, this documentation includes the exposure to changes in the variability in cash flows attributable to the hedged risk. The Company does not exclude any component of the change in fair value of the hedging instrument from the effectiveness assessment. At each reporting date, the Company confirms that the hedging instrument continues to be highly effective in offsetting the hedged risk. Ineffectiveness in fair value hedges and cash flow hedges, if any, is reported in realized capital gains and losses.

**Fair value hedges** The change in fair value of hedging instruments used in fair value hedges of investment assets or a portion thereof is reported in net investment income, together with the change in fair value of the hedged items. The change in fair value of hedging instruments used in fair value hedges of contractholder funds liabilities or a portion thereof is reported in interest credited to contractholder funds, together with the change in fair value of the hedged items. Accrued periodic settlements on swaps are reported together with the changes in fair value of the related swaps in net investment income or interest credited to contractholder funds. The amortized cost for fixed income securities, the carrying value for mortgage loans or the carrying value of a designated hedged liability is adjusted for the change in fair value of the hedged risk.

**Cash flow hedges** For hedging instruments used in cash flow hedges, the changes in fair value of the derivatives representing the effective portion of the hedge are reported in AOCI. Amounts are reclassified to net investment income, realized capital gains and losses or interest expense as the hedged or forecasted transaction affects income. Accrued periodic settlements on derivatives used in cash flow hedges are reported in net investment income. The amount reported in AOCI for a hedged transaction is limited to the lesser of the cumulative gain or loss on the derivative less the amount reclassified to income, or the cumulative gain or loss on the derivative needed to offset the cumulative change in the expected future cash flows on the hedged transaction from inception of the hedge less the derivative gain or loss previously reclassified from AOCI to income. If the Company expects at any time that the loss reported in AOCI would lead to a net loss on the combination of the hedging instrument and the hedged transaction which may not be recoverable, a loss is recognized immediately in realized capital gains and losses. If an impairment loss is recognized on an asset or an additional obligation is incurred on a liability involved in a hedge transaction, any offsetting gain in AOCI is reclassified and reported together with the impairment loss or recognition of the obligation.

**Termination of hedge accounting** If, subsequent to entering into a hedge transaction, the derivative becomes ineffective (including if the hedged item is sold or otherwise extinguished, the occurrence of a hedged forecasted transaction is no longer probable or

the hedged asset becomes other-than-temporarily impaired), the Company may terminate the derivative position. The Company may also terminate derivative instruments or redesignate them as non-hedge as a result of other events or circumstances. If the derivative instrument is not terminated when a fair value hedge is no longer effective, the future gains and losses recognized on the derivative are reported in realized capital gains and losses. When a fair value hedge is no longer effective, is redesignated as non-hedge or when the derivative has been terminated, the fair value gain or loss on the hedged asset, liability or portion thereof previously recognized in income while the hedge was in place and used to adjust the amortized cost of hedged fixed income securities, carrying value of hedged mortgage loans or carrying value of a hedged liability, is amortized over the remaining life of the hedged asset, liability or portion thereof, and reflected in net investment income or interest credited to contractholder funds beginning in the period that hedge accounting is no longer applied. If the hedged item in a fair value hedge is an asset that has become other-than-temporarily impaired, the adjustment made to the amortized cost for fixed income securities or the carrying value for mortgage loans is subject to the accounting policies applied to other-than-temporarily impaired assets.

When a derivative instrument used in a cash flow hedge of an existing asset or liability is no longer effective or is terminated, the gain or loss recognized on the derivative is reclassified from AOCI to income as the hedged risk impacts income. If the derivative instrument is not terminated when a cash flow hedge is no longer effective, future gains and losses recognized on the derivative are reported in realized capital gains and losses. When a derivative instrument used in a cash flow hedge of a forecasted transaction is terminated because it is probable the forecasted transaction will not occur, the gain or loss recognized on the derivative is immediately reclassified from AOCI to realized capital gains and losses in the period that hedge accounting is no longer applied.

**Non-hedge derivative financial instruments** For derivatives for which hedge accounting is not applied, the income statement effects, including fair value gains and losses and accrued periodic settlements, are reported either in realized capital gains and losses or in a single line item together with the results of the associated asset or liability for which risks are being managed.

#### Securities loaned

The Company's business activities include securities lending transactions, which are used primarily to generate net investment income. The proceeds received in conjunction with securities lending transactions are reinvested in short-term investments or fixed income securities. These transactions are short-term in nature, usually 30 days or less.

The Company receives cash collateral for securities loaned in an amount generally equal to 102% and 105% of the fair value of domestic and foreign securities,

respectively, and records the related obligations to return the collateral in other liabilities and accrued expenses. The carrying value of these obligations approximates fair value because of their relatively short-term nature. The Company monitors the market value of securities loaned on a daily basis and obtains additional collateral as necessary under the terms of the agreements to mitigate counterparty credit risk. The Company maintains the right and ability to repossess the securities loaned on short notice.

#### **Recognition of premium revenues and contract charges, and related benefits and interest credited**

Property and casualty insurance premiums include premiums from personal lines policies, protection plans, other contracts (primarily finance and insurance products) and roadside assistance.

Personal lines insurance premiums are deferred and earned on a pro-rata basis over the terms of the policies, typically periods of six or twelve months.

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 over the term of the contracts, which is generally over one to five years. Roadside assistance premiums are recognized evenly over the term of the contract as performance obligations are fulfilled.

The portion of premiums written applicable to the unexpired terms of the policies is recorded as unearned premiums. Premium installment receivables, net, represent premiums written and not yet collected, net of an allowance for uncollectible premiums. The Company regularly evaluates premium installment receivables and adjusts its valuation allowance as appropriate. The valuation allowance for uncollectible premium installment receivables was \$77 million as of both December 31, 2018 and 2017.

Traditional life insurance products consist principally of products with fixed and guaranteed premiums and benefits, primarily term and whole life insurance products. Voluntary accident and health insurance products are expected to remain in force for an extended period and therefore are primarily classified as long-duration contracts. Premiums from these products are recognized as revenue when due from policyholders. Benefits are reflected in contract benefits and recognized over the life of the policy in relation to premiums.

Immediate annuities with life contingencies, including certain structured settlement annuities, provide benefits over a period that extends beyond the period during which premiums are collected. Premiums from these products are recognized as revenue when received at the inception of the contract. Benefits and expenses are recognized in relation to

premiums. Profits from these policies come primarily from investment income, which is recognized over the life of the contract.

Interest-sensitive life contracts, such as universal life and single premium life, are insurance contracts whose terms are not fixed and guaranteed. The terms that may be changed include premiums paid by the contractholder, interest credited to the contractholder account balance and contract charges assessed against the contractholder account balance. Premiums from these contracts are reported as contractholder fund deposits. Contract charges consist of fees assessed against the contractholder account balance for the cost of insurance (mortality risk), contract administration and surrender of the contract prior to contractually specified dates. These contract charges are recognized as revenue when assessed against the contractholder account balance. Contract benefits include life-contingent benefit payments in excess of the contractholder account balance.

Contracts that do not subject the Company to significant risk arising from mortality or morbidity are referred to as investment contracts. Fixed annuities, including market value adjusted annuities, equity-indexed annuities and immediate annuities without life contingencies, are considered investment contracts. Consideration received for such contracts is reported as contractholder fund deposits. Contract charges for investment contracts consist of fees assessed against the contractholder account balance for maintenance, administration and surrender of the contract prior to contractually specified dates, and are recognized when assessed against the contractholder account balance.

Interest credited to contractholder funds represents interest accrued or paid on interest-sensitive life and investment contracts. Crediting rates for certain fixed annuities and interest-sensitive life contracts are adjusted periodically by the Company to reflect current market conditions subject to contractually guaranteed minimum rates. Crediting rates for indexed life and annuities and indexed funding agreements are generally based on a specified interest rate index or an equity index, such as the Standard & Poor's 500 Index ("S&P 500"). Interest credited also includes amortization of DSI expenses. DSI is amortized into interest credited using the same method used to amortize DAC.

Contract charges for variable life and variable annuity products consist of fees assessed against the contractholder account balances for contract maintenance, administration, mortality, expense and surrender of the contract prior to contractually specified dates. Contract benefits incurred for variable annuity products include guaranteed minimum death, income, withdrawal and accumulation benefits. Substantially all of the Company's variable annuity business is ceded through reinsurance agreements and the contract charges and contract benefits related thereto are reported net of reinsurance ceded.

#### **Other revenue presentation**

Concurrent with the adoption of Financial Accounting Standards Board ("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 represented 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.

#### Deferred policy acquisition and sales inducement costs

Costs that are related directly to the successful acquisition of new or renewal insurance policies and investment contracts are deferred and recorded as DAC. These costs are principally agency's and brokers' remuneration, premium taxes and certain underwriting expenses. DSI costs, which are deferred and recorded as other assets, relate to sales inducements offered on sales to new customers, principally on fixed annuity and interest-sensitive life contracts. These sales inducements are primarily in the form of additional credits to the customer's account balance or enhancements to interest credited for a specified period which are in excess of the rates currently being credited to similar contracts without sales inducements. DSI is amortized into income using the same methodology and assumptions as DAC and is included in interest credited to contractholder funds. All other acquisition costs are expensed as incurred and included in operating costs and expenses.

For property and casualty insurance, DAC is amortized into income as premiums are earned, typically over periods of six or twelve months for personal lines policies or generally one to five years for protection plans and other contracts (primarily related to finance and insurance products), and is included in amortization of deferred policy acquisition costs. DAC associated with property and casualty insurance is periodically reviewed for recoverability and adjusted if necessary. Future investment income is considered in determining the recoverability of DAC.

For traditional life and voluntary accident and health insurance, DAC is amortized over the premium paying period of the related policies in proportion to the estimated revenues on such business. Assumptions used in the amortization of DAC and reserve calculations are established at the time the policy is issued and are generally not revised during the life of the policy. Any deviations from projected business in force resulting from actual policy terminations differing from expected levels and any estimated premium deficiencies may result in a change to the rate of amortization in the period such events occur. Generally, the amortization periods for these policies approximates the estimated lives of the policies. The Company periodically reviews the recoverability of DAC for these policies using actual experience and current assumptions. Prior to fourth

quarter 2017, the Company evaluated traditional life insurance products and immediate annuities with life contingencies on an aggregate basis. In conjunction with the segment changes that occurred in the fourth quarter of 2017, traditional life insurance products, immediate annuities with life contingencies, and voluntary accident and health insurance products are reviewed individually. If actual experience and current assumptions are adverse compared to the original assumptions and a premium deficiency is determined to exist, any remaining unamortized DAC balance would be expensed to the extent not recoverable and the establishment of a premium deficiency reserve may be required.

For interest-sensitive life insurance, DAC and DSI are amortized in proportion to the incidence of the total present value of gross profits, which includes both actual historical gross profits ("AGP") and estimated future gross profits ("EGP") expected to be earned over the estimated lives of the contracts. The amortization is net of interest on the prior period DAC balance using rates established at the inception of the contracts. Actual amortization periods generally range from 15-30 years; however, incorporating estimates of the rate of customer surrenders, partial withdrawals and deaths generally results in the majority of the DAC being amortized during the surrender charge period, which is typically 10-20 years for interest-sensitive life. The rate of DAC and DSI amortization is reestimated and adjusted by a cumulative charge or credit to income when there is a difference between the incidence of actual versus expected gross profits in a reporting period or when there is a change in total EGP. When DAC or DSI amortization or a component of gross profits for a quarterly period is potentially negative (which would result in an increase of the DAC or DSI balance) as a result of negative AGP, the specific facts and circumstances surrounding the potential negative amortization are considered to determine whether it is appropriate for recognition in the consolidated financial statements. Negative amortization is only recorded when the increased DAC or DSI balance is determined to be recoverable based on facts and circumstances. Recapitalization of DAC and DSI is limited to the originally deferred costs plus interest.

AGP and EGP primarily consist of the following components: contract charges for the cost of insurance less mortality costs and other benefits; investment income and realized capital gains and losses less interest credited; and surrender and other contract charges less maintenance expenses. The principal assumptions for determining the amount of EGP are mortality, persistency, expenses, investment returns, including capital gains and losses on assets supporting contract liabilities, interest crediting rates to contractholders, and the effects of any hedges. For products whose supporting investments are exposed to capital losses in excess of the Company's expectations which may cause periodic AGP to become temporarily negative, EGP and AGP utilized in DAC and DSI amortization may be modified to exclude the excess capital losses.

The Company performs quarterly reviews of DAC and DSI recoverability for interest-sensitive life and fixed annuity contracts using current assumptions. If a change in the amount of EGP is significant, it could result in the unamortized DAC or DSI not being recoverable, resulting in a charge which is included as a component of amortization of deferred policy acquisition costs or interest credited to contractholder funds, respectively.

The DAC and DSI balances presented include adjustments to reflect the amount by which the amortization of DAC and DSI would increase or decrease if the unrealized capital gains or losses in the respective product investment portfolios were actually realized. The adjustments are recorded net of tax in AOCI. DAC, DSI and deferred income taxes determined on unrealized capital gains and losses and reported in AOCI recognize the impact on shareholders' equity consistently with the amounts that would be recognized in the income statement on realized capital gains and losses.

Customers of the Company may exchange one insurance policy or investment contract for another offered by the Company, or make modifications to an existing investment, life or property and casualty contract issued by the Company. These transactions are identified as internal replacements for accounting purposes. Internal replacement transactions determined to result in replacement contracts that are substantially unchanged from the replaced contracts are accounted for as continuations of the replaced contracts. Unamortized DAC and DSI related to the replaced contracts continue to be deferred and amortized in connection with the replacement contracts. For interest-sensitive life and investment contracts, the EGP of the replacement contracts are treated as a revision to the EGP of the replaced contracts in the determination of amortization of DAC and DSI. For traditional life and property and casualty insurance policies, any changes to unamortized DAC that result from replacement contracts are treated as prospective revisions. Any costs associated with the issuance of replacement contracts are characterized as maintenance costs and expensed as incurred. Internal replacement transactions determined to result in a substantial change to the replaced contracts are accounted for as an extinguishment of the replaced contracts, and any unamortized DAC and DSI related to the replaced contracts are eliminated with a corresponding charge to amortization of deferred policy acquisition costs or interest credited to contractholder funds, respectively.

The costs assigned to the right to receive future cash flows from certain business purchased from other insurers are also classified as DAC in the Consolidated Statements of Financial Position. The costs capitalized represent the present value of future profits expected to be earned over the lives of the contracts acquired. These costs are amortized as profits emerge over the lives of the acquired business and are periodically evaluated for recoverability. The present value of future profits was \$45 million and \$47 million as of December 31, 2018 and 2017, respectively.

Amortization expense of the present value of future profits was \$2 million, \$6 million and \$5 million in 2018, 2017 and 2016, respectively.

### Reinsurance and Indemnification

**Reinsurance** In the normal course of business, the Company seeks to limit aggregate and single exposure to losses on large risks by purchasing reinsurance. The Company has also used reinsurance to effect the disposition of certain blocks of business. Reinsurance does not extinguish the Company's primary liability under the policies written. Therefore, the Company regularly evaluates the financial condition of its reinsurers, including their activities with respect to claim settlement practices and commutations, and establishes allowances for uncollectible reinsurance as appropriate.

**Indemnification** The Company also participates in various indemnification mechanisms, including industry pools and facilities, which are backed by the financial resources of the property and casualty insurance company market participants. Indemnification recoverables are considered collectible based on the industry pool and facility enabling legislation.

The amounts reported as reinsurance and indemnification recoverables include amounts billed to reinsurers and indemnitors on losses paid as well as estimates of amounts expected to be recovered from reinsurers and indemnitors on insurance liabilities and contractholder funds that have not yet been paid. Reinsurance and indemnification recoverables on unpaid losses are estimated based upon assumptions consistent with those used in establishing the liabilities related to the underlying contracts. Insurance liabilities are reported gross of reinsurance and indemnification recoverables. Reinsurance and indemnification premiums are generally reflected in income in a manner consistent with the recognition of premiums on the associated contracts. For catastrophe coverage, the cost of reinsurance premiums is recognized ratably over the contract period to the extent coverage remains available.

### Goodwill

Goodwill represents the excess of amounts paid for acquiring businesses over the fair value of the net assets acquired, less any impairment of goodwill recognized. The Company's goodwill reporting units are equivalent to its reportable segments, Allstate Protection, Service Businesses, Allstate Life and Allstate Benefits to which goodwill has been assigned.

#### Goodwill by reporting unit

| (\$ in millions)    | As of December 31, |                 |
|---------------------|--------------------|-----------------|
|                     | 2018               | 2017            |
| Allstate Protection | \$ 810             | \$ 810          |
| Service Businesses  | 1,449              | 1,100           |
| Allstate Life       | 175                | 175             |
| Allstate Benefits   | 96                 | 96              |
| <b>Total</b>        | <b>\$ 2,530</b>    | <b>\$ 2,181</b> |

Goodwill is recognized when acquired and allocated to reporting units based on which unit is expected to benefit from the synergies of the business combination. Goodwill is not amortized but is tested for impairment at least annually. The Company performs its annual goodwill impairment testing during the fourth quarter of each year based upon data as of the close of the third quarter. Goodwill impairment is 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 Company also reviews goodwill for impairment whenever events or changes in circumstances, such as deteriorating or adverse market conditions, indicate that it is more likely than not that the carrying amount of goodwill may exceed its implied fair value. The goodwill impairment analysis is performed at the reporting unit level.

In fourth quarter 2017, the Company adopted new reportable segments, which required the Company to evaluate goodwill, including the allocation of goodwill to any new reporting units on a relative fair value basis. The reallocation was computed using fair values for the goodwill reporting units determined using discounted cash flow ("DCF") calculations and market to book multiples derived from a peer company analysis as described below. In conjunction with the reallocation of goodwill, the Company recognized \$125 million of goodwill impairment related to the goodwill allocated to the Allstate Annuities reporting unit reflecting a market-based valuation. The fair value of the Company's reporting units exceeded their carrying values.

Upon acquisition, the purchase price of the acquired business is assumed to be its fair value. Subsequently, the Company estimates the fair value of the businesses in each goodwill reporting unit, utilizing a combination of widely accepted valuation techniques including a stock price and market capitalization analysis, DCF calculations and an estimate of a business's fair value using market to book multiples derived from peer company analysis. The stock price and market capitalization analysis takes into consideration the quoted market price of the Company's outstanding common stock and includes a control premium, derived from relevant historical acquisition activity, in determining the estimated fair value of the consolidated entity before allocating that fair value to individual reporting units. The DCF analysis utilizes long term assumptions for revenues, investment income, benefits, claims, other operating expenses and income taxes to produce projections of both income and cash flows available for dividends that are present valued using weighted average cost of capital. Market to book multiples represent the mean market to book multiple for selected peer companies with operations similar to the Company's goodwill reporting units to which the multiple is applied. The outputs from these methods are weighted based on the nature of the business and the relative amount of market observable assumptions supporting the estimates. The computed values are then weighted to

reflect the fair value estimate based on the specific attributes of each goodwill reporting unit.

Estimating the fair value of reporting units is a subjective process that involves the use of significant estimates by management. Changes in market inputs or other events impacting the fair value of these businesses, including discount rates, operating results, investment returns, strategies and growth rate assumptions or increases in the level of equity required to support these businesses, could result in goodwill impairments, resulting in a charge to income. Most of the goodwill reporting units are comprised of a combination of legacy and acquired businesses and as a result have substantial internally generated and unrecognized intangibles and fair values that significantly exceed their carrying values. The Service Businesses goodwill reporting unit is more heavily comprised of newly acquired businesses and as a result does not have a significant excess of fair value over its carrying value. Therefore, this reporting unit may be more susceptible to goodwill impairment based on changes to growth or margin assumptions.

The most significant assumptions utilized in the determination of the estimated fair value of the Service Businesses reporting unit are the earnings growth rate and discount rate. The growth rate utilized by the Company for fair value estimates is consistent with plans to grow these businesses rapidly over the near-term with more moderated growth rates in later years.

The discount rate, which is consistent with the weighted average cost of capital expected by a market participant, is based upon industry specific required rates of return, including consideration of both debt and equity components of the capital structure. The discount rate may be impacted by changes in the risk free rate, cost of debt, equity risk premium and entity specific risks.

Changes in the Company's growth assumptions, including the risk of loss of key customers, or adverse changes in the discount rates could result in a decline in fair value and result in a goodwill impairment charge.

#### Intangible assets

Intangible assets (reported in other assets) consist of capitalized costs primarily related to acquired customer relationships, trade names and licenses, technology and other assets. The estimated useful lives of customer relationships, technology and other intangible assets are generally 10 years, 5 years and 7 years, respectively. Intangible assets are carried at cost less accumulated amortization. Amortization expense is calculated using an accelerated amortization method. Amortization expense on intangible assets was \$105 million, \$99 million and \$32 million in 2018, 2017 and 2016, respectively. Accumulated amortization on intangible assets was \$572 million and \$467 million as of December 31, 2018 and 2017, respectively. Trade names and licenses are considered to have an indefinite useful life and are reviewed for impairment at least annually or more frequent if circumstances arise that indicate an impairment may have occurred. An impairment is



recognized if the carrying amount of the asset exceeds its estimated fair value.

### Intangible assets by type

| (\$ in millions)         | As of December 31, |               |
|--------------------------|--------------------|---------------|
|                          | 2018               | 2017          |
| Customers relationships  | \$ 530             | \$ 396        |
| Trade names and licenses | 143                | 143           |
| Technology and other     | 40                 | 17            |
| <b>Total</b>             | <b>\$ 713</b>      | <b>\$ 556</b> |

### Property and equipment

Property and equipment is carried at cost less accumulated depreciation. Included in property and equipment are capitalized costs related to computer software licenses and software developed for internal use. These costs generally consist of certain external payroll and payroll related costs. Property and equipment depreciation is calculated using the straight-line method over the estimated useful lives of the assets, generally 3 to 10 years for equipment and 40 years for real property. Depreciation expense is reported in operating costs and expenses. Accumulated depreciation on property and equipment was \$2.41 billion and \$2.27 billion as of December 31, 2018 and 2017, respectively. Depreciation expense on property and equipment was \$299 million, \$290 million and \$267 million in 2018, 2017 and 2016, respectively. The Company reviews its property and equipment for impairment at least annually and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

### Income taxes

Income taxes are accounted for using the asset and liability method under which deferred tax assets and liabilities are recognized for temporary differences between the financial reporting and tax bases of assets and liabilities at the enacted tax rates. The principal assets and liabilities giving rise to such differences are DAC, unearned premiums, investments (including unrealized capital gains and losses) and insurance reserves. A deferred tax asset valuation allowance is established when it is more likely than not such assets will not be realized. The Company recognizes interest expense related to income tax matters in income tax expense and penalties in other expense.

### Reserve for property and casualty insurance claims and claims expense

The reserve for property and casualty insurance claims and claims expense is the estimate of amounts necessary to settle all reported and unreported incurred claims for the ultimate cost of insured property and casualty losses, based upon the facts of each case and the Company's experience with similar cases. Estimated amounts of salvage and subrogation are deducted from the reserve for claims and claims expense. The establishment of appropriate reserves, including reserves for catastrophe losses, is an inherently uncertain and complex process. Reserve estimates are primarily derived using an actuarial estimation process in which historical loss patterns are applied to actual paid losses and reported losses (paid

losses plus individual case reserves established by claim adjusters) for an accident or report year to create an estimate of how losses are likely to develop over time. Development factors are calculated quarterly and periodically throughout the year for data elements such as claims reported and settled, paid losses, and paid losses combined with case reserves. The historical development patterns for these data elements are used as the assumptions to calculate reserve estimates, including the reserves for reported and unreported claims. Reserve estimates are regularly reviewed and updated, using the most current information available. Any resulting reestimates are reflected in current results of operations.

### Reserve for life-contingent contract benefits

The reserve for life-contingent contract benefits payable under insurance policies, including traditional life insurance, life-contingent immediate annuities and voluntary accident and health insurance products, is computed on the basis of long-term actuarial assumptions of future investment yields, mortality, morbidity, policy terminations and expenses. These assumptions, which for traditional life insurance are applied using the net level premium method, include provisions for adverse deviation and generally vary by characteristics such as type of coverage, year of issue and policy duration. The assumptions are established at the time the policy is issued and are generally not changed during the life of the policy. The Company periodically reviews the adequacy of reserves for these policies using actual experience and current assumptions. If actual experience and current assumptions are adverse compared to the original assumptions and a premium deficiency is determined to exist, any remaining unamortized DAC balance would be expensed to the extent not recoverable and the establishment of a premium deficiency reserve may be required. Prior to fourth quarter 2017, the Company evaluated traditional life insurance products and immediate annuities with life contingencies on an aggregate basis. In conjunction with the Company's segment changes that occurred in the fourth quarter of 2017, traditional life insurance products, immediate annuities with life contingencies, and voluntary accident and health insurance are reviewed individually. The Company also reviews these policies for circumstances where projected profits would be recognized in early years followed by projected losses in later years. If this circumstance exists, the Company will accrue a liability, during the period of profits, to offset the losses at such time as the future losses are expected to commence using a method updated prospectively over time. To the extent that unrealized gains on fixed income securities would result in a premium deficiency if those gains were realized, the related increase in reserves for certain immediate annuities with life contingencies is recorded net of tax as a reduction of unrealized net capital gains included in AOCI.

### Contractholder funds

Contractholder funds represent interest-bearing liabilities arising from the sale of products such as

interest-sensitive life insurance, fixed annuities and funding agreements. Contractholder funds primarily comprise cumulative deposits received and interest credited to the contractholder less cumulative contract benefits, surrenders, withdrawals, maturities and contract charges for mortality or administrative expenses. Contractholder funds also include reserves for secondary guarantees on interest-sensitive life insurance and certain fixed annuity contracts and reserves for certain guarantees on reinsured variable annuity contracts.

#### Separate accounts

Separate accounts assets are carried at fair value. The assets of the separate accounts are legally segregated and available only to settle separate accounts contract obligations. Separate accounts liabilities represent the contractholders' claims to the related assets and are carried at an amount equal to the separate accounts assets. Investment income and realized capital gains and losses of the separate accounts accrue directly to the contractholders and therefore are not included in the Company's Consolidated Statements of Operations. Deposits to and surrenders and withdrawals from the separate accounts are reflected in separate accounts liabilities and are not included in consolidated cash flows.

Absent any contract provision wherein the Company provides a guarantee, variable annuity and variable life insurance contractholders bear the investment risk that the separate accounts' funds may not meet their stated investment objectives. Substantially all of the Company's variable annuity business was reinsured beginning in 2006.

#### Legal contingencies

The Company reviews its lawsuits, regulatory inquiries, and other legal proceedings on an ongoing basis. 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'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.

#### Long-term debt

Long-term debt includes senior notes, senior debentures, subordinated debentures and junior subordinated debentures issued by the Corporation. Unamortized debt issuance costs are reported in long-term debt and are amortized over the expected period the debt will remain outstanding.

#### Deferred ESOP expense

Deferred ESOP expense represents the remaining unrecognized cost of shares acquired by the Allstate ESOP to pre-fund a portion of the Company's contribution to the Allstate 401(k) Savings Plan.

#### Equity incentive plans

The Company has equity incentive plans under which the Company grants nonqualified stock options, restricted stock units and performance stock awards ("equity awards") to certain employees and directors of the Company. The Company measures the fair value of equity awards at the award date and recognizes the expense over the shorter of the period in which the requisite service is rendered or retirement eligibility is attained. The expense for performance stock awards is adjusted each period to reflect the performance factor most likely to be achieved at the end of the performance period. The Company uses a binomial lattice model to determine the fair value of employee stock options.

#### Off-balance sheet financial instruments

Commitments to invest, commitments to purchase private placement securities, commitments to extend loans, financial guarantees and credit guarantees have off-balance sheet risk because their contractual amounts are not recorded in the Company's Consolidated Statements of Financial Position (see Notes 7 and 14).

#### Consolidation of variable interest entities ("VIEs")

The Company consolidates VIEs when it is the primary beneficiary. A primary beneficiary is the variable interest holder in a VIE with both the power to direct the activities of the VIE that most significantly impact the economic performance of the VIE and the obligation to absorb losses, or the right to receive benefits, that could potentially be significant to the VIE.

#### Foreign currency translation

The local currency of the Company's foreign subsidiaries is deemed to be the functional currency of the country in which these subsidiaries operate. The financial statements of the Company's foreign subsidiaries are translated into U.S. dollars at the exchange rate in effect at the end of a reporting period for assets and liabilities and at average exchange rates during the period for results of operations.

The unrealized gains and losses from the translation of the net assets are recorded as unrealized foreign currency translation adjustments and included in AOCI. Changes in unrealized foreign currency translation adjustments are included in OCI. Gains and losses from foreign currency transactions are reported in operating costs and expenses and have not been material.

## 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)   | For the years ended December 31, |                 |                 |
|---|----------------------------------|-----------------|-----------------|
|   | 2018                             | 2017            | 2016            |
| Numerator:  |                                  |                 |                 |
| Net income  | \$ 2,252                         | \$ 3,189        | \$ 1,877        |
| Less: Preferred stock dividends   | 148                              | 116             | 116             |
| <b>Net income applicable to common shareholders <sup>(1)</sup></b>              | <b>\$ 2,104</b>                  | <b>\$ 3,073</b> | <b>\$ 1,761</b> |
| Denominator:  |                                  |                 |                 |
| Weighted average common shares outstanding                                      | 347.8                            | 362.0           | 372.8           |
| Effect of dilutive potential common shares:                                     |                                  |                 |                 |
| Stock options   | 3.6                              | 4.3             | 3.2             |
| Restricted stock units (non-participating) and performance stock awards         | 1.8                              | 1.5             | 1.3             |
| <b>Weighted average common and dilutive potential common shares outstanding</b> | <b>353.2</b>                     | <b>367.8</b>    | <b>377.3</b>    |
| Earnings per common share – Basic   | \$ 6.05                          | \$ 8.49         | \$ 4.72         |
| Earnings per common share – Diluted   | \$ 5.96                          | \$ 8.36         | \$ 4.67         |

(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. Outstanding options to purchase 2.0 million, 1.5 million and 3.8 million Allstate common shares in 2018, 2017 and 2016, respectively, were anti-dilutive and were not included in the computation of diluted earnings per common share under the treasury stock method.

### Adopted accounting standards

#### Recognition and Measurement of Financial Assets and Financial Liabilities

Effective January 1, 2018, the Company adopted new 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 and amortized 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 Consolidated 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 prior to January 1, 2018 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.

#### *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 with a term 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 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

executed prior to January 1, 2019 are approximately \$20 million, after-tax, and will be recorded as an increase to retained income at adoption.

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 are designed to 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.

#### *Changes to the Disclosure Requirements for Deferred Benefit Plans*

In August 2018, the FASB issued amendments to modify certain disclosure requirements for defined benefit plans. Disclosure additions relate to the weighted-average interest crediting rates for cash balance plans and other plans with interest crediting rates and explanations for significant gains and losses related to changes in the benefit obligation for the period. Disclosures to be removed include those that identify amounts that are expected to be reclassified out of AOCI and into the income statement in the coming year and the anticipated impact of a one-percentage point change in assumed health care cost trend rate on service and interest cost and on the accumulated benefit obligation. The amendments are effective for annual reporting periods beginning after December 15, 2020. The impacts of adoption are to the Company's disclosures only.

#### *Accounting for Long-Duration Insurance Contracts*

In August 2018, the FASB issued guidance revising the accounting for certain long-duration insurance contracts. The new guidance changes the measurement of the Company's reserves for traditional life, life-contingent immediate annuities and certain voluntary accident and health insurance products. Under the new guidance, measurement assumptions, including those for mortality, morbidity and policy terminations, will be required to be reviewed and updated at least annually. The effect of updating measurement assumptions other than the discount rate are required to be determined on a retrospective basis and reported in net income. In addition, cash flows under the new guidance are required to be discounted using an upper medium grade fixed income instrument yield that is updated through OCI at each reporting date. These changes will replace current GAAP, which utilizes assumptions set at policy issuance until such time as the assumptions result in reserves that are deficient when compared to reserves computed using current assumptions. Under current GAAP, premium deficiency reserves are recognized in the amount of the deficiency, if any, computed using current assumptions.

The new guidance requires DAC and other capitalized balances currently amortized in proportion to premiums or gross profits to be amortized on a constant level basis over the expected term for all long-duration insurance contracts. DAC will not be subject to loss recognition testing but will be reduced when actual experience exceeds expected experience (i.e. as a result of unexpected contract terminations). The new guidance will no longer require adjustments to DAC and deferred sales inducement costs ("DSI") related to unrealized gains and losses on investment securities supporting the related business.

Market risk benefit product features are required to be measured at fair value with changes in fair value recorded in net income with the exception of changes in the fair value attributable to changes in the Company's own credit risk, which are required to be recognized in OCI. Substantially all of the Company's market risk benefits are reinsured and therefore these impacts are not expected to be material to the Company.

The new guidance is to be included in the comparable financial statements issued in reporting periods beginning after December 15, 2020, thereby requiring restatement of prior periods presented. Early adoption is permitted. The new guidance will be applied to affected contracts and DAC on the basis of existing carrying amounts at the earliest period presented or it may be applied retrospectively using actual historical experience as of contract inception. The new guidance for market risk benefits is required to be adopted retrospectively.

The Company is evaluating the anticipated impacts of applying the new guidance to both retained income and AOCI. While the requirements of the new guidance represent a material change from existing GAAP, the underlying economics of the business and related cash flows are unchanged. The Company has not completed its evaluation of the specific impacts of adopting the new guidance, but anticipates the financial statement impact of migrating from existing GAAP to that required by the new guidance to be material, largely attributed to the impact of transitioning from an original investment-based discount rate to one based on an upper-medium grade fixed income investment yield and updates to mortality assumptions that had previously been locked in at issuance. The Company expects the most significant impacts will occur in the run-off annuity segment. The revised accounting for DAC will be applied prospectively using the new model and any DAC effects existing in AOCI as a result of applying existing GAAP at the date of adoption will be reversed.

### Note 3 Acquisitions

**InfoArmor** On October 5, 2018, the Company acquired InfoArmor, Inc. ("InfoArmor"), a leading provider of identity protection in the employee benefits market, for \$525 million in cash. InfoArmor primarily offers identity protection to employees and their family members through voluntary benefit programs at over 1,400 firms, including more than 100 of the Fortune 500 companies. Starting in the fourth quarter of 2018, the Service Businesses segment includes the results of InfoArmor.

In connection with the InfoArmor acquisition, the Company recorded goodwill of \$318 million and intangible assets of \$257 million. The intangible assets include \$225 million and \$32 million related to the acquired customer relationships and technology, respectively.

**PlumChoice** On November 30, 2018, the Company acquired PlumChoice, Inc. ("PlumChoice") for \$30 million in cash to provide technical support services to SquareTrade's customers and small businesses. In conjunction with the PlumChoice acquisition, the Company recorded goodwill of \$23 million.

**SquareTrade** 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 \$1.40 billion in cash. SquareTrade provides protection plans covering a variety of consumer products including TVs, smartphones and computers. This acquisition broadened Allstate's unique product offerings to better meet consumers' needs.

In connection with the SquareTrade acquisition, the Company recorded goodwill of \$1.10 billion, commissions paid to retailers (reported in deferred

policy acquisition costs) of \$66 million, 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 intangible assets, \$465 million was attributable to acquired customer relationships. Intangible assets also included \$69 million assigned to the SquareTrade trade name which is considered to have an indefinite useful life. The amortization expense of intangible assets in 2018 and 2017 were \$94 million and \$92 million, respectively.

#### Amortization expense of intangible assets for the next five years and thereafter

| (\$ in millions)          | InfoArmor     | SquareTrade   |
|---------------------------|---------------|---------------|
| 2019                      | \$ 50         | \$ 72         |
| 2020                      | 44            | 62            |
| 2021                      | 38            | 52            |
| 2022                      | 31            | 42            |
| 2023                      | 25            | 34            |
| Thereafter                | 56            | 50            |
| <b>Total amortization</b> | <b>\$ 244</b> | <b>\$ 312</b> |

**Customer relationship valuation methodology** The value of the customer relationships intangible asset was determined using an income approach that considered cash flows and profits expected to be generated by the acquired relationships, a discount rate reflecting the relative risk of achieving the anticipated cash flows and profits, the time value of money, and other factors.

### Note 4 Reportable Segments

The Company's chief operating decision maker reviews financial performance and makes decisions about the allocation of resources based on the following seven reportable segments: Allstate Protection, Discontinued Lines and Coverages, Service Businesses, Allstate Life, Allstate Benefits, Allstate Annuities, and Corporate and Other. These segments are described below and align with the Company's key product and service offerings.

**Allstate Protection** principally offers private passenger auto and homeowners insurance in the United States and Canada, with earned premiums accounting for 83% of Allstate's 2018 consolidated revenues. Allstate Protection is authorized to sell certain property and casualty products in all 50 states, the District of Columbia ("D.C."), Puerto Rico and Canada. For 2018, the top U.S. geographic locations for premiums earned by the Allstate Protection segment were Texas, California, New York and Florida. No other jurisdiction accounted for more than 5% of premium earned for Allstate Protection. Revenues from external customers generated outside the United

States were \$1.20 billion, \$1.13 billion and \$1.08 billion in 2018, 2017 and 2016, respectively.

**Discontinued Lines and Coverages** includes property and casualty insurance coverage that primarily relates to policies written during the 1960s through the mid-1980s. Our exposure to asbestos, environmental and other discontinued lines claims arises principally from direct excess commercial insurance, assumed reinsurance coverage, direct primary commercial insurance and other businesses in run-off.

**Service Businesses** comprise SquareTrade, Arity, InfoArmor, Allstate Roadside Services and Allstate Dealer Services and offer consumer product protection plans, device and mobile data collection services and analytic solutions, identity protection, roadside assistance, and finance and insurance products (including vehicle service contracts, guaranteed asset protection waivers, road hazard tire and wheel and paintless dent repair protection). The Service Businesses primarily operate in the U.S., with certain

businesses offering services in Europe, Canada and Puerto Rico. Revenues from external customers generated outside the United States relate to consumer product protection plans sold primarily in the European Union and were \$61 million and \$35 million in 2018 and 2017, respectively.

*Allstate Life* offers traditional, interest-sensitive and variable life insurance products. Allstate Life is authorized to sell life insurance products in all 50 states, D.C. and Puerto Rico. For 2018, the top geographic locations for statutory direct life insurance premiums were New York, California, Texas, Florida and Illinois. No other jurisdiction accounted for more than 5% of statutory direct life insurance premiums.

*Allstate Benefits* offers voluntary benefits products, including life, accident, critical illness, short-term disability and other health products. Allstate Benefits is authorized to sell its products in all 50 states, D.C., Puerto Rico, the U.S. Virgin Islands, Guam and Canada. For 2018, the top geographic locations for statutory direct accident and health insurance premiums were Florida, Texas, North Carolina and New York. No other jurisdiction accounted for more than 5% of statutory direct accident and health insurance premiums. Revenues from external customers generated outside the United States relate to voluntary accident and health insurance sold in Canada and were not material.

*Allstate Annuities* consists primarily of deferred fixed annuities and immediate annuities (including standard and sub-standard structured settlements). This segment is in run-off. The Company also previously offered institutional products consisting of funding agreements sold to unaffiliated trusts that used them to back medium-term notes. There were no institutional products outstanding as of December 31, 2018 or 2017.

*Corporate and Other* comprises holding company activities and certain non-insurance operations, including expenses associated with strategic initiatives.

Allstate Protection and Discontinued Lines and Coverages segments comprise Property-Liability. The Company does not allocate 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, Service Businesses, Allstate Life, Allstate Benefits, Allstate Annuities, and Corporate and Other levels for decision-making purposes.

The accounting policies of the reportable segments are the same as those described in Note 2. The effects of intersegment transactions are eliminated in the segment results, except for services provided by Service Businesses to Allstate Protection that are not eliminated as management considers those transactions in assessing the results of the respective segments.

#### 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. A reconciliation of these measures to net income applicable to common shareholders is provided below.

*Underwriting income* is calculated as premiums earned and other revenue, less claims and claims expenses ("losses"), amortization of DAC, operating costs and expenses, and restructuring and related charges as determined using GAAP.

*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 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

## Reportable segments revenue information

|   | For the years ended December 31, |                  |                  |
|---|----------------------------------|------------------|------------------|
| (\$ in millions)                                      | 2018                             | 2017             | 2016             |
| <b>Property-Liability</b>                             |                                  |                  |                  |
| Insurance premiums                                    |                                  |                  |                  |
| Auto  | \$ 22,970                        | \$ 21,878        | \$ 21,264        |
| Homeowners  | 7,517                            | 7,310            | 7,257            |
| Other personal lines                                  | 1,808                            | 1,750            | 1,700            |
| Commercial lines                                      | 655                              | 495              | 506              |
| Allstate Protection                                   | 32,950                           | 31,433           | 30,727           |
| Discontinued Lines and Coverages                      | —                                | —                | —                |
| Total Property-Liability insurance premiums           | 32,950                           | 31,433           | 30,727           |
| Other revenue   | 738                              | 703              | 688              |
| Net investment income                                 | 1,464                            | 1,478            | 1,253            |
| Realized capital gains and losses                     | (639)                            | 401              | (6)              |
| <b>Total Property-Liability</b>                       | <b>34,513</b>                    | <b>34,015</b>    | <b>32,662</b>    |
| <b>Service Businesses</b>                             |                                  |                  |                  |
| Consumer product protection plans                     | 503                              | 295              | —                |
| Roadside assistance                                   | 263                              | 268              | 310              |
| Finance and insurance products                        | 332                              | 304              | 270              |
| Intersegment premiums and service fees <sup>(1)</sup> | 122                              | 110              | 105              |
| Other revenue   | 82                               | 66               | 64               |
| Net investment income                                 | 27                               | 16               | 13               |
| Realized capital gains and losses                     | (11)                             | —                | —                |
| <b>Total Service Businesses</b>                       | <b>1,318</b>                     | <b>1,059</b>     | <b>762</b>       |
| <b>Allstate Life</b>                                  |                                  |                  |                  |
| Traditional life insurance premiums                   | 600                              | 568              | 533              |
| Accident and health insurance premiums                | 2                                | 2                | 2                |
| Interest-sensitive life insurance contract charges    | 713                              | 710              | 715              |
| Other revenue   | 119                              | 114              | 113              |
| Net investment income                                 | 505                              | 489              | 482              |
| Realized capital gains and losses                     | (14)                             | 5                | (38)             |
| <b>Total Allstate Life</b>                            | <b>1,925</b>                     | <b>1,888</b>     | <b>1,807</b>     |
| <b>Allstate Benefits</b>                              |                                  |                  |                  |
| Traditional life insurance premiums                   | 44                               | 42               | 40               |
| Accident and health insurance premiums                | 980                              | 928              | 857              |
| Interest-sensitive life insurance contract charges    | 111                              | 114              | 114              |
| Net investment income                                 | 77                               | 72               | 71               |
| Realized capital gains and losses                     | (9)                              | 1                | (5)              |
| <b>Total Allstate Benefits</b>                        | <b>1,203</b>                     | <b>1,157</b>     | <b>1,077</b>     |
| <b>Allstate Annuities</b>                             |                                  |                  |                  |
| Fixed annuities contract charges                      | 15                               | 14               | 14               |
| Net investment income                                 | 1,096                            | 1,305            | 1,181            |
| Realized capital gains and losses                     | (166)                            | 44               | (38)             |
| <b>Total Allstate Annuities</b>                       | <b>945</b>                       | <b>1,363</b>     | <b>1,157</b>     |
| <b>Corporate and Other</b>                            |                                  |                  |                  |
| Net investment income                                 | 71                               | 41               | 42               |
| Realized capital gains and losses                     | (38)                             | (6)              | (3)              |
| <b>Total Corporate and Other</b>                      | <b>33</b>                        | <b>35</b>        | <b>39</b>        |
| Intersegment eliminations <sup>(1)</sup>              | (122)                            | (110)            | (105)            |
| <b>Consolidated revenues</b>                          | <b>\$ 39,815</b>                 | <b>\$ 39,407</b> | <b>\$ 37,399</b> |

<sup>(1)</sup> Intersegment insurance premiums and service fees are primarily related to Arity and Allstate Roadside Services and are eliminated in the consolidated financial statements.





## Reportable segments financial performance

| (\$ in millions)   | For the years ended December 31, |                 |                 |
|--|----------------------------------|-----------------|-----------------|
|  | 2018                             | 2017            | 2016            |
| <b>Property-Liability</b>  |                                  |                 |                 |
| Allstate Protection  | \$ 2,187                         | \$ 2,111        | \$ 1,327        |
| Discontinued Lines and Coverages   | (90)                             | (99)            | (107)           |
| <b>Total underwriting income</b>   | <b>2,097</b>                     | <b>2,012</b>    | <b>1,220</b>    |
| Net investment income  | 1,464                            | 1,478           | 1,253           |
| Income tax expense on operations   | (715)                            | (1,119)         | (812)           |
| Realized capital gains and losses, after-tax                                     | (500)                            | 272             | —               |
| Gain on disposition of operations, after-tax                                     | —                                | 9               | —               |
| Tax Legislation expense  | (5)                              | (65)            | —               |
| <b>Property-Liability net income applicable to common shareholders</b>           | <b>2,341</b>                     | <b>2,587</b>    | <b>1,661</b>    |
| <b>Service Businesses</b>  |                                  |                 |                 |
| Adjusted net income (loss)   | 2                                | (59)            | 3               |
| Realized capital gains and losses, after-tax                                     | (9)                              | —               | —               |
| Amortization of purchased intangible assets, after-tax                           | (74)                             | (60)            | —               |
| Tax Legislation (expense) benefit  | (4)                              | 134             | —               |
| <b>Service Businesses net (loss) income applicable to common shareholders</b>    | <b>(85)</b>                      | <b>15</b>       | <b>3</b>        |
| <b>Allstate Life</b>   |                                  |                 |                 |
| Adjusted net income  | 289                              | 253             | 247             |
| Realized capital gains and losses, after-tax                                     | (11)                             | 2               | (24)            |
| DAC and DSI amortization related to realized capital gains and losses, after-tax | (8)                              | (10)            | (4)             |
| Tax Legislation (expense) benefit  | (16)                             | 332             | —               |
| <b>Allstate Life net income applicable to common shareholders</b>                | <b>254</b>                       | <b>577</b>      | <b>219</b>      |
| <b>Allstate Benefits</b>   |                                  |                 |                 |
| Adjusted net income  | 119                              | 95              | 100             |
| Realized capital gains and losses, after-tax                                     | (7)                              | —               | (4)             |
| DAC and DSI amortization related to realized capital gains and losses, after-tax | 1                                | —               | —               |
| Tax Legislation benefit  | —                                | 51              | —               |
| <b>Allstate Benefits net income applicable to common shareholders</b>            | <b>113</b>                       | <b>146</b>      | <b>96</b>       |
| <b>Allstate Annuities</b>  |                                  |                 |                 |
| Adjusted net income  | 130                              | 204             | 101             |
| Realized capital gains and losses, after-tax                                     | (131)                            | 28              | (26)            |
| Valuation changes on embedded derivatives not hedged, after-tax                  | 3                                | —               | (2)             |
| Gain on disposition of operations, after-tax                                     | 4                                | 4               | 3               |
| Tax Legislation benefit  | 69                               | 182             | —               |
| <b>Allstate Annuities net income applicable to common shareholders</b>           | <b>75</b>                        | <b>418</b>      | <b>76</b>       |
| <b>Corporate and Other</b>   |                                  |                 |                 |
| Adjusted net loss  | (542)                            | (399)           | (292)           |
| Realized capital gains and losses, after-tax                                     | (30)                             | (4)             | (2)             |
| Goodwill impairment  | —                                | (125)           | —               |
| Business combination expenses, after-tax   | (7)                              | (14)            | —               |
| Tax Legislation expense  | (15)                             | (128)           | —               |
| <b>Corporate and Other net loss applicable to common shareholders</b>            | <b>(594)</b>                     | <b>(670)</b>    | <b>(294)</b>    |
| <b>Consolidated net income applicable to common shareholders</b>                 | <b>\$ 2,104</b>                  | <b>\$ 3,073</b> | <b>\$ 1,761</b> |

## Additional significant financial performance data

| (\$ in millions)                    | For the years ended December 31, |                 |                 |
|-------------------------------------|----------------------------------|-----------------|-----------------|
|                                     | 2018                             | 2017            | 2016            |
| <b>Amortization of DAC</b>          |                                  |                 |                 |
| Property-Liability                  | \$ 4,475                         | \$ 4,205        | \$ 4,053        |
| Service Businesses                  | 463                              | 296             | 214             |
| Allstate Life                       | 132                              | 134             | 131             |
| Allstate Benefits                   | 145                              | 142             | 145             |
| Allstate Annuities                  | 7                                | 7               | 7               |
| <b>Consolidated</b>                 | <b>\$ 5,222</b>                  | <b>\$ 4,784</b> | <b>\$ 4,550</b> |
| <b>Income tax expense (benefit)</b> |                                  |                 |                 |
| Property-Liability                  | \$ 581                           | \$ 1,318        | \$ 806          |
| Service Businesses                  | (20)                             | (193)           | —               |
| Allstate Life                       | 73                               | (224)           | 91              |
| Allstate Benefits                   | 30                               | 1               | 51              |
| Allstate Annuities                  | (66)                             | (58)            | 36              |
| Corporate and Other                 | (106)                            | (42)            | (107)           |
| <b>Consolidated</b>                 | <b>\$ 492</b>                    | <b>\$ 802</b>   | <b>\$ 877</b>   |

## Impacts of Tax Legislation

| (\$ in millions)                    | Income tax expense (benefit) before Tax Legislation |                 | Tax Legislation expense (benefit) |                 | Income tax expense (benefit) after Tax Legislation |               |
|-------------------------------------|---|-----------------|-----------------------------------|-----------------|--|---------------|
|                                     | For the years ended December 31,                    |                 |                                   |                 |  |               |
|                                     | 2018  | 2017            | 2018                              | 2017            | 2018   | 2017          |
| <b>Income tax expense (benefit)</b> |   |                 |                                   |                 |  |               |
| Property-Liability                  | \$ 576  | \$ 1,253        | \$ 5                              | \$ 65           | \$ 581   | \$ 1,318      |
| Service Businesses                  | (24)  | (59)            | 4                                 | (134)           | (20)   | (193)         |
| Allstate Life                       | 57  | 108             | 16                                | (332)           | 73   | (224)         |
| Allstate Benefits                   | 30  | 52              | —                                 | (51)            | 30   | 1             |
| Allstate Annuities                  | 3   | 124             | (69)                              | (182)           | (66)   | (58)          |
| Corporate and Other                 | (121)   | (170)           | 15                                | 128             | (106)  | (42)          |
| <b>Consolidated</b>                 | <b>\$ 521</b>                                       | <b>\$ 1,308</b> | <b>\$ (29)</b>                    | <b>\$ (506)</b> | <b>\$ 492</b>                                      | <b>\$ 802</b> |

Interest expense is primarily incurred in the Corporate and Other segment. Capital expenditures for long-lived assets are generally made in Property-Liability as the Company does not allocate assets to the Allstate Protection and Discontinued Lines and Coverages segments. A portion of these long-lived assets are used by entities included in the Service Businesses, Allstate Life, Allstate Benefits, Allstate Annuities and Corporate and Other segments and, accordingly, are charged to expenses in proportion to their use.

**Reportable segment total assets and investments (1)**

| (\$ in millions)    | As of December 31, |                   |
|---------------------|--------------------|-------------------|
|                     | 2018               | 2017              |
| <b>Assets</b>       |                    |                   |
| Property-Liability  | \$ 61,947          | \$ 60,197         |
| Service Businesses  | 5,473              | 4,531             |
| Allstate Life       | 13,613             | 14,107            |
| Allstate Benefits   | 2,822              | 2,766             |
| Allstate Annuities  | 26,798             | 28,836            |
| Corporate and Other | 1,596              | 1,985             |
| <b>Consolidated</b> | <b>\$ 112,249</b>  | <b>\$ 112,422</b> |
| <b>Investments</b>  |                    |                   |
| Property-Liability  | \$ 43,634          | \$ 43,183         |
| Service Businesses  | 1,203              | 954               |
| Allstate Life       | 10,809             | 11,210            |
| Allstate Benefits   | 1,809              | 1,776             |
| Allstate Annuities  | 22,336             | 23,722            |
| Corporate and Other | 1,469              | 1,958             |
| <b>Consolidated</b> | <b>\$ 81,260</b>   | <b>\$ 82,803</b>  |

(1) The balances reflect the elimination of related party investments between segments.

**Note 5 Investments****Amortized cost, gross unrealized gains (losses) and fair value for fixed income securities**

| (\$ in millions)                     | Amortized cost   | Gross unrealized |                 | Fair value       |
|--------------------------------------|------------------|------------------|-----------------|------------------|
|                                      |                  | Gains            | Losses          |                  |
| <b>December 31, 2018</b>             |                  |                  |                 |                  |
| U.S. government and agencies         | \$ 5,386         | \$ 137           | \$ (6)          | \$ 5,517         |
| Municipal                            | 8,963            | 249              | (43)            | 9,169            |
| Corporate                            | 40,536           | 490              | (890)           | 40,136           |
| Foreign government                   | 739              | 13               | (5)             | 747              |
| ABS                                  | 1,049            | 6                | (10)            | 1,045            |
| RMBS                                 | 377              | 89               | (2)             | 464              |
| CMBS                                 | 63               | 8                | (1)             | 70               |
| Redeemable preferred stock           | 21               | 1                | —               | 22               |
| <b>Total fixed income securities</b> | <b>\$ 57,134</b> | <b>\$ 993</b>    | <b>\$ (957)</b> | <b>\$ 57,170</b> |
| <b>December 31, 2017</b>             |                  |                  |                 |                  |
| 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               |
| <b>Total fixed income securities</b> | <b>\$ 57,525</b> | <b>\$ 1,750</b>  | <b>\$ (283)</b> | <b>\$ 58,992</b> |

**Scheduled maturities for fixed income securities**

| (\$ in millions)                       | As of December 31, 2018 |                  |
|--|-------------------------|------------------|
|  | Amortized cost          | Fair value       |
| Due in one year or less                | \$ 3,344                | \$ 3,348         |
| Due after one year through five years  | 27,862                  | 27,742           |
| Due after five years through ten years | 17,033                  | 16,773           |
| Due after ten years                    | 7,406                   | 7,728            |
|  | <b>55,645</b>           | <b>55,591</b>    |
| ABS, RMBS and CMBS                     | 1,489                   | 1,579            |
| <b>Total</b>                           | <b>\$ 57,134</b>        | <b>\$ 57,170</b> |

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)                                | For the years ended December 31, |                 |                 |
|---|----------------------------------|-----------------|-----------------|
|   | 2018                             | 2017            | 2016            |
| Fixed income securities                         | \$ 2,077                         | \$ 2,078        | \$ 2,060        |
| Equity securities                               | 170                              | 174             | 137             |
| Mortgage loans                                  | 217                              | 206             | 217             |
| Limited partnership interests <sup>(1)(2)</sup> | 705                              | 889             | 561             |
| Short-term investments                          | 73                               | 30              | 16              |
| Other   | 272                              | 236             | 222             |
| <b>Investment income, before expense</b>        | <b>3,514</b>                     | <b>3,613</b>    | <b>3,213</b>    |
| Investment expense                              | (274)                            | (212)           | (171)           |
| <b>Net investment income</b>                    | <b>\$ 3,240</b>                  | <b>\$ 3,401</b> | <b>\$ 3,042</b> |

<sup>(1)</sup> 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.

<sup>(2)</sup> Includes net investment income of \$451 million for EMA limited partnership interests and \$254 million for limited partnership interests carried at fair value for 2018.

**Realized capital gains (losses) by asset type**

| (\$ in millions)                         | For the years ended December 31, |               |                |
|--|----------------------------------|---------------|----------------|
|  | 2018                             | 2017          | 2016           |
| Fixed income securities                  | \$ (237)                         | \$ 94         | \$ (91)        |
| Equity securities                        | (594)                            | 255           | 23             |
| Mortgage loans                           | 2                                | 1             | —              |
| Limited partnership interests            | (101)                            | 132           | (21)           |
| Derivatives                              | 46                               | (46)          | 3              |
| Other                                    | 7                                | 9             | (4)            |
| <b>Realized capital gains and losses</b> | <b>\$ (877)</b>                  | <b>\$ 445</b> | <b>\$ (90)</b> |

**Realized capital gains (losses) by transaction type**

| (\$ in millions)                                    | For the years ended December 31, |               |                |
|---|----------------------------------|---------------|----------------|
|   | 2018                             | 2017          | 2016           |
| Impairment write-downs <sup>(1)</sup>               | \$ (14)                          | \$ (102)      | \$ (234)       |
| Change in intent write-downs <sup>(1)</sup>         | —                                | (48)          | (69)           |
| <b>Net OTTI losses recognized in earnings</b>       | <b>(14)</b>                      | <b>(150)</b>  | <b>(303)</b>   |
| Sales <sup>(1)</sup>                                | (215)                            | 641           | 213            |
| Valuation of equity investments <sup>(1)(2)</sup>   | (691)                            | —             | —              |
| Valuation and settlements of derivative instruments | 43                               | (46)          | —              |
| <b>Realized capital gains and losses</b>            | <b>\$ (877)</b>                  | <b>\$ 445</b> | <b>\$ (90)</b> |

<sup>(1)</sup> 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.

<sup>(2)</sup> Includes valuation of equity securities and certain limited partnership interests where the underlying assets are predominately public equity securities.

Gross gains of \$120 million and gross losses of \$347 million were realized on sales of fixed income securities during 2018. Gross gains of \$737 million and \$631 million and gross losses of \$276 million and \$461 million were realized on sales of fixed income and equity securities during 2017 and 2016, respectively.

The following table presents the net pre-tax appreciation (decline) during 2018 of equity securities and limited partnership interests carried at fair value still held as of December 31, 2018, recognized in net income.

#### Net appreciation (decline) recognized in net income

| (\$ in millions)                                    | For the year ended<br>December 31, 2018 |             |
|---|---|-------------|
| Equity securities                                   | \$                                      | (261)       |
| Limited partnership interests carried at fair value |   | 249         |
| <b>Total</b>  | <b>\$</b>                               | <b>(12)</b> |

#### OTTI losses by asset type

| (\$ in millions)                             | For the years ended December 31, |                    |                |                 |                    |                 |                 |                    |                 |
|--|----------------------------------|--------------------|----------------|-----------------|--------------------|-----------------|-----------------|--------------------|-----------------|
|  | 2018                             |                    |                | 2017            |                    |                 | 2016            |                    |                 |
|  | Gross                            | Included in<br>OCI | Net            | Gross           | Included in<br>OCI | Net             | Gross           | Included in<br>OCI | Net             |
| Fixed income securities:                     |                                  |                    |                |                 |                    |                 |                 |                    |                 |
| Municipal                                    | \$ —                             | \$ —               | \$ —           | \$ (1)          | \$ (3)             | \$ (4)          | \$ —            | \$ —               | \$ —            |
| Corporate                                    | (4)                              | 2                  | (2)            | (9)             | 3                  | (6)             | (33)            | 9                  | (24)            |
| ABS  | (1)                              | (2)                | (3)            | (1)             | (2)                | (3)             | (6)             | —                  | (6)             |
| RMBS   | (1)                              | —                  | (1)            | (2)             | (3)                | (5)             | —               | (1)                | (1)             |
| CMBS   | (3)                              | (1)                | (4)            | (9)             | 1                  | (8)             | (15)            | 2                  | (13)            |
| <b>Total fixed income securities</b>         | <b>(9)</b>                       | <b>(1)</b>         | <b>(10)</b>    | <b>(22)</b>     | <b>(4)</b>         | <b>(26)</b>     | <b>(54)</b>     | <b>10</b>          | <b>(44)</b>     |
| Equity securities <sup>(1)</sup>             | —                                | —                  | —              | (86)            | —                  | (86)            | (194)           | —                  | (194)           |
| Mortgage loans                               | —                                | —                  | —              | (1)             | —                  | (1)             | —               | —                  | —               |
| Limited partnership interests <sup>(1)</sup> | (3)                              | —                  | (3)            | (32)            | —                  | (32)            | (56)            | —                  | (56)            |
| Other  | (1)                              | —                  | (1)            | (5)             | —                  | (5)             | (9)             | —                  | (9)             |
| <b>OTTI losses</b>                           | <b>\$ (13)</b>                   | <b>\$ (1)</b>      | <b>\$ (14)</b> | <b>\$ (146)</b> | <b>\$ (4)</b>      | <b>\$ (150)</b> | <b>\$ (313)</b> | <b>\$ 10</b>       | <b>\$ (303)</b> |

<sup>(1)</sup> 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.

#### OTTI losses included in AOCI at the time of impairment for fixed income securities which were not included in earnings

| (\$ in millions) | December 31,<br>2018 | December 31,<br>2017 |
|------------------|----------------------|----------------------|
| Municipal        | \$ (5)               | \$ (5)               |
| Corporate        | (2)                  | —                    |
| ABS              | (10)                 | (15)                 |
| RMBS             | (67)                 | (77)                 |
| CMBS             | (2)                  | (4)                  |
| <b>Total</b>     | <b>\$ (86)</b>       | <b>\$ (101)</b>      |

The amounts exclude \$180 million and \$208 million as of December 31, 2018 and 2017, respectively, of net unrealized gains related to changes in valuation of the fixed income securities subsequent to the impairment measurement date.

#### Rollforward of the cumulative credit losses recognized in earnings for fixed income securities held

| (\$ in millions)   | As of December 31, |                 |                 |
|--|--------------------|-----------------|-----------------|
|  | 2018               | 2017            | 2016            |
| Beginning balance  | \$ (226)           | \$ (318)        | \$ (392)        |
| Additional credit loss for securities previously other-than-temporarily impaired     | (7)                | (18)            | (21)            |
| Additional credit loss for securities not previously other-than-temporarily impaired | (3)                | (8)             | (23)            |
| Reduction in credit loss for securities disposed or collected                        | 30                 | 116             | 117             |
| Change in credit loss due to accretion of increase in cash flows                     | 2                  | 2               | 1               |
| <b>Ending balance</b>  | <b>\$ (204)</b>    | <b>\$ (226)</b> | <b>\$ (318)</b> |

The Company uses its best estimate of future cash flows expected to be collected from the fixed income security, discounted at the security's original or current effective rate, as appropriate, to calculate a recovery value and determine whether a credit loss exists. The determination of cash flow estimates is inherently subjective and methodologies may vary depending on facts and circumstances specific to the security. All reasonably available information relevant to the collectability of the security, including past events, current conditions, and reasonable and supportable assumptions and forecasts, are considered when developing the estimate of cash flows expected to be collected. That information generally includes, but is not limited to, the remaining payment terms of the security, prepayment speeds, foreign exchange rates, the financial condition and future earnings potential of the issue or issuer, expected defaults, expected recoveries, the value of underlying collateral, vintage, geographic concentration of underlying collateral, available reserves or escrows, current subordination levels, third party guarantees and other credit

enhancements. Other information, such as industry analyst reports and forecasts, sector credit ratings, financial condition of the bond insurer for insured fixed income securities, and other market data relevant to the realizability of contractual cash flows, may also be considered. The estimated fair value of collateral will be used to estimate recovery value if the Company determines that the security is dependent on the liquidation of collateral for ultimate settlement. If the estimated recovery value is less than the amortized cost of the security, a credit loss exists and an 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)  | December 31, 2018 | Fair value | Gross unrealized |          | Unrealized net gains (losses) |
|---|-------------------|------------|------------------|----------|-------------------------------|
|   |                   |            | Gains            | Losses   |                               |
| Fixed income securities                                   |                   | \$ 57,170  | \$ 993           | \$ (957) | \$ 36                         |
| Short-term investments                                    |                   | 3,027      | —                | —        | —                             |
| Derivative instruments                                    |                   | —          | —                | (3)      | (3)                           |
| EMA limited partnerships <sup>(1)</sup>                   |                   | —          | —                | —        | —                             |
| <b>Unrealized net capital gains and losses, pre-tax</b>   |                   |            |                  |          | <b>33</b>                     |
| Amounts recognized for:                                   |                   |            |                  |          |                               |
| Insurance reserves <sup>(2)</sup>                         |                   |            |                  |          | —                             |
| DAC and DSI <sup>(3)</sup>                                |                   |            |                  |          | (33)                          |
| <b>Amounts recognized</b>                                 |                   |            |                  |          | <b>(33)</b>                   |
| Deferred income taxes                                     |                   |            |                  |          | (2)                           |
| <b>Unrealized net capital gains and losses, after-tax</b> |                   |            |                  |          | <b>\$ (2)</b>                 |

<sup>(1)</sup> Unrealized net capital gains and losses for limited partnership interests represent the Company's share of EMA limited partnerships' OCI. Fair value and gross unrealized gains and losses are not applicable.

<sup>(2)</sup> 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).

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

#### Unrealized net capital gains and losses included in AOCI

| (\$ in millions)  | December 31, 2017 | Fair value | Gross unrealized |          | Unrealized net 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 <sup>(1)</sup>                     |                   | 2          | 2                | (3)      | (1)                           |
| EMA limited partnerships                                  |                   | —          | —                | —        | 1                             |
| <b>Unrealized net capital gains and losses, pre-tax</b>   |                   |            |                  |          | <b>2,627</b>                  |
| Amounts recognized for:                                   |                   |            |                  |          |                               |
| Insurance reserves  |                   |            |                  |          | (315)                         |
| DAC and DSI   |                   |            |                  |          | (196)                         |
| <b>Amounts recognized</b>                                 |                   |            |                  |          | <b>(511)</b>                  |
| Deferred income taxes                                     |                   |            |                  |          | (454)                         |
| <b>Unrealized net capital gains and losses, after-tax</b> |                   |            |                  |          | <b>\$ 1,662</b>               |

<sup>(1)</sup> Included in the fair value of derivative instruments is \$2 million classified as liabilities.

**Change in unrealized net capital gains (losses)**

| (\$ in millions)   | For the years ended December 31, |               |               |
|--|----------------------------------|---------------|---------------|
|  | 2018                             | 2017          | 2016          |
| Fixed income securities  | \$ (1,431)                       | \$ 204        | \$ 516        |
| Equity securities <sup>(1)</sup>   | —                                | 651           | 233           |
| Derivative instruments   | (2)                              | (3)           | (4)           |
| EMA limited partnerships   | (1)                              | 5             | —             |
| <b>Total</b>   | <b>(1,434)</b>                   | <b>857</b>    | <b>745</b>    |
| Amounts recognized for:  |                                  |               |               |
| Insurance reserves   | 315                              | (315)         | —             |
| DAC and DSI  | 163                              | (50)          | (79)          |
| <b>Amounts recognized</b>  | <b>478</b>                       | <b>(365)</b>  | <b>(79)</b>   |
| Deferred income taxes  | 202                              | 117           | (233)         |
| <b>(Decrease) increase in unrealized net capital gains and losses, after-tax</b> | <b>\$ (754)</b>                  | <b>\$ 609</b> | <b>\$ 433</b> |

<sup>(1)</sup> 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 2 for further details.

**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 OCI.

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.



**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 unrealized losses |
|---|---------------------|------------------|-------------------|-------------------|------------------|-------------------|-------------------------|
|   | Number of issues    | Fair value       | Unrealized losses | Number of issues  | Fair value       | Unrealized losses |                         |
| <b>December 31, 2018</b>                        |                     |                  |                   |                   |                  |                   |                         |
| Fixed income securities                         |                     |                  |                   |                   |                  |                   |                         |
| U.S. government and agencies                    | 11                  | \$ 55            | \$ —              | 38                | \$ 364           | \$ (6)            | \$ (6)                  |
| Municipal                                       | 943                 | 1,633            | (10)              | 1,147             | 1,554            | (33)              | (43)                    |
| Corporate                                       | 1,735               | 19,243           | (543)             | 645               | 8,374            | (347)             | (890)                   |
| Foreign government                              | 7                   | 20               | (1)               | 27                | 412              | (4)               | (5)                     |
| ABS   | 64                  | 454              | (5)               | 28                | 161              | (5)               | (10)                    |
| RMBS  | 166                 | 30               | —                 | 195               | 52               | (2)               | (2)                     |
| CMBS  | 3                   | 7                | —                 | 2                 | —                | (1)               | (1)                     |
| Redeemable preferred stock                      | 1                   | —                | —                 | —                 | —                | —                 | —                       |
| <b>Total fixed income securities</b>            | <b>2,930</b>        | <b>\$ 21,442</b> | <b>\$ (559)</b>   | <b>2,082</b>      | <b>\$ 10,917</b> | <b>\$ (398)</b>   | <b>\$ (957)</b>         |
| Investment grade fixed income securities        | 2,348               | \$ 17,485        | \$ (331)          | 2,021             | \$ 10,626        | \$ (360)          | \$ (691)                |
| Below investment grade fixed income securities  | 582                 | 3,957            | (228)             | 61                | 291              | (38)              | (266)                   |
| <b>Total fixed income securities</b>            | <b>2,930</b>        | <b>\$ 21,442</b> | <b>\$ (559)</b>   | <b>2,082</b>      | <b>\$ 10,917</b> | <b>\$ (398)</b>   | <b>\$ (957)</b>         |
| <b>December 31, 2017</b>                        |                     |                  |                   |                   |                  |                   |                         |
| 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                   | —                | —                 | —                 | —                | —                 | —                       |
| <b>Total fixed income securities</b>            | <b>2,826</b>        | <b>18,680</b>    | <b>(158)</b>      | <b>592</b>        | <b>3,971</b>     | <b>(125)</b>      | <b>(283)</b>            |
| Equity securities                               | 127                 | 369              | (12)              | 2                 | —                | —                 | (12)                    |
| <b>Total fixed income and equity securities</b> | <b>2,953</b>        | <b>\$ 19,049</b> | <b>\$ (170)</b>   | <b>594</b>        | <b>\$ 3,971</b>  | <b>\$ (125)</b>   | <b>\$ (295)</b>         |
| 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)                    |
| <b>Total fixed income securities</b>            | <b>2,826</b>        | <b>\$ 18,680</b> | <b>\$ (158)</b>   | <b>592</b>        | <b>\$ 3,971</b>  | <b>\$ (125)</b>   | <b>\$ (283)</b>         |

As of December 31, 2018, \$902 million of the \$957 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 \$902 million, \$673 million are related to unrealized losses on investment grade fixed income securities. Of the remaining \$229 million, \$207 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 December 31, 2018, the remaining \$55 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 \$18 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 \$55 million, \$37 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 December 31, 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 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 December 31, 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 December 31, 2018 and 2017, the carrying value of EMA limited partnerships totaled \$5.73 billion and \$5.41 billion, respectively, and

limited partnerships carried at fair value as of December 31, 2018, while at cost as of December 31, 2017, totaled \$1.78 billion and \$1.33 billion, respectively. Principal factors influencing carrying value appreciation or decline include operating performance, comparable public company earnings multiples, capitalization rates and the economic environment. For equity method limited partnerships, the Company recognizes an impairment loss when evidence demonstrates that the loss is other than temporary. Evidence of a loss in value that is other than temporary may include the absence of an ability to recover the carrying amount of the investment or the inability of the investee to sustain a level of earnings that would justify the carrying amount of the investment. Changes in fair value limited partnerships are recorded through net investment income and therefore are not tested for impairment.

#### Mortgage loans

The Company's mortgage loans are commercial mortgage loans collateralized by a variety of commercial real estate property types located across the United States and totaled, net of valuation allowance, \$4.67 billion and \$4.53 billion as of December 31, 2018 and 2017, respectively. Substantially all of the commercial mortgage loans are non-recourse to the borrower.

#### Principal geographic distribution of commercial real estate exceeding 5% of the mortgage loans portfolio

| (% of mortgage loan portfolio carrying value) | As of December 31, |       |
|---|--------------------|-------|
|   | 2018               | 2017  |
| California                                    | 16.4%              | 19.9% |
| Texas   | 14.9               | 13.0  |
| Illinois                                      | 7.8                | 7.1   |
| New Jersey                                    | 6.8                | 7.6   |
| Florida                                       | 6.1                | 6.4   |
| North Carolina                                | 5.1                | 4.0   |

#### Types of properties collateralizing the mortgage loan portfolio

| (% of mortgage loan portfolio carrying value) | As of December 31, |               |
|---|--------------------|---------------|
|   | 2018               | 2017          |
| Apartment complex                             | 34.4%              | 30.9%         |
| Office buildings                              | 24.5               | 23.8          |
| Warehouse                                     | 15.8               | 15.7          |
| Retail  | 14.4               | 18.0          |
| Other   | 10.9               | 11.6          |
| <b>Total</b>                                  | <b>100.0%</b>      | <b>100.0%</b> |

#### Contractual maturities of the mortgage loan portfolio

| (\$ in millions) | As of December 31, 2018 |                 |               |
|------------------|-------------------------|-----------------|---------------|
|                  | Number of loans         | Carrying value  | Percent       |
| 2019             | 8                       | \$ 171          | 3.7%          |
| 2020             | 13                      | 119             | 2.6           |
| 2021             | 41                      | 566             | 12.1          |
| 2022             | 32                      | 553             | 11.8          |
| Thereafter       | 189                     | 3,261           | 69.8          |
| <b>Total</b>     | <b>283</b>              | <b>\$ 4,670</b> | <b>100.0%</b> |

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 December 31, 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)                         | As of December 31,        |                              |                 |                           |                              |                 |
|--|---------------------------|------------------------------|-----------------|---------------------------|------------------------------|-----------------|
|  | 2018                      |                              |                 | 2017                      |                              |                 |
|  | Fixed rate mortgage loans | Variable rate mortgage loans | Total           | Fixed rate mortgage loans | Variable rate mortgage loans | Total           |
| Debt Service Coverage Ratio Distribution |                           |                              |                 |                           |                              |                 |
| Below 1.0                                | \$ 6                      | \$ 31                        | \$ 37           | \$ 3                      | \$ —                         | \$ 3            |
| 1.0 - 1.25                               | 273                       | —                            | 273             | 345                       | —                            | 345             |
| 1.26 - 1.50                              | 1,192                     | —                            | 1,192           | 1,141                     | 30                           | 1,171           |
| Above 1.50                               | 3,063                     | 101                          | 3,164           | 2,949                     | 62                           | 3,011           |
| <b>Total non-impaired mortgage loans</b> | <b>\$ 4,534</b>           | <b>\$ 132</b>                | <b>\$ 4,666</b> | <b>\$ 4,438</b>           | <b>\$ 92</b>                 | <b>\$ 4,530</b> |

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)                                      | As of December 31, |             |
|---|--------------------|-------------|
|   | 2018               | 2017        |
| Impaired mortgage loans with a valuation allowance    | \$ 4               | \$ 4        |
| Impaired mortgage loans without a valuation allowance | —                  | —           |
| <b>Total impaired mortgage loans</b>                  | <b>\$ 4</b>        | <b>\$ 4</b> |
| Valuation allowance on impaired mortgage loans        | \$ 3               | \$ 3        |

The average balance of impaired loans was \$4 million, \$7 million and \$6 million during 2018, 2017 and 2016, respectively.

#### Rollforward of the valuation allowance on impaired mortgage loans

| (\$ in millions)                    | For the years ended December 31, |             |             |
|-------------------------------------|----------------------------------|-------------|-------------|
|                                     | 2018                             | 2017        | 2016        |
| Beginning balance                   | \$ 3                             | \$ 3        | \$ 3        |
| Net increase in valuation allowance | —                                | 1           | —           |
| Charge offs                         | —                                | (1)         | —           |
| <b>Ending balance</b>               | <b>\$ 3</b>                      | <b>\$ 3</b> | <b>\$ 3</b> |

Payments on all mortgage loans were current as of December 31, 2018, 2017 and 2016.

## Municipal bonds

The Company maintains a diversified portfolio of municipal bonds, including tax exempt and taxable securities, which totaled \$9.17 billion and \$8.33 billion as of December 31, 2018 and 2017, respectively. The municipal bond portfolio includes general obligations of state and local issuers and revenue bonds (including pre-refunded bonds, which are bonds for which an irrevocable trust has been established to fund the remaining payments of principal and interest).

### Principal geographic distribution of municipal bond issuers exceeding 5% of the portfolio

| (% of municipal bond portfolio carrying value) | As of December 31, |      |
|--|--------------------|------|
|  | 2018               | 2017 |
| Texas  | 12.3%              | 9.6% |
| California                                     | 7.4                | 7.0  |
| Washington                                     | 6.2                | 5.4  |
| New York                                       | 5.6                | 6.9  |
| Florida  | 4.9                | 6.5  |

### Short-term investments

Short-term investments, including commercial paper, money market funds, U.S. Treasury bills and other short-term investments, are carried at fair value. As of December 31, 2018 and 2017, the fair value of short-term investments totaled \$3.03 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)      | December 31, 2018 | December 31, 2017 |
|-----------------------|-------------------|-------------------|
| Bank loans            | \$ 1,350          | \$ 1,702          |
| Policy loans          | 891               | 905               |
| Real estate           | 791               | 632               |
| Agent loans           | 620               | 538               |
| Derivatives and other | 200               | 195               |
| <b>Total</b>          | <b>\$ 3,852</b>   | <b>\$ 3,972</b>   |

### Concentration of credit risk

As of December 31, 2018, the Company is not exposed to any credit concentration risk of a single issuer and its affiliates greater than 10% of the Company's shareholders' equity, other than the U.S. government and its agencies.

### Securities loaned

The Company's business activities include securities lending programs with third parties, mostly large banks. As of December 31, 2018 and 2017, fixed income and equity securities with a carrying value of \$1.40 billion and \$1.09 billion, respectively, were on loan under these agreements. Interest income on collateral, net of fees, was \$4 million, \$7 million and \$6 million in 2018, 2017 and 2016, respectively.

### Other investment information

Included in fixed income securities are below investment grade assets totaling \$5.23 billion and \$7.57 billion as of December 31, 2018 and 2017, respectively.

As of December 31, 2018, fixed income securities and short-term investments with a carrying value of \$147 million were on deposit with regulatory authorities as required by law.

As of December 31, 2018, the carrying value of fixed income securities and other investments that were non-income producing was \$99 million.

## 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 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 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, 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.
- **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, 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.
- **Short-term:** For certain short-term investments, amortized cost is used as the best estimate of fair value.
- **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.

#### 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. The Company receives distributions of income and proceeds from the liquidation of the underlying assets of the investees, which usually takes place in years 4-9 of the typical contractual life of 10-12 years. As of December 31, 2018, the Company has commitments to invest \$689 million in these limited partnership interests.

## Assets and liabilities measured at fair value

| (\$ in millions)   | As of December 31, 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            |
| <b>Assets</b>  |  |   |   |  |                  |
| Fixed income securities:   |  |   |   |  |                  |
| U.S. government and agencies   | \$ 5,085   | \$ 432  | \$ —                                      |  | \$ 5,517         |
| Municipal  | —  | 9,099   | 70  |  | 9,169            |
| Corporate - public   | —  | 29,200  | 70  |  | 29,270           |
| Corporate - privately placed   | —  | 10,776  | 90  |  | 10,866           |
| Foreign government   | —  | 747   | —   |  | 747              |
| ABS - CDO  | —  | 263   | 6   |  | 269              |
| ABS - consumer and other   | —  | 713   | 63  |  | 776              |
| RMBS   | —  | 464   | —   |  | 464              |
| CMBS   | —  | 44  | 26  |  | 70               |
| Redeemable preferred stock   | —  | 22  | —   |  | 22               |
| <b>Total fixed income securities</b>                                     | <b>5,085</b>   | <b>51,760</b>                                 | <b>325</b>                                |  | <b>57,170</b>    |
| Equity securities  | 4,364  | 331   | 341                                       |  | 5,036            |
| Short-term investments   | 1,338  | 1,659   | 30  |  | 3,027            |
| Other investments: Free-standing derivatives                             | —  | 139   | 1   | (23)                                     | 117              |
| Separate account assets  | 2,805  | —   | —   |  | 2,805            |
| Other assets   | 2  | —   | —   |  | 2                |
| <b>Total recurring basis assets</b>                                      | <b>\$ 13,594</b>   | <b>\$ 53,889</b>                              | <b>\$ 697</b>                             | <b>\$ (23)</b>                           | <b>\$ 68,157</b> |
| % of total assets at fair value  | 19.9%  | 79.1%   | 1.0%                                      | — %                                      | 100.0%           |
| Investments reported at NAV  |  |   |   |  | 1,779            |
| <b>Total</b>   |  |   |   |  | <b>\$ 69,936</b> |
| <b>Liabilities</b>   |  |   |   |  |                  |
| Contractholder funds: Derivatives embedded in life and annuity contracts | \$ —   | \$ —  | \$ (224)                                  |  | \$ (224)         |
| Other liabilities: Free-standing derivatives                             | (1)  | (62)  | —   | \$ 6                                     | (57)             |
| <b>Total recurring basis liabilities</b>                                 | <b>\$ (1)</b>  | <b>\$ (62)</b>                                | <b>\$ (224)</b>                           | <b>\$ 6</b>                              | <b>\$ (281)</b>  |
| % of total liabilities at fair value                                     | 0.3%   | 22.1%   | 79.7%                                     | (2.1)%                                   | 100.0%           |



## 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            |
| <b>Assets</b>  |  |   |   |  |                  |
| 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               |
| <b>Total fixed income securities</b>                                     | <b>3,079</b>   | <b>55,307</b>                                 | <b>606</b>                                |  | <b>58,992</b>    |
| 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            |
| <b>Total recurring basis assets</b>                                      | <b>12,819</b>  | <b>57,478</b>                                 | <b>837</b>                                | <b>(6)</b>                               | <b>71,128</b>    |
| Non-recurring basis <sup>(1)</sup>                                       | —  | —   | 3   |  | 3                |
| <b>Total assets at fair value</b>  | <b>\$ 12,819</b>   | <b>\$ 57,478</b>                              | <b>\$ 840</b>                             | <b>\$ (6)</b>                            | <b>\$ 71,131</b> |
| % of total assets at fair value  | 18.0%  | 80.8%   | 1.2%                                      | —%                                       | 100.0%           |
| <b>Liabilities</b>   |  |   |   |  |                  |
| Contractholder funds: Derivatives embedded in life and annuity contracts | \$ —   | \$ —  | \$ (286)                                  |  | \$ (286)         |
| Other liabilities: Free-standing derivatives                             | (1)  | (83)  | —   | \$ 14                                    | (70)             |
| <b>Total recurring basis liabilities</b>                                 | <b>\$ (1)</b>  | <b>\$ (83)</b>                                | <b>\$ (286)</b>                           | <b>\$ 14</b>                             | <b>\$ (356)</b>  |
| % of total liabilities at fair value                                     | 0.3%   | 23.3%   | 80.3%                                     | (3.9)%                                   | 100.0%           |

<sup>(1)</sup> 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 |
|--|------------|----------------------------|-----------------------|------------|------------------|
| <b>December 31, 2018</b>   |            |                            |                       |            |                  |
| Derivatives embedded in life and annuity contracts – Equity-indexed and forward starting options | \$ (185)   | Stochastic cash flow model | Projected option cost | 1.0 - 2.2% | 1.74%            |
| <b>December 31, 2017</b>   |            |                            |                       |            |                  |
| 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 December 31, 2018 and 2017, Level 3 fair value measurements of fixed income securities total \$325 million and \$606 million, respectively, and include \$105 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 \$44 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.

**Rollforward of Level 3 assets and liabilities held at fair value during the year ended December 31, 2018**

| (\$ in millions)   | Balance as of<br>December 31, 2017 | Total gains (losses) included in: |               | Transfers into<br>Level 3 | Transfers out of<br>Level 3                |
|--|------------------------------------|-----------------------------------|---------------|---------------------------|--|
|  |                                    | Net income <sup>(1)</sup>         | OCI           |                           |  |
| <b>Assets</b>  |                                    |                                   |               |                           |  |
| Fixed income securities:   |                                    |                                   |               |                           |  |
| Municipal  | \$ 101                             | \$ 1                              | \$ (2)        | \$ —                      | \$ (26)                                    |
| Corporate - public   | 108                                | —                                 | (3)           | 17                        | (21)                                       |
| Corporate - privately placed   | 224                                | (1)                               | (3)           | 20                        | (119)                                      |
| ABS - CDO  | 99                                 | —                                 | 1             | 20                        | (109)                                      |
| ABS - consumer and other   | 48                                 | —                                 | 1             | 22                        | (50)                                       |
| CMBS   | 26                                 | —                                 | —             | —                         | —  |
| <b>Total fixed income securities</b>                                     | <b>606</b>                         | <b>—</b>                          | <b>(6)</b>    | <b>79</b>                 | <b>(325)</b>                               |
| Equity securities  | 210                                | 37                                | —             | —                         | —  |
| Short-term investments   | 20                                 | —                                 | —             | —                         | —  |
| Free-standing derivatives, net   | 1                                  | —                                 | —             | —                         | —  |
| <b>Total recurring Level 3 assets</b>                                    | <b>\$ 837</b>                      | <b>\$ 37</b>                      | <b>\$ (6)</b> | <b>\$ 79</b>              | <b>\$ (325)</b>                            |
| <b>Liabilities</b>   |                                    |                                   |               |                           |  |
| Contractholder funds: Derivatives embedded in life and annuity contracts |                                    |                                   |               |                           |  |
|  | \$ (286)                           | \$ 58                             | \$ —          | \$ —                      | \$ —                                       |
| <b>Total recurring Level 3 liabilities</b>                               | <b>\$ (286)</b>                    | <b>\$ 58</b>                      | <b>\$ —</b>   | <b>\$ —</b>               | <b>\$ —</b>                                |
|  | <b>Purchases</b>                   | <b>Sales</b>                      | <b>Issues</b> | <b>Settlements</b>        | <b>Balance as of<br/>December 31, 2018</b> |
| <b>Assets</b>  |                                    |                                   |               |                           |  |
| Fixed income securities:   |                                    |                                   |               |                           |  |
| Municipal  | \$ 10                              | \$ (8)                            | \$ —          | \$ (6)                    | \$ 70                                      |
| Corporate - public   | 10                                 | (38)                              | —             | (3)                       | 70   |
| Corporate - privately placed   | 22                                 | (5)                               | —             | (48)                      | 90   |
| ABS - CDO  | —                                  | —                                 | —             | (5)                       | 6  |
| ABS - consumer and other   | 160                                | (97)                              | —             | (21)                      | 63   |
| CMBS   | 1                                  | —                                 | —             | (1)                       | 26   |
| <b>Total fixed income securities</b>                                     | <b>203</b>                         | <b>(148)</b>                      | <b>—</b>      | <b>(84)</b>               | <b>325</b>                                 |
| Equity securities  | 109                                | (15)                              | —             | —                         | 341  |
| Short-term investments   | 55                                 | (45)                              | —             | —                         | 30   |
| Free-standing derivatives, net   | —                                  | —                                 | —             | —                         | 1 <sup>(2)</sup>                           |
| <b>Total recurring Level 3 assets</b>                                    | <b>\$ 367</b>                      | <b>\$ (208)</b>                   | <b>\$ —</b>   | <b>\$ (84)</b>            | <b>\$ 697</b>                              |
| <b>Liabilities</b>   |                                    |                                   |               |                           |  |
| Contractholder funds: Derivatives embedded in life and annuity contracts |                                    |                                   |               |                           |  |
|  | \$ —                               | \$ —                              | \$ (2)        | \$ 6                      | \$ (224)                                   |
| <b>Total recurring Level 3 liabilities</b>                               | <b>\$ —</b>                        | <b>\$ —</b>                       | <b>\$ (2)</b> | <b>\$ 6</b>               | <b>\$ (224)</b>                            |

<sup>(1)</sup> The effect to net income totals \$95 million and is reported in the Consolidated Statements of Operations as follows: \$37 million in realized capital gains and losses, \$63 million in interest credited to contractholder funds and \$(5) million in life contract benefits.

<sup>(2)</sup> Comprises \$1 million of assets.

**Rollforward of Level 3 assets and liabilities held at fair value during the year ended December 31, 2017**

| (\$ in millions)   | Balance as of<br>December 31, 2016 | Total gains (losses) included in: |               | Transfers into<br>Level 3 | Transfers out of<br>Level 3                |
|--|------------------------------------|-----------------------------------|---------------|---------------------------|--|
|  |                                    | Net income <sup>(1)</sup>         | OCI           |                           |  |
| <b>Assets</b>  |                                    |                                   |               |                           |  |
| Fixed income securities:   |                                    |                                   |               |                           |  |
| Municipal  | 125                                | (1)                               | 7             | —                         | (6)  |
| Corporate - public   | 78                                 | —                                 | —             | 4                         | (30)                                       |
| Corporate - privately placed   | 263                                | 8                                 | (2)           | 30                        | (49)                                       |
| ABS - CDO  | 27                                 | —                                 | 6             | 60                        | (190)                                      |
| ABS - consumer and other   | 42                                 | —                                 | —             | —                         | (90)                                       |
| RMBS   | 1                                  | —                                 | —             | —                         | —  |
| CMBS   | 22                                 | —                                 | —             | —                         | —  |
| <b>Total fixed income securities</b>                                     | <b>558</b>                         | <b>7</b>                          | <b>11</b>     | <b>94</b>                 | <b>(365)</b>                               |
| Equity securities  | 163                                | 13                                | 4             | —                         | (4)  |
| Short-term investments   | 15                                 | —                                 | —             | —                         | —  |
| Free-standing derivatives, net   | (2)                                | 3                                 | —             | —                         | —  |
| Other assets   | 1                                  | (1)                               | —             | —                         | —  |
| <b>Total recurring Level 3 assets</b>                                    | <b>\$ 735</b>                      | <b>\$ 22</b>                      | <b>\$ 15</b>  | <b>\$ 94</b>              | <b>\$ (369)</b>                            |
| <b>Liabilities</b>   |                                    |                                   |               |                           |  |
| Contractholder funds: Derivatives embedded in life and annuity contracts | \$ (290)                           | \$ —                              | \$ —          | \$ —                      | \$ —                                       |
| <b>Total recurring Level 3 liabilities</b>                               | <b>\$ (290)</b>                    | <b>\$ —</b>                       | <b>\$ —</b>   | <b>\$ —</b>               | <b>\$ —</b>                                |
|  | <b>Purchases</b>                   | <b>Sales</b>                      | <b>Issues</b> | <b>Settlements</b>        | <b>Balance as of<br/>December 31, 2017</b> |
| <b>Assets</b>  |                                    |                                   |               |                           |  |
| Fixed income securities:   |                                    |                                   |               |                           |  |
| Municipal  | 8                                  | (29)                              | —             | (3)                       | 101  |
| Corporate - public   | 60                                 | —                                 | —             | (4)                       | 108  |
| Corporate - privately placed   | 44                                 | (30)                              | —             | (40)                      | 224  |
| ABS - CDO  | 219                                | —                                 | —             | (23)                      | 99   |
| ABS - consumer and other   | 103                                | —                                 | —             | (7)                       | 48   |
| RMBS   | —                                  | —                                 | —             | (1)                       | —  |
| CMBS   | 6                                  | —                                 | —             | (2)                       | 26   |
| <b>Total fixed income securities</b>                                     | <b>440</b>                         | <b>(59)</b>                       | <b>—</b>      | <b>(80)</b>               | <b>606</b>                                 |
| Equity securities  | 48                                 | (14)                              | —             | —                         | 210  |
| Short-term investments   | 45                                 | (40)                              | —             | —                         | 20   |
| Free-standing derivatives, net   | —                                  | —                                 | —             | —                         | 1 <sup>(2)</sup>                           |
| Other assets   | —                                  | —                                 | —             | —                         | —  |
| <b>Total recurring Level 3 assets</b>                                    | <b>\$ 533</b>                      | <b>\$ (113)</b>                   | <b>\$ —</b>   | <b>\$ (80)</b>            | <b>\$ 837</b>                              |
| <b>Liabilities</b>   |                                    |                                   |               |                           |  |
| Contractholder funds: Derivatives embedded in life and annuity contracts | \$ —                               | \$ —                              | \$ (2)        | \$ 6                      | \$ (286)                                   |
| <b>Total recurring Level 3 liabilities</b>                               | <b>\$ —</b>                        | <b>\$ —</b>                       | <b>\$ (2)</b> | <b>\$ 6</b>               | <b>\$ (286)</b>                            |

(1) The effect to net income totals \$22 million and is reported in the Consolidated Statements of Operations as follows: \$4 million in realized capital gains and losses, \$19 million in net investment income, \$(10) million in interest credited to contractholder funds and \$9 million in life contract benefits.

(2) Comprises \$1 million of assets.

## Rollforward of Level 3 assets and liabilities held at fair value during the year ended December 31, 2016

| (\$ in millions)  | Total gains (losses) included in:  |                           |               |                           |  |
|---|------------------------------------|---------------------------|---------------|---------------------------|--|
|   | Balance as of<br>December 31, 2015 | Net income <sup>(1)</sup> | OCI           | Transfers into Level<br>3 | Transfers out of<br>Level 3                |
| <b>Assets</b>   |                                    |                           |               |                           |  |
| Fixed income securities:  |                                    |                           |               |                           |  |
| U.S. government and agencies  | \$ 5                               | \$ —                      | \$ —          | \$ —                      | \$ (4)                                     |
| Municipal   | 161                                | 12                        | (10)          | 6                         | (23)                                       |
| Corporate - public  | 46                                 | —                         | —             | 41                        | (43)                                       |
| Corporate - privately placed  | 502                                | 15                        | 18            | 16                        | (398)                                      |
| ABS - CDO   | 61                                 | 1                         | 6             | 10                        | (43)                                       |
| ABS - consumer and other  | 50                                 | —                         | (3)           | 3                         | (35)                                       |
| RMBS  | 1                                  | 1                         | —             | —                         | —  |
| CMBS  | 20                                 | —                         | —             | —                         | (1)  |
| <b>Total fixed income securities</b>  | <b>846</b>                         | <b>29</b>                 | <b>11</b>     | <b>76</b>                 | <b>(547)</b>                               |
| Equity securities   | 133                                | (32)                      | 12            | —                         | (12)                                       |
| Short-term investments  | —                                  | —                         | —             | —                         | —  |
| Free-standing derivatives, net  | (7)                                | 6                         | —             | —                         | —  |
| Other assets  | 1                                  | —                         | —             | —                         | —  |
| <b>Total recurring Level 3 assets</b>                                       | <b>\$ 973</b>                      | <b>\$ 3</b>               | <b>\$ 23</b>  | <b>\$ 76</b>              | <b>\$ (559)</b>                            |
| <b>Liabilities</b>  |                                    |                           |               |                           |  |
| Contractholder funds: Derivatives embedded<br>in life and annuity contracts | \$ (299)                           | \$ 5                      | \$ —          | \$ —                      | \$ —                                       |
| <b>Total recurring Level 3 liabilities</b>                                  | <b>\$ (299)</b>                    | <b>\$ 5</b>               | <b>\$ —</b>   | <b>\$ —</b>               | <b>\$ —</b>                                |
|   | <b>Purchases</b>                   | <b>Sales</b>              | <b>Issues</b> | <b>Settlements</b>        | <b>Balance as of<br/>December 31, 2016</b> |
| <b>Assets</b>   |                                    |                           |               |                           |  |
| Fixed income securities:  |                                    |                           |               |                           |  |
| U.S. government and agencies  | \$ —                               | \$ —                      | \$ —          | \$ (1)                    | \$ —                                       |
| Municipal   | 22                                 | (40)                      | —             | (3)                       | 125  |
| Corporate - public  | 47                                 | (11)                      | —             | (2)                       | 78   |
| Corporate - privately placed  | 181                                | (15)                      | —             | (56)                      | 263  |
| ABS - CDO   | 40                                 | (3)                       | —             | (45)                      | 27   |
| ABS - consumer and other  | 35                                 | (5)                       | —             | (3)                       | 42   |
| RMBS  | —                                  | (1)                       | —             | —                         | 1  |
| CMBS  | 5                                  | —                         | —             | (2)                       | 22   |
| <b>Total fixed income securities</b>  | <b>330</b>                         | <b>(75)</b>               | <b>—</b>      | <b>(112)</b>              | <b>558</b>                                 |
| Equity securities   | 65                                 | (4)                       | —             | 1                         | 163  |
| Short-term investments  | 15                                 | —                         | —             | —                         | 15   |
| Free-standing derivatives, net  | —                                  | —                         | —             | (1)                       | (2)  |
| Other assets  | —                                  | —                         | —             | —                         | 1  |
| <b>Total recurring Level 3 assets</b>                                       | <b>\$ 410</b>                      | <b>\$ (79)</b>            | <b>\$ —</b>   | <b>\$ (112)</b>           | <b>\$ 735</b>                              |
| <b>Liabilities</b>  |                                    |                           |               |                           |  |
| Contractholder funds: Derivatives embedded<br>in life and annuity contracts | \$ —                               | \$ —                      | \$ (3)        | \$ 7                      | \$ (290)                                   |
| <b>Total recurring Level 3 liabilities</b>                                  | <b>\$ —</b>                        | <b>\$ —</b>               | <b>\$ (3)</b> | <b>\$ 7</b>               | <b>\$ (290)</b>                            |

(1) The effect to net income totals \$8 million and is reported in the Consolidated Statements of Operations as follows: \$(9) million in realized capital gains and losses, \$12 million in net investment income, \$(4) million in interest credited to contractholder funds and \$9 million in life contract benefits.

(2) Comprises \$1 million of assets and \$3 million of liabilities.

Transfers between level categorizations may occur due to changes in the availability of market observable inputs, which generally are caused by changes in market conditions such as liquidity, trading volume or

bid-ask spreads. Transfers between level categorizations may also occur due to changes in the valuation source, including situations where a fair value quote is not provided by the Company's independent

third-party valuation service provider resulting in the price becoming stale or replaced with a broker quote whose inputs have not been corroborated to be market observable. This situation will result in the transfer of a security into Level 3. Transfers in and out of level categorizations are reported as having occurred at the beginning of the quarter in which the transfer occurred. Therefore, for all transfers into Level 3, all realized and changes in unrealized gains and losses in the quarter of transfer are reflected in the Level 3 rollforward table.

There were no transfers between Level 1 and Level 2 during 2018, 2017 or 2016.

Transfers into Level 3 during 2018, 2017 and 2016 included situations where a fair value quote was not

provided by the Company's independent third-party valuation service provider and as a result the price was stale or had been replaced with a broker quote where the inputs had not been corroborated to be market observable resulting in the security being classified as Level 3. Transfers out of Level 3 during 2018, 2017 and 2016 included situations where a broker quote was used in the prior period and a fair value quote became available from the Company's independent third-party valuation service provider in the current period. A quote utilizing the new pricing source was not available as of the prior period, and any gains or losses related to the change in valuation source for individual securities were not significant.

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

| (\$ in millions)   | December 31, |              |                |
|--|--------------|--------------|----------------|
|  | 2018         | 2017         | 2016           |
| <b>Assets</b>  |              |              |                |
| Fixed income securities:   |              |              |                |
| Municipal  | \$ —         | \$ (3)       | \$ 2           |
| Corporate  | —            | 1            | 2              |
| <b>Total fixed income securities</b>                                     | <b>—</b>     | <b>(2)</b>   | <b>4</b>       |
| Equity securities  | 36           | 13           | (32)           |
| Free-standing derivatives, net   | —            | —            | 5              |
| Other assets   | —            | (1)          | —              |
| <b>Total recurring Level 3 assets</b>                                    | <b>\$ 36</b> | <b>\$ 10</b> | <b>\$ (23)</b> |
| <b>Liabilities</b>   |              |              |                |
| Contractholder funds: Derivatives embedded in life and annuity contracts | \$ 58        | \$ —         | \$ 5           |
| <b>Total recurring Level 3 liabilities</b>                               | <b>\$ 58</b> | <b>\$ —</b>  | <b>\$ 5</b>    |

The amounts in the table above represent the change in unrealized gains and losses included in net income for the period of time that the asset or liability was held and determined to be in Level 3. These gains and losses total \$94 million in 2018 and are reported as follows: \$36 million in realized capital gains and losses, \$63 million in interest credited to contractholder funds and \$(5) million in life contract benefits. These gains and losses total \$10 million in 2017 and are reported as follows: \$(8) million in realized capital gains and losses, \$19 million in net investment income, \$(10) million in interest credited to contractholder funds and \$9 million in life contract benefits. These gains and losses total \$(18) million in 2016 and are reported as follows: \$(36) million in realized capital gains and losses, \$13 million in net investment income, \$(4) million in interest credited to contractholder funds and \$9 million in life contract benefits.

#### Financial assets

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

| (\$ in millions) | Fair value level | December 31, 2018 |            | December 31, 2017 |            |
|------------------|------------------|-------------------|------------|-------------------|------------|
|                  |                  | Carrying value    | Fair value | Carrying value    | Fair value |
| Mortgage loans   | Level 3          | \$ 4,670          | \$ 4,703   | \$ 4,534          | \$ 4,732   |
| Bank loans       | Level 3          | 1,350             | 1,298      | 1,702             | 1,704      |
| Agent loans      | Level 3          | 620               | 617        | 538               | 536        |

#### Financial liabilities

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

| (\$ in millions)                             | Fair value level | December 31, 2018 |            | December 31, 2017 |            |
|--|------------------|-------------------|------------|-------------------|------------|
|  |                  | Carrying value    | Fair value | Carrying value    | Fair value |
| Contractholder funds on investment contracts | Level 3          | \$ 9,250          | \$ 9,665   | \$ 10,367         | \$ 11,071  |
| Long-term debt                               | Level 2          | 6,451             | 6,708      | 6,350             | 7,199      |
| Liability for collateral                     | Level 2          | 1,458             | 1,458      | 1,124             | 1,124      |

## Note 7 Derivative Financial Instruments and Off-balance Sheet 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 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 indices 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 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 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 December 31, 2018**

| (\$ in millions, except number of contracts)                                      | Balance sheet location               | Volume <sup>(1)</sup> |                     | Fair value, net | Gross asset   | Gross liability |
|---|--------------------------------------|-----------------------|---------------------|-----------------|---------------|-----------------|
|   |                                      | Notional amount       | Number of contracts |                 |               |                 |
| <b>Asset derivatives</b>  |                                      |                       |                     |                 |               |                 |
| <b>Derivatives not designated as accounting hedging instruments</b>               |                                      |                       |                     |                 |               |                 |
| <b>Interest rate contracts</b>  |                                      |                       |                     |                 |               |                 |
| Interest rate cap agreements  | Other investments                    | \$ 6                  | n/a                 | \$ —            | \$ —          | \$ —            |
| Futures   | Other assets                         | —                     | 1,330               | 1               | 1             | —               |
| <b>Equity and index contracts</b>   |                                      |                       |                     |                 |               |                 |
| Options   | Other investments                    | —                     | 11,131              | 115             | 115           | —               |
| Futures   | Other assets                         | —                     | 1,453               | 1               | 1             | —               |
| <b>Total return index contracts</b>   |                                      |                       |                     |                 |               |                 |
| Total return swap agreements - fixed income                                       | Other investments                    | 7                     | —                   | —               | —             | —               |
| Total return swap agreements - equity index                                       | Other investments                    | 61                    | —                   | (2)             | —             | (2)             |
| <b>Foreign currency contracts</b>   |                                      |                       |                     |                 |               |                 |
| Foreign currency forwards   | Other investments                    | 258                   | n/a                 | 10              | 11            | (1)             |
| <b>Credit default contracts</b>   |                                      |                       |                     |                 |               |                 |
| Credit default swaps – buying protection  | Other investments                    | 136                   | n/a                 | (1)             | 2             | (3)             |
| <b>Other contracts</b>  |                                      |                       |                     |                 |               |                 |
| Other   | Other investments                    | 2                     | n/a                 | —               | —             | —               |
| <b>Total asset derivatives</b>  |                                      | <b>\$ 470</b>         | <b>13,914</b>       | <b>\$ 124</b>   | <b>\$ 130</b> | <b>\$ (6)</b>   |
| <b>Liability derivatives</b>  |                                      |                       |                     |                 |               |                 |
| <b>Derivatives not designated as accounting hedging instruments</b>               |                                      |                       |                     |                 |               |                 |
| <b>Interest rate contracts</b>  |                                      |                       |                     |                 |               |                 |
| Interest rate cap agreements  | Other liabilities & accrued expenses | \$ 31                 | n/a                 | \$ 1            | \$ 1          | \$ —            |
| Futures   | Other liabilities & accrued expenses | —                     | 1,300               | (1)             | —             | (1)             |
| <b>Equity and index contracts</b>   |                                      |                       |                     |                 |               |                 |
| Options and futures   | Other liabilities & accrued expenses | —                     | 10,956              | (50)            | —             | (50)            |
| <b>Total return index contracts</b>   |                                      |                       |                     |                 |               |                 |
| Total return swap agreements - fixed income                                       | Other liabilities & accrued expenses | 38                    | —                   | (1)             | —             | (1)             |
| Total return swap agreements - equity index                                       | Other liabilities & accrued expenses | 71                    | —                   | (4)             | —             | (4)             |
| <b>Foreign currency contracts</b>   |                                      |                       |                     |                 |               |                 |
| Foreign currency forwards   | Other liabilities & accrued expenses | 341                   | n/a                 | 10              | 11            | (1)             |
| <b>Embedded derivative financial instruments</b>                                  |                                      |                       |                     |                 |               |                 |
| Guaranteed accumulation benefits  | Contractholder funds                 | 169                   | n/a                 | (25)            | —             | (25)            |
| Guaranteed withdrawal benefits  | Contractholder funds                 | 210                   | n/a                 | (14)            | —             | (14)            |
| Equity-indexed and forward starting options in life and annuity product contracts | Contractholder funds                 | 1,770                 | n/a                 | (185)           | —             | (185)           |
| <b>Credit default contracts</b>   |                                      |                       |                     |                 |               |                 |
| Credit default swaps – buying protection  | Other liabilities & accrued expenses | 40                    | n/a                 | —               | —             | —               |
| Credit default swaps – selling protection   | Other liabilities & accrued expenses | 5                     | n/a                 | —               | —             | —               |
| <b>Total liability derivatives</b>  |                                      | <b>2,675</b>          | <b>12,256</b>       | <b>(269)</b>    | <b>\$ 12</b>  | <b>\$ (281)</b> |
| <b>Total derivatives</b>  |                                      | <b>\$ 3,145</b>       | <b>26,170</b>       | <b>\$ (145)</b> |               |                 |

<sup>(1)</sup> 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)



## 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 <sup>(1)</sup> |                     | Fair value, net | Gross asset   | Gross liability |
|---|--------------------------------------|-----------------------|---------------------|-----------------|---------------|-----------------|
|   |                                      | Notional amount       | Number of contracts |                 |               |                 |
| <b>Asset derivatives</b>  |                                      |                       |                     |                 |               |                 |
| <b>Derivatives not designated as accounting hedging instruments</b>               |                                      |                       |                     |                 |               |                 |
| <b>Interest rate contracts</b>  |                                      |                       |                     |                 |               |                 |
| Interest rate cap agreements  | Other investments                    | \$ 15                 | n/a                 | \$ —            | \$ —          | \$ —            |
| <b>Equity and index contracts</b>   |                                      |                       |                     |                 |               |                 |
| Options   | Other investments                    | —                     | 6,316               | 125             | 125           | —               |
| Futures   | Other assets                         | —                     | 289                 | —               | —             | —               |
| <b>Foreign currency contracts</b>   |                                      |                       |                     |                 |               |                 |
| Foreign currency forwards   | Other investments                    | 52                    | n/a                 | 1               | 1             | —               |
| <b>Credit default contracts</b>   |                                      |                       |                     |                 |               |                 |
| Credit default swaps – buying protection  | Other investments                    | 105                   | n/a                 | (1)             | —             | (1)             |
| Credit default swaps – selling protection   | Other investments                    | 80                    | n/a                 | 1               | 1             | —               |
| <b>Other contracts</b>  |                                      |                       |                     |                 |               |                 |
| Other   | Other assets                         | 3                     | n/a                 | —               | —             | —               |
| <b>Total asset derivatives</b>  |                                      | <b>\$ 255</b>         | <b>6,605</b>        | <b>\$ 126</b>   | <b>\$ 127</b> | <b>\$ (1)</b>   |
| <b>Liability derivatives</b>  |                                      |                       |                     |                 |               |                 |
| <b>Derivatives designated as accounting hedging instruments</b>                   |                                      |                       |                     |                 |               |                 |
| Foreign currency swap agreements  | Other liabilities & accrued expenses | \$ 19                 | n/a                 | \$ 2            | \$ 2          | \$ —            |
| <b>Derivatives not designated as accounting hedging instruments</b>               |                                      |                       |                     |                 |               |                 |
| <b>Interest rate contracts</b>  |                                      |                       |                     |                 |               |                 |
| Interest rate cap agreements  | Other liabilities & accrued expenses | 30                    | n/a                 | 1               | 1             | —               |
| <b>Equity and index contracts</b>   |                                      |                       |                     |                 |               |                 |
| Options and futures   | Other liabilities & accrued expenses | —                     | 7,128               | (58)            | —             | (58)            |
| <b>Foreign currency contracts</b>   |                                      |                       |                     |                 |               |                 |
| Foreign currency forwards   | Other liabilities & accrued expenses | 650                   | n/a                 | (17)            | 3             | (20)            |
| <b>Embedded derivative financial instruments</b>                                  |                                      |                       |                     |                 |               |                 |
| 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)           |
| <b>Credit default contracts</b>   |                                      |                       |                     |                 |               |                 |
| 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                 | —               | —             | —               |
| <b>Subtotal</b>   |                                      | <b>3,114</b>          | <b>7,128</b>        | <b>(365)</b>    | <b>4</b>      | <b>(369)</b>    |
| <b>Total liability derivatives</b>  |                                      | <b>3,133</b>          | <b>7,128</b>        | <b>(363)</b>    | <b>\$ 6</b>   | <b>\$ (369)</b> |
| <b>Total derivatives</b>  |                                      | <b>\$ 3,388</b>       | <b>13,733</b>       | <b>\$ (237)</b> |               |                 |

(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 <sup>(1)</sup>

| (\$ in millions)         | Gross amount | Offsets               |                                    |      | Net amount on balance sheet | Securities collateral (received) pledged | Net amount |
|--------------------------|--------------|-----------------------|------------------------------------|------|-----------------------------|--|------------|
|                          |              | Counter-party netting | Cash collateral (received) pledged |      |                             |  |            |
| <b>December 31, 2018</b> |              |                       |                                    |      |                             |  |            |
| Asset derivatives        | \$ 25        | \$ (18)               | \$ (5)                             | \$ 2 | \$ —                        | \$ 2                                     |            |
| Liability derivatives    | (12)         | 18                    | (12)                               | (6)  | —                           | (6)                                      |            |
| <b>December 31, 2017</b> |              |                       |                                    |      |                             |  |            |
| 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.



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

| (\$ in millions)   | For the years ended December 31, |        |      |
|--|----------------------------------|--------|------|
|  | 2018                             | 2017   | 2016 |
| Gain (loss) recognized in OCI on derivatives during the period                           | \$ 1                             | \$ (2) | \$ — |
| (Loss) gain recognized in OCI on derivatives during the term of the hedging relationship | (3)                              | (1)    | 2    |
| Gain reclassified from AOCI into income (net investment income)                          | —                                | 1      | 1    |
| Gain reclassified from AOCI into income (realized capital gains and losses)              | 3                                | —      | 3    |

Amortization of net gains from AOCI related to cash flow hedges is expected to be a loss of less than \$1 million during the next twelve months. There was no hedge ineffectiveness reported in realized gains and losses in 2018, 2017 or 2016.

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

| (\$ in millions)                          | Realized capital gains (losses) | Life contract benefits | Interest credited to contractholder funds | Operating costs and expenses | Total gain (loss) recognized in net income on derivatives |
|---|---------------------------------|------------------------|---|------------------------------|---|
| <b>2018</b>                               |                                 |                        |   |                              |   |
| Interest rate contracts                   | \$ (2)                          | \$ —                   | \$ —                                      | \$ —                         | \$ (2)  |
| Equity and index contracts                | 21                              | —                      | (24)                                      | (21)                         | (24)  |
| Embedded derivative financial instruments | —                               | (5)                    | 67  | —                            | 62  |
| Foreign currency contracts                | 29                              | —                      | —   | (1)                          | 28  |
| Credit default contracts                  | 2                               | —                      | —   | —                            | 2   |
| Total return swaps - fixed income         | (1)                             | —                      | —   | —                            | (1)   |
| Total return swaps - equity               | (6)                             | —                      | —   | —                            | (6)   |
| <b>Total</b>                              | <b>\$ 43</b>                    | <b>\$ (5)</b>          | <b>\$ 43</b>                              | <b>\$ (22)</b>               | <b>\$ 59</b>  |
| <b>2017</b>                               |                                 |                        |   |                              |   |
| Equity and index contracts                | \$ (15)                         | \$ —                   | \$ 47                                     | \$ 28                        | \$ 60   |
| Embedded derivative financial instruments | —                               | 9                      | (6)                                       | —                            | 3   |
| Foreign currency contracts                | (27)                            | —                      | —   | 6                            | (21)  |
| Credit default contracts                  | (4)                             | —                      | —   | —                            | (4)   |
| <b>Total</b>                              | <b>\$ (46)</b>                  | <b>\$ 9</b>            | <b>\$ 41</b>                              | <b>\$ 34</b>                 | <b>\$ 38</b>  |
| <b>2016</b>                               |                                 |                        |   |                              |   |
| Equity and index contracts                | \$ (12)                         | \$ —                   | \$ 18                                     | \$ 19                        | \$ 25   |
| Embedded derivative financial instruments | —                               | 9                      | —   | —                            | 9   |
| Foreign currency contracts                | 17                              | —                      | —   | (35)                         | (18)  |
| Credit default contracts                  | (5)                             | —                      | —   | —                            | (5)   |
| <b>Total</b>                              | <b>\$ —</b>                     | <b>\$ 9</b>            | <b>\$ 18</b>                              | <b>\$ (16)</b>               | <b>\$ 11</b>  |

In 2018, 2017 and 2016, 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 December 31, 2018, counterparties pledged \$21 million in collateral to the Company, and the Company pledged \$4 million in cash and securities to counterparties which includes \$2 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 December 31, 2018, the Company pledged \$277 million in the form of margin deposits.

**OTC derivatives counterparty credit exposure by counterparty credit rating**

| (\$ in millions) | 2018                      |                     |                     |                                 | 2017                      |                     |                     |                                 |
|------------------|---------------------------|---------------------|---------------------|---------------------------------|---------------------------|---------------------|---------------------|---------------------------------|
|                  | 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) |
| Rating (1)       |                           |                     |                     |                                 |                           |                     |                     |                                 |
| AA-              | —                         | \$ —                | \$ —                | \$ —                            | 1                         | \$ 18               | \$ 1                | \$ —                            |
| A+               | 3                         | 643                 | 19                  | 1                               | 3                         | 90                  | 3                   | 1                               |
| A                | 2                         | 121                 | 1                   | —                               | —                         | —                   | —                   | —                               |
| <b>Total</b>     | <b>5</b>                  | <b>\$ 764</b>       | <b>\$ 20</b>        | <b>\$ 1</b>                     | <b>4</b>                  | <b>\$ 108</b>       | <b>\$ 4</b>         | <b>\$ 1</b>                     |

(1) Allstate uses the lower of S&P's or Moody's long term debt issuer 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 of December 31, 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)  | 2018        | 2017        |
|---|-------------|-------------|
| Gross liability fair value of contracts containing credit-risk-contingent features  | \$ 11       | \$ 28       |
| Gross asset fair value of contracts containing credit-risk-contingent features and subject to MNAs  | (5)         | (17)        |
| Collateral posted under MNAs for contracts containing credit-risk-contingent features   | (2)         | (6)         |
| <b>Maximum amount of additional exposure for contracts with credit-risk-contingent features if all features were triggered concurrently</b> | <b>\$ 4</b> | <b>\$ 5</b> |

## 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, CDSs are used to replicate fixed income securities and to complement the cash market when credit exposure to certain issuers is not available or when the derivative alternative is less expensive than the cash market alternative. CDSs typically have a five-year term.

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

| (\$ in millions)         | Notional amount |              |              |              |               |             | Fair value |
|--------------------------|-----------------|--------------|--------------|--------------|---------------|-------------|------------|
|                          | AA              | A            | BBB          | BB and lower | Total         |             |            |
| <b>December 31, 2018</b> |                 |              |              |              |               |             |            |
| <b>Single name</b>       |                 |              |              |              |               |             |            |
| Corporate debt           | \$ —            | \$ —         | \$ —         | \$ 5         | \$ 5          | \$ —        |            |
| <b>Total</b>             | <b>\$ —</b>     | <b>\$ —</b>  | <b>\$ —</b>  | <b>\$ 5</b>  | <b>\$ 5</b>   | <b>\$ —</b> |            |
| <b>December 31, 2017</b> |                 |              |              |              |               |             |            |
| <b>Single name</b>       |                 |              |              |              |               |             |            |
| Corporate debt           | \$ —            | \$ 10        | \$ 10        | \$ 5         | \$ 25         | \$ —        |            |
| <b>Index</b>             |                 |              |              |              |               |             |            |
| Corporate debt           | 1               | 19           | 45           | 15           | 80            | 1           |            |
| <b>Total</b>             | <b>\$ 1</b>     | <b>\$ 29</b> | <b>\$ 55</b> | <b>\$ 20</b> | <b>\$ 105</b> | <b>\$ 1</b> |            |

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.

## Off-balance sheet financial instruments

### Contractual amounts of off balance sheet financial instruments

| (\$ in millions)                                       | As of December 31, |          |
|--|--------------------|----------|
|  | 2018               | 2017     |
| Commitments to invest in limited partnership interests | \$ 3,028           | \$ 3,121 |
| Private placement commitments                          | 47                 | 96       |
| Other loan commitments                                 | 233                | 97       |

In the preceding table, the contractual amounts represent the amount at risk if the contract is fully drawn upon, the counterparty defaults and the value of any underlying security becomes worthless. Unless noted otherwise, the Company does not require collateral or other security to support off-balance sheet financial instruments with credit risk.

Commitments to invest in limited partnership interests represent agreements to acquire new or additional participation in certain limited partnership investments. The Company enters into these agreements in the normal course of business. Because the investments in limited partnerships are not actively traded, it is not practical to estimate the fair value of these commitments.

Private placement commitments represent commitments to purchase private placement debt and private equity securities at a future date. The Company enters into these agreements in the normal course of business. The fair value of the debt commitments generally cannot be estimated on the date the commitment is made as the terms and conditions of the underlying private placement securities are not yet final. Because the private equity securities are not actively traded, it is not practical to estimate fair value of the commitments.

Other loan commitments are agreements to lend to a borrower provided there is no violation of any condition established in the contract. The Company enters into these agreements to commit to future loan fundings at predetermined interest rates. Commitments have either fixed or varying expiration dates or other termination clauses. The fair value of these commitments is insignificant.

## 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 for reinsurance and indemnification recoverables, 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 Consolidated Statements of Operations in the period such changes are determined.

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

| (\$ in millions)                                | 2018             | 2017             | 2016             |
|---|------------------|------------------|------------------|
| Balance as of January 1                         | \$ 26,325        | \$ 25,250        | \$ 23,869        |
| Less recoverables <sup>(1)</sup>                | (6,471)          | (6,184)          | (5,892)          |
| <b>Net balance as of January 1</b>              | <b>19,854</b>    | <b>19,066</b>    | <b>17,977</b>    |
| SquareTrade acquisition as of January 3, 2017   | —                | 17               | —                |
| Incurring claims and claims expense related to: |                  |                  |                  |
| Current year                                    | 23,094           | 22,432           | 22,238           |
| Prior years                                     | (255)            | (503)            | (17)             |
| <b>Total incurred</b>                           | <b>22,839</b>    | <b>21,929</b>    | <b>22,221</b>    |
| Claims and claims expense paid related to:      |                  |                  |                  |
| Current year                                    | (14,938)         | (14,194)         | (14,222)         |
| Prior years                                     | (7,487)          | (6,964)          | (6,910)          |
| <b>Total paid</b>                               | <b>(22,425)</b>  | <b>(21,158)</b>  | <b>(21,132)</b>  |
| Net balance as of December 31                   | 20,268           | 19,854           | 19,066           |
| Plus recoverables                               | 7,155            | 6,471            | 6,184            |
| <b>Balance as of December 31</b>                | <b>\$ 27,423</b> | <b>\$ 26,325</b> | <b>\$ 25,250</b> |

<sup>(1)</sup> Recoverables comprises reinsurance and indemnification recoverables. See Note 10 for further details.

| Reconciliation of total claims and claims expense incurred and paid by coverage<br>(\$ in millions) | December 31, 2018 |                    |
|---|-------------------|--------------------|
|   | Incurred          | Paid               |
| Allstate Protection   |                   |                    |
| Auto insurance - liability coverage   | \$ 8,413          | \$ (7,535)         |
| Auto insurance - physical damage coverage   | 5,088             | (5,134)            |
| Homeowners insurance  | 4,817             | (4,714)            |
| Total auto and homeowners insurance   | 18,318            | (17,383)           |
| Other personal lines  | 1,081             | (1,055)            |
| Commercial lines  | 545               | (369)              |
| Service Businesses  | 313               | (325)              |
| Discontinued Lines and Coverages  | 73                | (91)               |
| Unallocated loss adjustment expenses ("ULAE")   | 2,540             | (2,635)            |
| Claims incurred and paid from before 2014   | (68)              | (398)              |
| Other   | 37                | (169)              |
| <b>Total</b>  | <b>\$ 22,839</b>  | <b>\$ (22,425)</b> |

Incurred claims and claims expense represents the sum of paid losses and reserve changes in the calendar year. This expense includes losses from catastrophes of \$2.86 billion, \$3.23 billion and \$2.57 billion in 2018, 2017 and 2016, respectively, net of recoverables. 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.

The Company calculates and records a single best reserve estimate for losses from catastrophes, in conformance with generally accepted actuarial standards. As a result, management believes that no other estimate is better than the recorded amount. Due to the uncertainties involved, including the factors described above, the ultimate cost of losses may vary materially from recorded amounts, which are based on management's best estimates. Accordingly, management believes that it is not practical to develop a meaningful range for any such changes in losses incurred.

During 2018, incurred claims and claims expense related to prior years was primarily comprised of net decreases in auto reserves of \$455 million, primarily related to a reduction in claim severity estimates for liability coverages, net increases in commercial lines of \$108 million, net increases in Discontinued Lines and Coverages of \$87 million, net increases in homeowners reserves of \$14 million and a net decrease in other reserves of \$9 million. Incurred claims and claims expense includes unfavorable catastrophe loss reestimates of \$25 million, net of recoverables.

During 2017, incurred claims and claims expense related to prior years was primarily comprised of net decreases in auto and homeowners reserves of \$490 million and \$131 million, respectively, primarily related to a reduction in claim severity estimates for liability coverages, net increases in Discontinued Lines and Coverages of \$96 million and net increases in other reserves of \$22 million. Incurred claims and claims expense includes favorable catastrophe loss reestimates of \$18 million, net of recoverables.

During 2016, incurred claims and claims expense related to prior years was primarily composed of net decreases in auto reserves of \$155 million primarily due to claim severity development for bodily injury coverage that was better than expected, net decreases in homeowners reserves of \$24 million due to favorable non-catastrophe reserve reestimates, net increases in other reserves of \$57 million primarily due to unfavorable commercial business non-catastrophe losses, and net increases in Discontinued Lines and Coverages reserves of \$105 million. Incurred claims and claims expense includes unfavorable catastrophe loss reestimates of \$6 million, net of recoverables.

The following presents information about incurred and paid claims development as of December 31, 2018, net of recoverables, as well as the cumulative number of reported claims and the total of IBNR reserves plus expected development on reported claims included in the net incurred claims amounts. See Note 2 for the accounting policy and methodology for determining reserves for claims and claims expense, including both reported and IBNR claims. The cumulative number of reported claims is identified by coverage and excludes reported claims for industry pools and facilities where information is not available. The information about incurred and paid claims development for the 2014 to 2018 years, and the average annual percentage payout of incurred claims by age as of December 31, 2018, is presented as required supplementary information.

### Auto insurance – liability coverage

| (\$ in millions, except number of reported claims)                               | Incurred claims and allocated claim adjustment expenses, net of recoverables |                     |                     |                     |                  | IBNR reserves plus expected development on reported claims | Cumulative number of reported claims |           |
|--|--|---------------------|---------------------|---------------------|------------------|--|--------------------------------------|-----------|
|  | For the years ended December 31,   |                     |                     |                     |                  |  |                                      |           |
| Accident year  | (unaudited)<br>2014  | (unaudited)<br>2015 | (unaudited)<br>2016 | (unaudited)<br>2017 | 2018             | Prior year reserve reestimates                             | As of December 31, 2018              |           |
| 2014   | \$ 7,727   | \$ 7,833            | \$ 7,797            | \$ 7,727            | \$ 7,661         | \$ (66)  | \$ 471                               | 2,195,241 |
| 2015   | —  | 8,741               | 8,711               | 8,656               | 8,596            | (60)   | 1,044                                | 2,382,914 |
| 2016   | —  | —                   | 9,007               | 8,811               | 8,711            | (100)  | 1,873                                | 2,396,876 |
| 2017   | —  | —                   | —                   | 8,436               | 8,369            | (67)   | 3,049                                | 2,204,093 |
| 2018   | —  | —                   | —                   | —                   | 8,706            |  | 5,484                                | 2,075,655 |
|  |  |                     |                     | <b>Total</b>        | <b>\$ 42,043</b> | <b>\$ (293)</b>  |                                      |           |
| <i>Reconciliation to total prior year reserve reestimates recognized by line</i> |  |                     |                     |                     |                  |  |                                      |           |
|  |  |                     |                     |                     |                  | (43)   |                                      |           |
|  |  |                     |                     |                     |                  | 8  |                                      |           |
|  |  |                     |                     |                     |                  | (1)  |                                      |           |
|  |  |                     |                     |                     |                  | <b>\$ (329)</b>  |                                      |           |

### Cumulative paid claims and allocated claims adjustment expenses, net of recoverables

| Accident year | For the years ended December 31, |                     |                     |                     |                  |
|---------------|----------------------------------|---------------------|---------------------|---------------------|------------------|
|               | (unaudited)<br>2014              | (unaudited)<br>2015 | (unaudited)<br>2016 | (unaudited)<br>2017 | 2018             |
| 2014          | \$ 3,168                         | \$ 5,308            | \$ 6,247            | \$ 6,813            | \$ 7,190         |
| 2015          | —                                | 3,518               | 5,828               | 6,872               | 7,552            |
| 2016          | —                                | —                   | 3,479               | 5,759               | 6,838            |
| 2017          | —                                | —                   | —                   | 3,143               | 5,320            |
| 2018          | —                                | —                   | —                   | —                   | 3,222            |
|               |                                  |                     |                     | <b>Total</b>        | <b>\$ 30,122</b> |
|               |                                  |                     |                     |                     | 1,259            |
|               |                                  |                     |                     |                     | <b>\$ 13,180</b> |

### Average annual percentage payout of incurred claims by age, net of recoverables, as of December 31, 2018

|                                     | 1 year | 2 years | 3 years | 4 years | 5 years |
|-------------------------------------|--------|---------|---------|---------|---------|
| Auto insurance – liability coverage | 40.2%  | 27.3%   | 12.6%   | 8.0%    | 4.7%    |



## Auto insurance – physical damage coverage

| (\$ in millions,<br>except number of<br>reported claims)                         | Incurred claims and allocated claim adjustment expenses, net of recoverables |                     |                     |                     |                  | Prior year<br>reserve<br>reestimates | IBNR reserves<br>plus expected<br>development on<br>reported claims | Cumulative<br>number of<br>reported claims |
|--|--|---------------------|---------------------|---------------------|------------------|--------------------------------------|---|--|
|  | For the years ended December 31,   |                     |                     |                     |                  |                                      |   |  |
| Accident year  | (unaudited)<br>2014  | (unaudited)<br>2015 | (unaudited)<br>2016 | (unaudited)<br>2017 | 2018             |                                      |   |  |
| 2014   | \$ 4,296   | \$ 4,284            | \$ 4,258            | \$ 4,261            | \$ 4,260         | \$ (1)                               | \$ 3  | 4,144,633                                  |
| 2015   | —  | 4,646               | 4,675               | 4,663               | 4,654            | (9)                                  | 6   | 4,389,912                                  |
| 2016   | —  | —                   | 5,118               | 5,045               | 5,018            | (27)                                 | 6   | 4,430,776                                  |
| 2017   | —  | —                   | —                   | 5,111               | 5,029            | (82)                                 | 1   | 4,232,605                                  |
| 2018   | —  | —                   | —                   | —                   | 5,207            |                                      | 246   | 4,150,524                                  |
|  |  |                     |                     | <b>Total</b>        | <b>\$ 24,168</b> | <b>\$ (119)</b>                      |   |  |
| <i>Reconciliation to total prior year reserve reestimates recognized by line</i> |  |                     |                     |                     |                  |                                      |   |  |
|  |  |                     |                     |                     |                  | <b>(3)</b>                           |   |  |
|  |  |                     |                     |                     |                  | <b>(5)</b>                           |   |  |
|  |  |                     |                     |                     |                  | <b>1</b>                             |   |  |
|  |  |                     |                     |                     |                  | <b>\$ (126)</b>                      |   |  |

| Cumulative paid claims and allocated claims adjustment expenses, net of recoverables |                     |                     |                     |                     |                  |
|--|---------------------|---------------------|---------------------|---------------------|------------------|
| For the years ended December 31,   |                     |                     |                     |                     |                  |
| Accident year  | (unaudited)<br>2014 | (unaudited)<br>2015 | (unaudited)<br>2016 | (unaudited)<br>2017 | 2018             |
| 2014   | \$ 4,137            | \$ 4,269            | \$ 4,261            | \$ 4,258            | \$ 4,257         |
| 2015   | —                   | 4,501               | 4,665               | 4,652               | 4,648            |
| 2016   | —                   | —                   | 4,881               | 5,024               | 5,012            |
| 2017   | —                   | —                   | —                   | 4,838               | 5,029            |
| 2018   | —                   | —                   | —                   | —                   | 4,960            |
|  |                     |                     |                     | <b>Total</b>        | <b>\$ 23,906</b> |
|  |                     |                     |                     |                     | 9                |
|  |                     |                     |                     |                     | <b>\$ 271</b>    |

## Average annual percentage payout of incurred claims by age, net of recoverables, as of December 31, 2018

|   | 1 year | 2 years | 3 years | 4 years | 5 years |
|---|--------|---------|---------|---------|---------|
| Auto insurance – physical damage coverage | 96.9%  | 3.1%    | (0.2)%  | —%      | —%      |

## Homeowners insurance

| (\$ in millions,<br>except<br>number of<br>reported<br>claims)                   | Incurred claims and allocated claim adjustment expenses, net of recoverables |                     |                     |                     |                     | IBNR reserves plus<br>expected<br>development on<br>reported claims | Cumulative<br>number of<br>reported claims |
|--|--|---------------------|---------------------|---------------------|---------------------|---|--|
|  | For the years ended December 31,   |                     |                     |                     |                     |   |  |
| Accident<br>year   | (unaudited)<br>2014  | (unaudited)<br>2015 | (unaudited)<br>2016 | (unaudited)<br>2017 | (unaudited)<br>2018 | Prior year reserve<br>reestimates                                   | As of December 31, 2018                    |
| 2014   | \$ 3,589   | \$ 3,636            | \$ 3,640            | \$ 3,609            | \$ 3,599            | \$ (10)   | \$ 52                                      |
| 2015   | —  | 3,553               | 3,607               | 3,548               | 3,532               | (16)  | 79   |
| 2016   | —  | —                   | 3,952               | 3,987               | 3,949               | (38)  | 147  |
| 2017   | —  | —                   | —                   | 4,469               | 4,611               | 142   | 370  |
| 2018   | —  | —                   | —                   | —                   | 4,739               | —   | 1,256                                      |
|  |  |                     |                     | <b>Total</b>        | <b>\$ 20,430</b>    | <b>\$ 78</b>  |  |
| <i>Reconciliation to total prior year reserve reestimates recognized by line</i> |  |                     |                     |                     |                     |   |  |
|  | Prior year reserve reestimates for pre-2014 accident years                   |                     |                     |                     |                     | (23)  |  |
|  | Prior year reserve reestimates for ULAE                                      |                     |                     |                     |                     | (50)  |  |
|  | Other  |                     |                     |                     |                     | 9   |  |
|  | <b>Total prior year reserve reestimates</b>                                  |                     |                     |                     |                     | <b>\$ 14</b>  |  |

| Accident<br>year | Cumulative paid claims and allocated claims adjustment expenses, net of recoverables |                     |                     |                     |                     |
|------------------|--|---------------------|---------------------|---------------------|---------------------|
|                  | For the years ended December 31,   |                     |                     |                     |                     |
|                  | (unaudited)<br>2014  | (unaudited)<br>2015 | (unaudited)<br>2016 | (unaudited)<br>2017 | (unaudited)<br>2018 |
| 2014             | \$ 2,729   | \$ 3,356            | \$ 3,472            | \$ 3,524            | \$ 3,547            |
| 2015             | —  | 2,583               | 3,291               | 3,394               | 3,453               |
| 2016             | —  | —                   | 2,942               | 3,672               | 3,802               |
| 2017             | —  | —                   | —                   | 3,222               | 4,241               |
| 2018             | —  | —                   | —                   | —                   | 3,483               |
|                  |  |                     |                     | <b>Total</b>        | <b>\$ 18,526</b>    |
|                  | All outstanding liabilities before 2014, net of recoverables                         |                     |                     |                     | 140                 |
|                  | Liabilities for claims and claim adjustment expenses, net of recoverables            |                     |                     |                     | <b>\$ 2,044</b>     |

## Average annual percentage payout of incurred claims by age, net of recoverables, as of December 31, 2018

|                      | 1 year | 2 years | 3 years | 4 years | 5 years |
|----------------------|--------|---------|---------|---------|---------|
| Homeowners insurance | 74.7%  | 18.8%   | 2.9%    | 1.4%    | 0.7%    |

**Reconciliation of the net incurred and paid claims development tables above to the reserve for property and casualty insurance claims and claims expense**

| (\$ in millions)   | As of December 31, 2018 |               |
|--|-------------------------|---------------|
| Net outstanding liabilities  |                         |               |
| Allstate Protection  |                         |               |
| Auto insurance - liability coverage  | \$                      | 13,180        |
| Auto insurance - physical damage coverage  |                         | 271           |
| Homeowners insurance   |                         | 2,044         |
| Other personal lines   |                         | 1,356         |
| Commercial lines   |                         | 766           |
| Service Businesses   |                         | 50            |
| Discontinued Lines and Coverages <sup>(1)</sup>                                    |                         | 1,315         |
| ULAE   |                         | 1,286         |
| <b>Net reserve for property and casualty insurance claims and claims expense</b>   |                         | <b>20,268</b> |
| Recoverables   |                         |               |
| Allstate Protection  |                         |               |
| Auto insurance - liability coverage  |                         | 5,829         |
| Auto insurance - physical damage coverage  |                         | 12            |
| Homeowners insurance   |                         | 472           |
| Other personal lines   |                         | 195           |
| Commercial lines   |                         | 53            |
| Service Businesses   |                         | 12            |
| Discontinued Lines and Coverages   |                         | 473           |
| ULAE   |                         | 109           |
| <b>Total recoverables</b>  |                         | <b>7,155</b>  |
| <b>Gross reserve for property and casualty insurance claims and claims expense</b> | <b>\$</b>               | <b>27,423</b> |

<sup>(1)</sup> Discontinued Lines and Coverages includes business in run-off with a majority of the claims related to accident years more than 30 years ago. IBNR reserves represent \$693 million of the total reserves as of December 31, 2018.

Management believes that the reserve for property and casualty insurance claims and claims expense, net of 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 Consolidated Statements of Financial Position based on available facts, technology, laws and regulations.

Allstate's reserves for asbestos claims were \$866 million and \$884 million, net of reinsurance recoverables of \$400 million and \$412 million, as of December 31, 2018 and 2017, respectively. Reserves for environmental claims were \$170 million and \$166 million, net of reinsurance recoverables of \$39 million and \$33 million, as of December 31, 2018 and 2017, respectively. For further discussion of asbestos and environmental reserves, see Note 14.

**Note 9 Reserve for Life-Contingent Contract Benefits and Contractholder Funds****Reserve for life-contingent contract benefits**

| (\$ in millions)   | As of December 31, |                  |
|--|--------------------|------------------|
|  | 2018               | 2017             |
| Immediate fixed annuities:                                 |                    |                  |
| Structured settlement annuities                            | \$ 6,701           | \$ 6,994         |
| Other immediate fixed annuities                            | 1,714              | 1,855            |
| Traditional life insurance                                 | 2,808              | 2,722            |
| Accident and health insurance                              | 876                | 893              |
| Other  | 109                | 85               |
| <b>Total reserve for life-contingent contract benefits</b> | <b>\$ 12,208</b>   | <b>\$ 12,549</b> |

**Key assumptions generally used in calculating the reserve for life-contingent contract benefits**

| Product   | Mortality  | Interest rate                                      | Estimation method   |
|---|--|--|---|
| Structured settlement annuities   | U.S. population with projected calendar year improvements; mortality rates adjusted for each impaired life based on reduction in life expectancy   | Interest rate assumptions range from 2.9% to 9.0%  | Present value of contractually specified future benefits  |
| Other immediate fixed annuities   | 1983 group annuity mortality table with internal modifications; 1983 individual annuity mortality table; Annuity 2000 mortality table with internal modifications; Annuity 2000 mortality table; 1983 individual annuity mortality table with internal modifications | Interest rate assumptions range from 0.0% to 11.5% | Present value of expected future benefits based on historical experience  |
| Traditional life insurance  | Actual company experience plus loading   | Interest rate assumptions range from 2.5% to 11.3% | Net level premium reserve method using the Company's withdrawal experience rates; includes reserves for unpaid claims |
| Accident and health insurance   | Actual company experience plus loading   | Interest rate assumptions range from 3.0% to 7.0%  | Unearned premium; additional contract reserves for mortality risk and unpaid claims                                   |
| Other:<br>Variable annuity guaranteed minimum death benefits <sup>(1)</sup> | Annuity 2012 mortality table with internal modifications   | Interest rate assumptions range from 2.0% to 5.8%  | Projected benefit ratio applied to cumulative assessments   |

<sup>(1)</sup> In 2006, the Company disposed of substantially all of its variable annuity business through reinsurance agreements with The Prudential Insurance Company of America, a subsidiary of Prudential Financial, Inc. (collectively "Prudential").

The Company records an adjustment to the reserve for life-contingent contract benefits that represents the amount by which the reserve balance would increase if the net unrealized gains in the applicable product investment portfolios were realized and reinvested at current lower interest rates, resulting in a premium deficiency. The offset to this liability is recorded as a reduction of the unrealized net capital gains included in AOCI.

In conjunction with the segment changes that occurred in 2017, the Company evaluated the need for a reserve adjustment separately for traditional life insurance and immediate annuities with life contingencies. As of December 31, 2017, the Company recorded a \$315 million increase to the reserve for life-contingent contract benefits and a \$249 million decrease to unrealized net capital gains, after-tax, included in shareholders' equity. This liability was zero as of December 31, 2018.

**Contractholder funds**

| (\$ in millions)                  | As of December 31, |                  |
|-----------------------------------|--------------------|------------------|
|                                   | 2018               | 2017             |
| Interest-sensitive life insurance | \$ 8,229           | \$ 8,190         |
| Investment contracts:             |                    |                  |
| Fixed annuities                   | 9,681              | 10,828           |
| Other investment contracts        | 461                | 416              |
| <b>Total contractholder funds</b> | <b>\$ 18,371</b>   | <b>\$ 19,434</b> |

**Key contract provisions of contractholder funds**

| <b>Product</b>  | <b>Interest rate</b>  | <b>Withdrawal/surrender charges</b>   |
|---|---|---|
| Interest-sensitive life insurance   | Interest rates credited range from 0.0% to 10.5% for equity-indexed life (whose returns are indexed to the S&P 500) and 1.0% to 6.0% for all other products   | Either a percentage of account balance or dollar amount grading off generally over 20 years   |
| Fixed annuities   | Interest rates credited range from 0.0% to 9.8% for immediate annuities; (8.0)% to 10.8% for equity-indexed annuities (whose returns are indexed to the S&P 500); and 0.1% to 6.0% for all other products | Either a declining or a level percentage charge generally over ten years or less. Additionally, approximately 13.5% of fixed annuities are subject to market value adjustment for discretionary withdrawals |
| Other investment contracts:<br>Guaranteed minimum income, accumulation and withdrawal benefits on variable <sup>(1)</sup> and fixed annuities and secondary guarantees on interest-sensitive life insurance and fixed annuities | Interest rates used in establishing reserves range from 1.7% to 10.3%   | Withdrawal and surrender charges are based on the terms of the related interest-sensitive life insurance or fixed annuity contract  |

<sup>(1)</sup> In 2006, the Company disposed of substantially all of its variable annuity business through reinsurance agreements with Prudential.

**Contractholder funds activity**

| (\$ in millions)  | For the years ended December 31, |                  |                  |
|---|----------------------------------|------------------|------------------|
|   | 2018                             | 2017             | 2016             |
| Balance, beginning of year                                    | \$ 19,434                        | \$ 20,260        | \$ 21,295        |
| Deposits  | 1,109                            | 1,130            | 1,164            |
| Interest credited   | 650                              | 687              | 722              |
| Benefits  | (844)                            | (901)            | (966)            |
| Surrenders and partial withdrawals                            | (1,135)                          | (999)            | (1,053)          |
| Maturities of and interest payments on institutional products | —                                | —                | (86)             |
| Contract charges  | (824)                            | (826)            | (829)            |
| Net transfers from separate accounts                          | 6                                | 5                | 5                |
| Other adjustments   | (25)                             | 78               | 8                |
| <b>Balance, end of year</b>                                   | <b>\$ 18,371</b>                 | <b>\$ 19,434</b> | <b>\$ 20,260</b> |

The Company offered various guarantees to variable annuity contractholders. In 2006, the Company disposed of substantially all of its variable annuity business through reinsurance agreements with Prudential. Liabilities for variable contract guarantees related to death benefits are included in the reserve for life-contingent contract benefits and the liabilities related to the income, withdrawal and accumulation benefits are included in contractholder funds. All liabilities for variable contract guarantees are reported on a gross basis on the balance sheet with a corresponding reinsurance recoverable asset for those contracts subject to reinsurance.

Absent any contract provision wherein the Company guarantees either a minimum return or account value upon death, a specified contract anniversary date, partial withdrawal or annuitization, variable annuity and variable life insurance contractholders bear the investment risk that the separate accounts' funds may not meet their stated investment objectives. The account balances of variable annuity contracts' separate accounts with guarantees included \$2.47 billion and \$3.02 billion of equity, fixed income and balanced mutual funds and \$245 million and \$322 million of money market mutual funds as of December 31, 2018 and 2017, respectively.

The table below presents information regarding the Company's variable annuity contracts with guarantees. The Company's variable annuity contracts may offer more than one type of guarantee in each contract; therefore, the sum of amounts listed exceeds the total account balances of variable annuity contracts' separate accounts with guarantees.

| (\$ in millions)  | As of December 31, |          |
|---|--------------------|----------|
|   | 2018               | 2017     |
| <i>In the event of death</i>  |                    |          |
| Separate account value  | \$ 2,711           | \$ 3,344 |
| Net amount at risk <sup>(1)</sup>                                     | \$ 605             | \$ 454   |
| Average attained age of contractholders                               | 71 years           | 70 years |
| <i>At annuitization (includes income benefit guarantees)</i>          |                    |          |
| Separate account value  | \$ 778             | \$ 944   |
| Net amount at risk <sup>(2)</sup>                                     | \$ 264             | \$ 202   |
| Weighted average waiting period until annuitization options available | None               | None     |
| <i>For cumulative periodic withdrawals</i>                            |                    |          |
| Separate account value  | \$ 190             | \$ 253   |
| Net amount at risk <sup>(3)</sup>                                     | \$ 16              | \$ 10    |
| <i>Accumulation at specified dates</i>                                |                    |          |
| Separate account value  | \$ 129             | \$ 170   |
| Net amount at risk <sup>(4)</sup>                                     | \$ 26              | \$ 17    |
| Weighted average waiting period until guarantee date                  | 4 years            | 5 years  |

<sup>(1)</sup> Defined as the estimated current guaranteed minimum death benefit in excess of the current account balance as of the balance sheet date.

<sup>(2)</sup> Defined as the estimated present value of the guaranteed minimum annuity payments in excess of the current account balance.

<sup>(3)</sup> Defined as the estimated current guaranteed minimum withdrawal balance (initial deposit) in excess of the current account balance as of the balance sheet date.

<sup>(4)</sup> Defined as the estimated present value of the guaranteed minimum accumulation balance in excess of the current account balance.

The liability for death and income benefit guarantees is equal to a benefit ratio multiplied by the cumulative contract charges earned, plus accrued interest less contract excess guarantee benefit payments. The benefit ratio is calculated as the estimated present value of all expected contract excess guarantee benefits divided by the present value of all expected contract charges. The establishment of reserves for these guarantees requires the projection of future fund values, mortality, persistency and customer benefit utilization rates. These assumptions are periodically reviewed and updated. For guarantees related to death benefits, benefits represent the projected excess guaranteed minimum death benefit payments. For guarantees related to income benefits, benefits represent the present value of the minimum guaranteed annuitization benefits in excess of the projected account balance at the time of annuitization.

Projected benefits and contract charges used in determining the liability for certain guarantees are developed using models and stochastic scenarios that are also used in the development of estimated expected gross profits. Underlying assumptions for the liability related to income benefits include assumed future annuitization elections based on factors such as the extent of benefit to the potential annuitant, eligibility conditions and the annuitant's attained age. The liability for guarantees is re-evaluated periodically, and adjustments are made to the liability balance through a charge or credit to life and annuity contract benefits.

Guarantees related to the majority of withdrawal and accumulation benefits are considered to be derivative financial instruments; therefore, the liability for these benefits is established based on its fair value.

**Summary of liabilities for guarantees**

| (\$ in millions)                                 | Liability for guarantees related to death benefits and interest-sensitive life products | Liability for guarantees related to income benefits | Liability for guarantees related to accumulation and withdrawal benefits | Total         |
|--|---|---|--|---------------|
| Balance, December 31, 2017 <sup>(1)</sup>        | \$ 262  | \$ 29   | \$ 79  | \$ 370        |
| Less reinsurance recoverables                    | 87  | 25  | 34   | 146           |
| <b>Net balance as of December 31, 2017</b>       | <b>175</b>  | <b>4</b>  | <b>45</b>  | <b>224</b>    |
| Incurred guarantee benefits                      | 24  | —   | 13   | 37            |
| Paid guarantee benefits                          | (2)   | —   | —  | (2)           |
| <b>Net change</b>                                | <b>22</b>   | <b>—</b>  | <b>13</b>  | <b>35</b>     |
| Net balance as of December 31, 2018              | 197   | 4   | 58   | 259           |
| Plus reinsurance recoverables                    | 111   | 35  | 39   | 185           |
| <b>Balance, December 31, 2018 <sup>(2)</sup></b> | <b>\$ 308</b>   | <b>\$ 39</b>  | <b>\$ 97</b>   | <b>\$ 444</b> |
| Balance, December 31, 2016 <sup>(3)</sup>        | \$ 244  | \$ 44   | \$ 77  | \$ 365        |
| Less reinsurance recoverables                    | 101   | 40  | 43   | 184           |
| <b>Net balance as of December 31, 2016</b>       | <b>143</b>  | <b>4</b>  | <b>34</b>  | <b>181</b>    |
| Incurred guarantee benefits                      | 34  | —   | 11   | 45            |
| Paid guarantee benefits                          | (2)   | —   | —  | (2)           |
| <b>Net change</b>                                | <b>32</b>   | <b>—</b>  | <b>11</b>  | <b>43</b>     |
| Net balance as of December 31, 2017              | 175   | 4   | 45   | 224           |
| Plus reinsurance recoverables                    | 87  | 25  | 34   | 146           |
| <b>Balance, December 31, 2017 <sup>(1)</sup></b> | <b>\$ 262</b>   | <b>\$ 29</b>  | <b>\$ 79</b>   | <b>\$ 370</b> |

(1) Included in the total liability balance as of December 31, 2017 are reserves for variable annuity death benefits of \$85 million, variable annuity income benefits of \$26 million, variable annuity accumulation benefits of \$22 million, variable annuity withdrawal benefits of \$12 million and other guarantees of \$225 million.

(2) Included in the total liability balance as of December 31, 2018 are reserves for variable annuity death benefits of \$109 million, variable annuity income benefits of \$36 million, variable annuity accumulation benefits of \$25 million, variable annuity withdrawal benefits of \$14 million and other guarantees of \$260 million.

(3) Included in the total liability balance as of December 31, 2016 are reserves for variable annuity death benefits of \$100 million, variable annuity income benefits of \$40 million, variable annuity accumulation benefits of \$34 million, variable annuity withdrawal benefits of \$9 million and other guarantees of \$182 million.

**Note 10 Reinsurance and Indemnification****Effects of reinsurance and indemnification on property and casualty premiums written and earned and life premiums and contract charges**

| (\$ in millions)   | For the years ended December 31, |                  |                  |
|--|----------------------------------|------------------|------------------|
|  | 2018                             | 2017             | 2016             |
| <b>Property and casualty insurance premiums written</b>                      |                                  |                  |                  |
| Direct   | \$ 35,895                        | \$ 33,685        | \$ 32,614        |
| Assumed  | 99                               | 64               | 47               |
| Ceded  | (1,008)                          | (1,007)          | (1,061)          |
| <b>Property and casualty insurance premiums written, net of recoverables</b> | <b>\$ 34,986</b>                 | <b>\$ 32,742</b> | <b>\$ 31,600</b> |
| <b>Property and casualty insurance premiums earned</b>                       |                                  |                  |                  |
| Direct   | \$ 34,977                        | \$ 33,221        | \$ 32,249        |
| Assumed  | 87                               | 50               | 45               |
| Ceded  | (1,016)                          | (971)            | (987)            |
| <b>Property and casualty insurance premiums earned, net of recoverables</b>  | <b>\$ 34,048</b>                 | <b>\$ 32,300</b> | <b>\$ 31,307</b> |
| <b>Life premiums and contract charges</b>                                    |                                  |                  |                  |
| Direct   | \$ 2,001                         | \$ 1,894         | \$ 1,766         |
| Assumed  | 754                              | 787              | 818              |
| Ceded  | (290)                            | (303)            | (309)            |
| <b>Life premiums and contract charges, net of recoverables</b>               | <b>\$ 2,465</b>                  | <b>\$ 2,378</b>  | <b>\$ 2,275</b>  |

### Property and casualty reinsurance and indemnification recoverables

Total amounts recoverable from reinsurers and indemnitors as of December 31, 2018 and 2017 were \$7.27 billion and \$6.57 billion, respectively, including \$111 million and \$96 million, respectively, related to property and casualty losses paid by the Company and billed to reinsurers and indemnitors, and \$7.15 billion and \$6.47 billion, respectively, estimated by the Company with respect to ceded or indemnifiable unpaid losses (including IBNR), which are not billable until the losses are paid. The allowance for uncollectible reinsurance was \$65 million and \$70 million as of December 31, 2018 and 2017, respectively, and is primarily related to reinsurance recoverables arising from the Discontinued Lines and Coverages segment. Indemnification recoverables are considered collectible based on the industry pool and facility enabling legislation.

Property and casualty programs are grouped by the following characteristics:

1. Indemnification programs - industry pools, facilities or associations that are governed by state insurance statutes or regulations or the federal government.
2. Catastrophe reinsurance programs - reinsurance protection for catastrophe exposure nationwide and by specific states, as applicable.
3. Other reinsurance programs - reinsurance protection for asbestos, environmental and other liability exposures.

Property and casualty reinsurance is in place for the Allstate Protection, Discontinued Lines and Coverages and Service Businesses segments. The Company purchases reinsurance after evaluating the financial condition of the reinsurer as well as the terms and price of coverage.

#### Indemnification programs

The Company participates in state-based industry pools or facilities mandating participation by insurers offering certain coverage in their state, including the Michigan Catastrophic Claims Association ("MCCA"), the New Jersey Property-Liability Insurance Guaranty Association ("PLIGA"), the North Carolina Reinsurance Facility ("NCRF") and the Florida Hurricane Catastrophe Fund ("FHCF"). When the Company pays qualifying claims under the coverage indemnified by a state's pool or facility, the Company is reimbursed for the qualifying claim losses or expenses. Each state pool or facility may assess participating companies to collect sufficient amounts to meet its total indemnification requirements. The enabling legislation for each state's pool or facility compels the pool or facility only to indemnify participating companies for qualifying claim losses or expenses; the state pool or facility does not underwrite the coverage or take on the ultimate risk of the indemnified business. As a pass through, these pools or facilities manage the receipt of assessments paid by participating companies and payment of indemnified amounts for covered claims presented by participating companies. The Company has not had

any credit losses related to these indemnification programs.

#### State-based industry pools or facilities

**Michigan Catastrophic Claims Association** The MCCA is a statutory indemnification mechanism for member insurers' qualifying personal injury protection claims paid for the unlimited lifetime medical benefits above the applicable retention level for qualifying injuries from automobile, motorcycle and commercial vehicle accidents. Indemnification recoverables on paid and unpaid claims, including IBNR, as of December 31, 2018 and 2017 include \$5.40 billion and \$5.26 billion, respectively, from the MCCA for its indemnification obligation.

As required for member companies by the MCCA, the Company reports covered paid and unpaid claims to the MCCA when estimates of loss for a reported claim are expected to exceed the retention level, the claims involve certain types of severe injuries, or there are litigation demands received suggesting the claim value exceeds certain thresholds. The retention level is adjusted upward every other MCCA fiscal year by the lesser of 6% or the increase in the Consumer Price Index. The retention level will be \$580 thousand per claim for the fiscal two-years ending June 30, 2021 compared to \$555 thousand per claim for the fiscal two-years ending June 30, 2019.

The MCCA is obligated to fund the ultimate liability of member companies' qualifying claims and claim expenses. The MCCA does not underwrite the insurance coverage or hold any underwriting risk. The MCCA is funded by participating member companies (companies actively writing motor vehicle coverage in Michigan) through a per vehicle annual assessment that is currently \$192 per vehicle insured. The MCCA is required to assess an amount each year sufficient to cover members' actuarially determined present value of expected payments on lifetime claims of all persons expected to be catastrophically injured in that year, its operating expenses, and adjustments for the amount of excesses or deficiencies in prior assessments. The assessment is incurred by the Company as policies are written and recovered as a component of premiums from our customers.

The MCCA indemnifies members as qualifying claims are paid and billed by members to the MCCA. Unlimited lifetime covered losses result in significant levels of ultimate incurred claim reserves being recorded by member companies along with offsetting indemnification recoverables. Disputes with claimants over coverage on certain reported claims can result in additional losses, which may be recoverable from the MCCA, excluding litigation expenses.

The MCCA prepares statutory-basis financial statements in conformity with accounting practices prescribed or permitted by the State of Michigan Department of Insurance and Financial Services ("MI DOI"). The MI DOI has granted the MCCA a statutory permitted practice that expires in 2019 to discount its liabilities for loss and loss adjustment expense. As of June 30, 2018, the date of its most recent annual financial report, the MCCA had cash and invested



assets of \$20.54 billion and an accumulated deficit of \$2.92 billion. The permitted practice reduced the accumulated deficit by \$47.24 billion.

**New Jersey Property-Liability Insurance Guaranty Association** PLIGA serves as the statutory administrator of the Unsatisfied Claim and Judgment Fund ("UCJF"), Workers' Compensation Security Fund and the New Jersey Surplus Lines Insurance Guaranty Fund.

In addition to its insolvency protection responsibilities, PLIGA reimburses insurers for unlimited excess medical benefits ("EMBs") paid in connection with personal injury protection claims in excess of \$75,000 for policies issued or renewed prior to January 1, 1991, and limited EMB claims in excess of \$75,000 and capped at \$250,000 for policies issued or renewed on or after January 1, 1991, to December 31, 2003.

A significant portion of the incurred claim reserves and the recoverables can be attributed to a small number of catastrophic claims. Assessments paid to PLIGA for the EMB program totaled \$8.9 million in 2018. The amounts of paid and unpaid recoverables as of December 31, 2018 and 2017 were \$461 million and \$493 million, respectively.

PLIGA annually assesses all admitted property and casualty insurers writing covered lines in New Jersey for PLIGA indemnification and expenses. PLIGA assessments may be recouped as a surcharge on premiums collected. PLIGA does not ultimately retain underwriting risk as it assesses member companies for their expected qualifying losses to provide funding for payment of its indemnification obligation to member companies for their actual losses. As a pass through, PLIGA facilitates these transactions of receipt of assessments paid by member companies and payment to member companies for covered claims presented by them for indemnification. As of December 31, 2018, the date of its most recent annual financial report, PLIGA had a fund balance of \$250 million.

As statutory administrator of the UCJF, PLIGA provides compensation to qualified claimants for personal injury protection, bodily injury, or death caused by private passenger automobiles operated by uninsured or "hit and run" drivers. The UCJF also provides private passenger pedestrian personal injury protection benefits when no other coverage is available.

PLIGA annually collects a UCJF assessment from all admitted property and casualty insurers writing motor vehicle liability insurance in New Jersey for UCJF indemnification and expenses. UCJF assessments can be expensed as losses recoverable in rates as appropriate. As of December 31, 2018, the date of its most recent annual financial report, the UCJF fund had a balance of \$41 million.

**North Carolina Reinsurance Facility** The NCRF provides automobile liability insurance to drivers that insurers are not otherwise willing to insure. All insurers licensed to write automobile insurance in North Carolina are members of the NCRF. Premiums, losses

and expenses are assigned to the NCRF. North Carolina law allows the NCRF to recoup operating losses for certain insureds through a surcharge to policyholders. As of September 30, 2018, the NCRF reported a deficit of \$215 million in members' equity. The NCRF implemented a loss recoupment surcharge on all private passenger policies effective October 1, 2018, through March 31, 2019. Member companies are assessed the recoupment surcharge. The loss recoupment surcharge will be adjusted on April 1, 2019, and discontinued once losses are recovered. The NCRF results are shared by the member companies in proportion to their respective North Carolina automobile liability writings. For the fiscal quarter ending September 30, 2018, net income was \$95 million, including \$1.1 billion of earned premiums, \$206 million of certain private passenger auto risk recoupment and \$228 million of member loss recoupments. As of December 31, 2018, the NCRF recoverables on paid claims is \$9.8 million and recoverables on unpaid claims is \$76.4 million. Paid recoverable balances, if covered, are typically settled within sixty days of monthly filing.

**Florida Hurricane Catastrophe Fund** Allstate subsidiaries Castle Key Insurance Company ("CKIC") and Castle Key Indemnity Company ("CKI", and together with CKIC, "Castle Key") participate in the mandatory coverage provided by the FHCF and therefore have access to reimbursement for certain qualifying Florida hurricane losses from the FHCF. Castle Key has exposure to assessments and pays annual premiums to the FHCF for this reimbursement protection. The FHCF has the authority to issue bonds to pay its obligations to participating insurers in excess of its capital balances. Payment of these bonds is funded by emergency assessments on all property and casualty premiums in the state, except workers' compensation, medical malpractice, accident and health insurance and policies written under the National Flood Insurance Program ("NFIP"). The FHCF emergency assessments are limited to 6% of premiums per year beginning the first year in which reimbursements require bonding, and up to a total of 10% of premiums per year for assessments in the second and subsequent years, if required to fund additional bonding. The FHCF issued \$2 billion in pre-event bonds in 2013 to build its capacity to reimburse member companies' claims. The FHCF plans to fund these pre-event bonds through current FHCF cash flows. Pursuant to an Order issued by the Florida Office of Insurance Regulation ("FL OIR"), the emergency assessment is zero for all policies issued or renewed on or after January 1, 2015.

Annual premiums earned and paid under the FHCF agreement were \$10 million, \$11 million and \$12 million in 2018, 2017 and 2016, respectively. Qualifying losses were \$143 million and \$19 million in 2018 and 2017, respectively. There were no qualifying losses incurred in 2016. The Company has access to reimbursement provided by the FHCF for 90% of qualifying personal property losses that exceed its current retention of \$54 million for the two largest hurricanes and \$18 million for other hurricanes, up to a maximum total of \$172 million, effective from June 1, 2018 to May 31, 2019. The

amounts recoverable from the FHCFC totaled \$104 million and \$19 million as of December 31, 2018 and 2017, respectively.

**Federal Government - National Flood Insurance Program** NFIP is a program administered by the Federal Emergency Management Agency (“FEMA”) whereby the Company sells and services NFIP flood insurance policies as an agent of FEMA and receives fees for its services. The Company is fully indemnified for claims and claim expenses and does not retain any ultimate risk for the indemnified business. The federal government is obligated to pay all claims and certain allocated loss adjustment expenses in accordance with the arrangement.

Congressional authorization for the NFIP is periodically evaluated and may be subjected to freezes, including when the federal government experiences a shutdown. Starting in 2017, FEMA established an NFIP reinsurance program to manage the future exposure of the NFIP through the transfer of risk to private reinsurance companies and capital market investors. Congress is evaluating the funding of the program as well as considering reforms to the program that would be incorporated in legislation to reauthorize the NFIP.

The amounts recoverable as of December 31, 2018 and 2017 were \$31 million and \$88 million, respectively. Premiums earned under the NFIP include \$258 million, \$263 million and \$274 million in 2018, 2017 and 2016, respectively. Qualifying losses incurred include \$118 million, \$1.12 billion and \$537 million in 2018, 2017 and 2016, respectively.

#### Catastrophe reinsurance

The Company’s reinsurance program is designed to provide reinsurance protection for catastrophes resulting from multiple perils including hurricanes, windstorms, hail, tornadoes, fires following earthquakes, earthquakes and wildfires.

- The majority of our program comprises multi-year contracts, primarily placed in the traditional reinsurance market, such that generally one third of the program is renewed every year.
- Coverage is generally purchased on a broad geographic, product line and multiple peril loss basis.
- The Company purchases reinsurance from traditional reinsurance companies as well as the insurance linked securities market (e.g. “Property Claims Services Agreements” or “PCS Agreements”).
- Florida property and New Jersey property and auto are each covered by separate agreements, as the risk of loss is different and our subsidiaries operating in these states are separately capitalized.

The Company has not experienced credit losses on its catastrophe reinsurance programs. The Company ceded premiums earned of \$343 million, \$344 million and \$381 million under catastrophe reinsurance agreements in 2018, 2017 and 2016, respectively. The

Company has the following catastrophe reinsurance agreements in effect as of December 31, 2018:

The Nationwide Excess Catastrophe Reinsurance Program (the “Nationwide Program”) provides \$4.5 billion of reinsurance coverage subject to a \$500 million retention and is subject to the amount of reinsurance placed in each of its nine layers. The Nationwide Program comprises four agreements: the Per Occurrence Excess Agreement, the 2014-1 PCS Agreement, the 2017-1 Excess Catastrophe Reinsurance Contract and the 2018-1 Excess Catastrophe Reinsurance Contract.

**Per Occurrence Excess Agreement**, which is placed in the traditional reinsurance market, reinsures personal lines property and automobile excess catastrophe losses caused by multiple perils in every state except New Jersey and only includes personal lines automobile excess catastrophe losses in Florida. The agreement comprises layers one through six and portions of layer eight. Coverage for each of the first through fifth layers comprises three contracts, with each contract providing one-third of 95% of the total layer limit and expiring May 31, 2019, May 31, 2020 and May 31, 2021. The contracts for each layers one through five include one mandatory reinstatement of limits per year, with premium required.

\$517 million of reinsurance recoveries, including expenses, exhausted layers one through two and partially exhausted layer three due to the impact of the Camp Fire in the fourth quarter of 2018. The Company’s net loss also included \$60 million of reinsurance premiums that were accelerated in conjunction with the reinstatement of these layers as of December 31, 2018, and \$30 million of incremental reinstatement premiums to be recognized in 2019.

The sixth layer and eighth layer contracts placed in the traditional reinsurance market contain comparable contract terms and conditions as layers one through five. The sixth layer is 95% placed and comprises one contract expiring May 31, 2022. The contracts for layers one through six provide \$3.07 billion in per occurrence reinsurance limits subject to a \$500 million retention. Coverage for a portion of the eighth layer is provided by one contract expiring May 31, 2022. The contract provides a \$446 million limit and is 29.37% placed. Unlike layer one through five contracts, the sixth and eighth layer contracts each contain an annual variable reset option which allows for the adjustment of each contract’s attachment and exhaustion levels within specified limits. The variable reset option requires a premium adjustment. The contracts for each of the first through fifth layers include one mandatory reinstatement of limits per year, with premium required. The sixth and eighth layer contracts each contain one mandatory reinstatement of limits over their seven year term with premium required. Reinsurance premiums for all contracts are subject to redetermination for exposure changes on an annual basis.

Another contract forming a portion of layer eight provides a \$69 million limit in excess of a \$2.75 billion retention, is 100% placed and expires May 31, 2019.

Reinsurance limits of 5% of \$1.25 billion in excess of \$2.75 billion are deemed in place. In addition, recoveries from contracts in layers six through and including layer eight inure to the benefit of this contract.

**2014-1 PCS Excess Agreement** reinsures personal lines property and automobile excess catastrophe losses caused by hurricanes in 29 states and the District of Columbia, and earthquakes, including fires following earthquakes, in California, New York and Washington. The seventh layer contract is placed with a Bermuda insurance company, Sanders Re Ltd. ("Sanders Re"), which obtained funding from the insurance linked securities ("ILS") market to collateralize the contract's limit. The contract provides a \$321 million limit in excess of a \$3.07 billion retention and is 95% placed. The contract's risk period ends May 21, 2019. Amounts payable under the contract are based on insured industry losses as reported by PCS and further adjusted to account for our exposures in reinsured areas. Reinsurance recoveries under the contract are limited to our ultimate net loss from a PCS-reported hurricane or earthquake. The contracts do not include a reinstatement of limits.

**2017-1 Excess Catastrophe Reinsurance Contract** reinsures personal lines property and automobile excess losses in 48 states and the District of Columbia, excluding Florida and initially New Jersey, caused by named storms, earthquakes and fires following earthquakes, severe thunderstorms, winter storms, volcanic eruptions, and meteorite impacts. This contract is included in the eighth layer and reinsures actual losses to personal lines property business located in the covered territory and arising out of a covered event. Amounts payable for automobile losses are based on insured industry losses as reported by PCS and further adjusted to account for the Company's auto exposures in reinsured areas. Reinsurance recoveries under the contract are limited to our ultimate net loss from a covered event subject to the contract's limit. The contract's risk period began March 31, 2017 and terminates on November 30, 2021. The contract provides a \$571 million limit and is 65.63% placed between a \$3.40 billion to \$3.97 billion layer. The contract contains a variable reset option, which the ceding entities may invoke for risk periods subsequent to the first risk period and which allows for the annual adjustment of the contract's attachment and exhaustion levels within specified limits. The variable reset option requires a premium adjustment. The contract does not include a restatement of limits.

**2018-1 Excess Catastrophe Reinsurance Contract** reinsures personal lines property and automobile excess catastrophe losses in 48 states and the District of Columbia, excluding Florida and initially New Jersey, caused by named storms, earthquakes and fires following earthquakes, severe weather, wildfires, and other naturally occurring or man-made events determined to be a catastrophe by the Company. The ninth layer contract reinsures business located in the covered territory and arising out of a covered event. The contract's risk period began April 1, 2018 and terminates on March 31, 2022. The contract provides

one limit of \$500 million during its four-year term, which can be used on a per occurrence or aggregate basis. For each qualifying loss occurrence, the contract provides 100% of \$500 million in reinsurance limits between a \$4.00 billion to \$4.50 billion layer for the April 1, 2018 to March 31, 2019 period. The contract also provides an aggregate limit of 100% of \$500 million in reinsurance limits between a \$3.75 billion to \$4.25 billion layer subject to an annual retention of \$3.75 billion. For each annual period beginning April 1, Company declared catastrophes occurring during such annual period involving two or more exposures and resulting in more than \$1 million in losses to personal lines property and automobile business can be aggregated to erode the aggregate retention and qualify for coverage under the aggregate limit. Reinsurance recoveries from and including layers one through eight of the Nationwide Program inure to the benefit of the aggregate. Reinsurance recoveries collected under the per occurrence limit of this contract are not eligible for cession under the aggregate limit of this contract. Reinsurance recoveries for all loss occurrences and aggregate losses qualifying for coverage during the contract's four-year risk period are limited to our ultimate net loss from a covered event and subject to the contract's \$500 million limit. The contract contains a variable reset option, which the ceding entities may invoke for risk periods subsequent to the first risk period which allows for the annual adjustment of the contract's attachment and exhaustion levels within specified limits. The variable reset option requires a premium adjustment. The contract does not include a reinstatement of limits.

While the 2017-1 Excess Catastrophe Reinsurance Contract and the 2018-1 Excess Catastrophe Contract do not provide reinsurance recoveries for New Jersey exposures for the risk period beginning March 31, 2017 and April 1, 2018, respectively, the contracts each allow for the inclusion of these exposures in the remaining risk periods if so elected and with premium due.

The following programs are designed apart from the Nationwide Program to address distinct exposures in certain states and markets. These programs are described below and are disregarded when determining coverage under the contracts included in the Nationwide Program.

The Company has a separate reinsurance program in Florida designed to cover personal lines property policies in Florida written through Castle Key, its separately capitalized wholly-owned subsidiaries.

**Florida Excess Catastrophe Reinsurance Agreement** comprises five contracts, as described below, which reinsures Castle Key for personal lines property excess catastrophe losses in Florida. The agreement includes two contracts placed in the traditional market, CKIC's and CKI's reimbursement contracts with the Florida Hurricane Catastrophe Fund ("Mandatory FHCF contracts"), and the Sanders Re 2017-2 Contract ("Sanders Re 2017-2 contract") placed in the ILS markets.

**Below FHCF Contract** reinsures personal lines property excess catastrophe losses caused by multiple perils in Florida. The contract is 100% placed and provides three separate limits of \$36 million in excess of a \$20 million retention for each occurrence, of which two limits remain outstanding. One limit of \$36 million was exhausted from the impact of Hurricane Michael in October 2018. The first reinstatement of limits is prepaid and the second or final reinstatement requires additional premium. Only the portion of the limit utilized to indemnify losses from an event mandatorily reinstates; the remaining reinstatement limit remains available and will be used as future events erode the per occurrence contract limit. Reinsurance premium is subject to redetermination for exposure changes.

**Mandatory FHCF Contracts** indemnify qualifying personal lines property losses caused by storms the National Hurricane Center declares to be hurricanes. The contracts provide 90% of \$180 million of limits in excess of retention with no reinstatement of limits. The limits and retentions of the mandatory FHCF contracts are calculated independently for CKIC and CKI and are subject to re-measurement based on June 30, 2018 exposure data. For each of the two largest hurricanes, the retention is \$56 million and retention equal to one third of that amount, or approximately \$19 million, is applicable to all other hurricanes for the season beginning June 1, 2018. In addition, the FHCF's retention is subject to adjustment upward or downward to an actual retention based on submitted exposures to the FHCF by all participants. \$113 million of limit was exhausted from the impact of Hurricane Michael and \$67 million of the limit remains outstanding.

**Excess contract** reinsures personal lines property excess catastrophe losses caused by multiple perils in Florida. The contract is a two-year term contract effective June 1, 2018 to May 31, 2020 and provides \$249 million of reinsurance limits each contract year. For the June 1, 2018 to May 31, 2019 term, the contract provides one limit of \$249 million in excess of a \$20 million retention and is 100% placed. Recoveries from the Below FHCF contract and Mandatory FHCF contracts inure to the benefit of this contract. For the second contract year, the retention and inuring coverages can be adjusted, within a range and for a premium. The contract does not include a reinstatement of limits. \$42 million of limit was exhausted for Hurricane Michael. Reinsurance premium is subject to redetermination for exposure changes.

**Sanders Re 2017-2** is a three-year term contract with a risk period effective June 1, 2017 through May 31, 2020. It reinsures qualifying personal lines property losses caused by a named storm event, a severe thunderstorm event, an earthquake event, a wildfire event, a volcanic eruption event, or a meteorite impact event in Florida as events declared by various reporting agencies, including PCS and as defined in the contract. The contract provides limits of \$200 million in excess of a \$20 million retention and in excess of "stated reinsurance." For the June 1, 2018 to May 31, 2019 risk period, stated reinsurance is defined to

include the Below FHCF contract, the Mandatory FHCF contracts, which are deemed to exhaust due to loss occurrences subject to the non-FHCF contracts, and the Excess contract. Stated reinsurance is deemed to be provided on a multiple peril basis under the terms of the non-FHCF contracts and includes an erosion feature, which provides that upon the exhaustion of a portion of the stated reinsurance, coverage under the Sanders Re contract shall be concurrently placed above and contiguous to the unexhausted portion of the stated reinsurance, if any. The Sanders Re 2017-2 contract contains a variable reset option, which Castle Key may invoke for risk periods subsequent to the first risk period and which allows for the annual adjustment of the contract's attachment and exhaustion levels. The variable reset option requires a premium adjustment. The contract does not contain a restatement of limits.

The Company's New Jersey, Pennsylvania, Kentucky, Florida and Southeast States and California reinsurance agreements are described below.

**New Jersey Excess Catastrophe Reinsurance Agreement** comprises two existing contracts and a newly placed contract that reinsures personal lines property and automobile excess catastrophe losses in New Jersey caused by multiple perils. The newly placed contract effective June 1, 2018, also includes coverage for commercial lines property and automobile (physical damage only) catastrophe losses.

The contracts expire May 31, 2019, May 31, 2020 and May 31, 2021, and provide 31.67%, 31.67% and 31.66%, respectively, of \$400 million of limits excess of a provisional \$139 million retention, a \$142 million retention, and a \$150 million retention, respectively. Each contract includes one mandatory reinstatement of limits per contract year with premium due. The reinsurance premium and retention are subject to redetermination for exposure changes on an annual basis.

**Kentucky Earthquake Excess Catastrophe Reinsurance Contract** is a three-year contract that reinsures personal lines property excess catastrophe losses in Kentucky caused by earthquakes and fires following earthquakes. The contract expires May 31, 2020 and provides three limits of \$28 million in excess of a \$2 million retention with two limits being available in any one contract year and is 95% placed. The reinsurance premium and retention are not subject to redetermination for exposure changes.

**Aggregate Excess Catastrophe Florida and Southeast States Reinsurance Contract** provides \$250 million of reinsurance limits for losses to personal lines and commercial lines automobile business (physical damage only) arising out of multiple perils and provided such losses arise out of a company declared catastrophe and result in qualifying losses in the State of Florida. Once qualifying 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 the same catastrophe and occurring in Alabama, Georgia, Louisiana, Mississippi, North Carolina and South

Carolina. The \$250 million of reinsurance limits is 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. The contract does not include a restatement of limits.

**California E&S Earthquake Contract** comprises one contract which reinsures personal lines property catastrophe losses in California caused by earthquake and insured by our excess and surplus lines insurer. The contract is a three-year contract that is effective June 30, 2018 and expires June 30, 2021. Unlike the contracts comprising the Nationwide Program, the E&S Earthquake agreement provides reinsurance on a 100% quota share basis with no retention. The agreement reinsures only shake damage resulting from the earthquake peril.

#### Other reinsurance programs

The Company's other reinsurance programs relate to asbestos, environmental, and other liability exposures. These programs include reinsurance recoverables of \$165 million and \$167 million from Lloyd's of London as of December 31, 2018 and 2017, respectively. Excluding Lloyd's of London, the largest reinsurance recoverable balance the Company had outstanding was \$60 million and \$61 million from Westport Insurance Corporation as of December 31, 2018 and 2017, respectively.

Developments in the insurance and reinsurance industries have fostered a movement to segregate asbestos, environmental and other discontinued lines exposures into separate legal entities with dedicated capital. Regulatory bodies in certain cases have supported these actions. The Company is unable to determine the impact, if any, that these developments will have on the collectability of reinsurance recoverables in the future.

Lloyd's of London, through the creation of Equitas Limited ("Equitas"), implemented a restructuring to solidify its capital base and to segregate claims for years prior to 1993. In 2007, Berkshire Hathaway's subsidiary, National Indemnity Company, assumed responsibility for the Equitas' claim liabilities through a loss portfolio transfer reinsurance agreement and continues to runoff the Equitas' claims.

#### Life and annuity reinsurance recoverables

The Company reinsures certain life insurance and annuity risks to other insurers primarily under yearly renewable term, coinsurance, modified coinsurance and coinsurance with funds withheld agreements. These agreements result in a passing of the agreed-upon percentage of risk to the reinsurer in exchange for negotiated reinsurance premium payments. Modified coinsurance and coinsurance with funds withheld are similar to coinsurance, except that the cash and investments that support the liability for contract benefits are not transferred to the assuming company and settlements are made on a net basis between the companies.

For certain term life insurance policies issued prior to October 2009, the Company ceded up to 90% of the mortality risk depending on the year of policy issuance under coinsurance agreements to a pool of fourteen unaffiliated reinsurers. Effective October 2009, mortality risk on term business is ceded under yearly renewable term agreements under which the Company cedes mortality in excess of its retention, which is consistent with how the Company generally reinsures its permanent life insurance business.

#### Retention limits by period of policy issuance

| Period                           | Retention limits   |
|----------------------------------|--|
| April 2015 through current       | Single life: \$2 million per life<br>Joint life: no longer offered   |
| April 2011 through March 2015    | Single life: \$5 million per life, \$3 million age 70 and over, and \$10 million for contracts that meet specific criteria<br>Joint life: \$8 million per life, and \$10 million for contracts that meet specific criteria |
| July 2007 through March 2011     | \$5 million per life, \$3 million age 70 and over, and \$10 million for contracts that meet specific criteria  |
| September 1998 through June 2007 | \$2 million per life, in 2006 the limit was increased to \$5 million for instances when specific criteria were met   |
| August 1998 and prior            | Up to \$1 million per life   |

In addition, the Company has used reinsurance to effect the disposition of certain blocks of business. The Company had reinsurance recoverables of \$1.36 billion and \$1.35 billion as of December 31, 2018 and 2017, respectively, due from Prudential related to the disposal of substantially all of its variable annuity business that was effected through reinsurance agreements. In 2018, premiums and contract charges of \$72 million, contract benefits of \$87 million, interest credited to contractholder funds of \$20 million, and operating costs and expenses of \$14 million were

ceded to Prudential. In 2017, premiums and contract charges of \$76 million, contract benefits of \$7 million, interest credited to contractholder funds of \$20 million, and operating costs and expenses of \$15 million were ceded to Prudential. In 2016, premiums and contract charges of \$78 million, contract benefits of \$21 million, interest credited to contractholder funds of \$20 million, and operating costs and expenses of \$15 million were ceded to Prudential. In addition, as of December 31, 2018 and 2017, the Company had reinsurance recoverables of \$118 million and \$139 million,

respectively, due from subsidiaries of Citigroup (Triton Insurance and American Health and Life Insurance) and Scottish Re (U.S.) Inc. in connection with the disposition of substantially all of the direct response distribution business in 2003.

The Company is assuming reinsurer for Lincoln Benefit Life Company's ("LBL's") life insurance business sold through the Allstate agency channel and LBL's payout annuity business in force prior to the sale of LBL on April 1, 2014. Under the terms of the reinsurance agreement, the Company is required to

have a trust with assets greater than or equal to the statutory reserves ceded by LBL to the Company, measured on a monthly basis. As of December 31, 2018, the trust held \$5.94 billion of investments, which are reported in the Consolidated Statement of Financial Position.

As of December 31, 2018, the gross life insurance in force was \$450.60 billion of which \$81.19 billion was ceded to the unaffiliated reinsurers.

#### Reinsurance recoverables on paid and unpaid benefits

| (\$ in millions) | As of December 31, |                 |
|------------------|--------------------|-----------------|
|                  | 2018               | 2017            |
| Annuities        | \$ 1,381           | \$ 1,370        |
| Life insurance   | 776                | 817             |
| Other            | 142                | 167             |
| <b>Total</b>     | <b>\$ 2,299</b>    | <b>\$ 2,354</b> |

As of December 31, 2018 and 2017, approximately 93% and 92%, respectively, of the reinsurance recoverables are due from companies rated A- or better by S&P.

#### Note 11 Deferred Policy Acquisition and Sales Inducement Costs

##### Deferred policy acquisition costs activity

| (\$ in millions)                              | For the years ended December 31, |                 |                 |
|---|----------------------------------|-----------------|-----------------|
|   | 2018                             | 2017            | 2016            |
| Balance, beginning of year                    | \$ 4,191                         | \$ 3,954        | \$ 3,861        |
| SquareTrade acquisition                       | —                                | 66              | —               |
| Acquisition costs deferred <sup>(1)</sup>     | 5,663                            | 5,001           | 4,717           |
| Amortization charged to income <sup>(1)</sup> | (5,222)                          | (4,784)         | (4,550)         |
| Effect of unrealized gains and losses         | 152                              | (46)            | (74)            |
| <b>Balance, end of year</b>                   | <b>\$ 4,784</b>                  | <b>\$ 4,191</b> | <b>\$ 3,954</b> |

##### Deferred sales inducement costs activity <sup>(2)</sup>

| (\$ in millions)                      | For the years ended December 31, |              |              |
|---------------------------------------|----------------------------------|--------------|--------------|
|                                       | 2018                             | 2017         | 2016         |
| Balance, beginning of year            | \$ 36                            | \$ 40        | \$ 45        |
| Sales inducements deferred            | —                                | —            | 1            |
| Amortization charged to income        | (4)                              | (4)          | (5)          |
| Effect of unrealized gains and losses | 2                                | —            | (1)          |
| <b>Balance, end of year</b>           | <b>\$ 34</b>                     | <b>\$ 36</b> | <b>\$ 40</b> |

<sup>(1)</sup> Includes \$152 million of acquisition costs deferred and \$101 million of amortization charged to income related to the revenue from contracts with customers accounting standard adopted in 2018.

<sup>(2)</sup> Deferred sales inducement costs primarily relate to fixed annuities and interest-sensitive life contracts and are recorded as part of other assets on the Consolidated Statements of Financial Position.

**Note 12 Capital Structure****Total debt outstanding**

| (\$ in millions)                                    | As of December 31, |                 |
|---|--------------------|-----------------|
|   | 2018               | 2017            |
| 6.75% Senior Debentures, due 2018                   | \$ —               | \$ 176          |
| 7.45% Senior Notes, due 2019 <sup>(1)</sup>         | 317                | 317             |
| Floating Rate Senior Notes, due 2021 <sup>(1)</sup> | 250                | —               |
| Floating Rate Senior Notes, due 2023 <sup>(1)</sup> | 250                | —               |
| 3.15% Senior Notes, due 2023 <sup>(1)</sup>         | 500                | 500             |
| <b>Due after one year through five years</b>        | <b>1,317</b>       | <b>993</b>      |
| 3.28% Senior Notes, due 2026 <sup>(1)</sup>         | 550                | 550             |
| <b>Due after five years through ten years</b>       | <b>550</b>         | <b>550</b>      |
| 6.125% Senior Notes, due 2032 <sup>(1)</sup>        | 159                | 159             |
| 5.35% Senior Notes due 2033 <sup>(1)</sup>          | 323                | 323             |
| 5.55% Senior Notes due 2035 <sup>(1)</sup>          | 546                | 546             |
| 5.95% Senior Notes, due 2036 <sup>(1)</sup>         | 386                | 386             |
| 6.90% Senior Debentures, due 2038                   | 165                | 165             |
| 5.20% Senior Notes, due 2042 <sup>(1)</sup>         | 62                 | 62              |
| 4.50% Senior Notes, due 2043 <sup>(1)</sup>         | 500                | 500             |
| 4.20% Senior Notes, due 2046 <sup>(1)</sup>         | 700                | 700             |
| 5.10% Subordinated Debentures, due 2053             | 500                | 500             |
| 5.75% Subordinated Debentures, due 2053             | 800                | 800             |
| 6.125% Junior Subordinated Debentures, due 2067     | —                  | 224             |
| 6.50% Junior Subordinated Debentures, due 2067      | 500                | 500             |
| <b>Due after ten years</b>                          | <b>4,641</b>       | <b>4,865</b>    |
| <b>Long-term debt total principal</b>               | <b>6,508</b>       | <b>6,408</b>    |
| Debt issuance costs                                 | (57)               | (58)            |
| <b>Total long-term debt</b>                         | <b>6,451</b>       | <b>6,350</b>    |
| Short-term debt <sup>(2)</sup>                      | —                  | —               |
| <b>Total debt</b>                                   | <b>\$ 6,451</b>    | <b>\$ 6,350</b> |

<sup>(1)</sup> Senior Notes, with the exception of Senior Floating Notes (as defined below), are subject to redemption at the Company's option in whole or in part at any time at the greater of either 100% of the principal amount plus accrued and unpaid interest to the redemption date or the discounted sum of the present values of the remaining scheduled payments of principal and interest and accrued and unpaid interest to the redemption date.

<sup>(2)</sup> The Company classifies any borrowings which have a maturity of twelve months or less at inception as short-term debt.

**Debt maturities for each of the next five years and thereafter**

| (\$ in millions)                      |                 |
|---------------------------------------|-----------------|
| 2019                                  | \$ 317          |
| 2020                                  | —               |
| 2021                                  | 250             |
| 2022                                  | —               |
| 2023                                  | 750             |
| Thereafter                            | 5,191           |
| <b>Total long-term debt principal</b> | <b>\$ 6,508</b> |

On March 29, 2018, the Company issued \$250 million of Floating Rate Senior Notes due 2021 ("2021 Senior Floating Notes") and \$250 million of Floating Rate Senior Notes due 2023 ("2023 Senior Floating Notes" and, together with the 2021 Senior Floating Notes, the "Senior Floating Notes"). The 2021 Senior Floating 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 Floating Notes bear interest at a floating rate equal to three month LIBOR, reset quarterly on each interest reset date, plus 0.63% per year. Interest on the Senior Floating Notes is payable quarterly in arrears on March 29, June 29, September 29 and December 29 of each year, which began on June 29, 2018. The 2021 Senior Floating Notes will mature on March 29, 2021, and the 2023 Senior Floating Notes will mature on March 29, 2023. The Senior Floating Notes will not be redeemable prior to the applicable maturity dates. The proceeds of these issuances were used for general corporate purposes, including the redemption of the Series B 6.125% Fixed-to-Floating Rate Junior Subordinated Debentures (the "Series B Debentures") on May 13, 2018 and the repayment at maturity of the Company's 6.75% Senior Debentures due May 15, 2018.

On May 13, 2018, the Company redeemed its \$224 million Series B 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.

The Subordinated Debentures may be redeemed (i) in whole at any time or in part from time to time on or after January 15, 2023 for the 5.10% Subordinated Debentures and August 15, 2023 for the 5.75% Subordinated Debentures at their principal amount plus accrued and unpaid interest to, but excluding, the date of redemption; provided that if the Subordinated Debentures are not redeemed in whole, at least \$25 million aggregate principal amount must remain outstanding, or (ii) in whole, but not in part, prior to January 15, 2023 for the 5.10% Subordinated Debentures and August 15, 2023 for the 5.75% Subordinated Debentures, within 90 days after the occurrence of certain tax and rating agency events, at their principal amount or, if greater, a make-whole redemption price, plus accrued and unpaid interest to, but excluding, the date of redemption. The 5.75% Subordinated Debentures have this make-whole redemption price provision only when a reduction of equity credit assigned by a rating agency has occurred.

Interest on the 5.10% Subordinated Debentures is payable quarterly at the stated fixed annual rate to January 14, 2023, or any earlier redemption date, and then at an annual rate equal to the three-month LIBOR plus 3.165%. Interest on the 5.75% Subordinated Debentures is payable semi-annually at the stated fixed annual rate to August 14, 2023, or any earlier redemption date, and then quarterly at an annual rate equal to the three-month LIBOR plus 2.938%. The Company may elect to defer payment of interest on the Subordinated Debentures for one or more consecutive interest periods that do not exceed five years. During a deferral period, interest will continue to accrue on the Subordinated Debentures at the then-applicable rate and deferred interest will compound on each interest payment date. If all deferred interest on the Subordinated Debentures is paid, the Company can again defer interest payments.

As of December 31, 2018, the Company had outstanding \$500 million of Series A 6.50% Fixed-to-Floating Rate Junior Subordinated Debentures ("Debentures"). The scheduled maturity date for the Debentures is May 15, 2057 with a final maturity date of May 15, 2067. The Debentures may be redeemed (i) in whole or in part, at any time on or after May 15, 2037 at the principal amount plus accrued and unpaid interest to the date of redemption, or (ii) in certain circumstances, in whole or in part, prior to May 15, 2037 at the principal amount plus accrued and unpaid interest to the date of redemption or, if greater, a make-whole price.

Interest on the Debentures is payable semi-annually at the stated fixed annual rate to May 15, 2037, and then payable quarterly at an annual rate equal to the three-month LIBOR plus 2.12%. The Company may elect at one or more times to defer payment of interest on the Debentures for one or more consecutive interest periods that do not exceed 10 years. Interest compounds during such deferral

periods at the rate in effect for each period. The interest deferral feature obligates the Company in certain circumstances to issue common stock or certain other types of securities if it cannot otherwise raise sufficient funds to make the required interest payments. The Company has reserved 75 million shares of its authorized and unissued common stock to satisfy this obligation.

The terms of the Company's outstanding subordinated debentures prohibit the Company from declaring or paying any dividends or distributions on common or preferred stock or redeeming, purchasing, acquiring, or making liquidation payments on common stock or preferred stock if the Company has elected to defer interest payments on the subordinated debentures, subject to certain limited exceptions.

In connection with the issuance of the Debentures, the Company entered into a replacement capital covenant ("RCC"). This covenant was not intended for the benefit of the holders of the Debentures and could not be enforced by them. Rather, it was for the benefit of holders of one or more other designated series of the Company's indebtedness ("covered debt"), currently the 5.75% Subordinated Debentures due 2053. Pursuant to the RCC, the Company has agreed that it will not repay, redeem, or purchase the Debentures on or before May 15, 2067 (or such earlier date on which the RCC terminates by its terms) unless, subject to certain limitations, the Company has received net cash proceeds in specified amounts from the sale of common stock or certain other qualifying securities. The promises and covenants contained in the RCC will not apply if (i) S&P upgrades the Company's issuer credit rating to A or above, (ii) the Company redeems the Debentures due to a tax event, (iii) after notice of redemption has been given by the Company and a market disruption event occurs preventing the Company from raising proceeds in accordance with the RCC, or (iv) the Company repurchases or redeems up to 10% of the outstanding principal of the Debentures in any one-year period, provided that no more than 25% will be so repurchased, redeemed or purchased in any ten-year period.

The RCC terminates in 2067. The RCC will terminate prior to its scheduled termination date if (i) the Debentures are no longer outstanding and the Company has fulfilled its obligations under the RCC or it is no longer applicable, (ii) the holders of a majority of the then-outstanding principal amount of the then-effective series of covered debt consent to agree to the termination of the RCC, (iii) the Company does not have any series of outstanding debt that is eligible to be treated as covered debt under the RCC, (iv) the Debentures are accelerated as a result of an event of default, (v) certain rating agency or change in control events occur, (vi) S&P, or any successor thereto, no longer assigns a solicited rating on senior debt issued or guaranteed by the Company, or (vii) the termination of the RCC would have no effect on the equity credit provided by S&P with respect to the Debentures. An event of default, as defined by the supplemental



indenture, includes default in the payment of interest or principal and bankruptcy proceedings.

To manage short-term liquidity, the Company maintains a commercial paper program and a credit facility as a potential source of funds. These include a \$1.00 billion unsecured revolving credit facility and a commercial paper program with a borrowing limit of \$1.00 billion. In April 2016, the Company extended the maturity date of the facility to April 2021. This facility contains an increase provision that would allow up to an additional \$500 million of borrowing. This facility has a financial covenant requiring the Company not to exceed a 37.5% debt to capitalization ratio as defined in the agreement. Although the right to borrow under the facility is not subject to a minimum rating requirement, the costs of maintaining the facility and borrowing under it are based on the ratings of the Company's senior unsecured, unguaranteed long-term debt. The total amount outstanding at any point in time under the combination of the commercial paper program and the credit facility cannot exceed the amount that can be borrowed under the credit facility. No amounts were outstanding under the credit facility as of December 31, 2018 or 2017. The Company had no commercial paper outstanding as of December 31, 2018 or 2017.

The Company paid \$330 million, \$332 million and \$287 million of interest on debt in 2018, 2017 and 2016, respectively.

The Company had \$260 million and \$169 million of investment-related debt that is reported in other liabilities and accrued expenses as of December 31, 2018 and 2017, respectively.

During 2018, the Company filed a universal shelf registration statement with the Securities and Exchange Commission ("SEC") 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.

**Common stock** The Company had 900 million shares of issued common stock of which 332 million shares were outstanding and 568 million shares were held in treasury as of December 31, 2018. In 2018, the Company acquired 25 million shares at an average cost of \$88.07 and reissued 2 million net shares under equity incentive plans.

**Preferred stock** All outstanding preferred stock represents noncumulative perpetual preferred stock with a \$1.00 par value per share and a liquidation preference of \$25,000 per share.

### Total preferred stock outstanding

|              | As of December 31, |               | Aggregate liquidation preference (\$ in millions) |                 | Dividend rate | Dividend per depository share <sup>(1)</sup> |        |         | Aggregate dividend payment (\$ in millions) |               |               |
|--------------|--------------------|---------------|---|-----------------|---------------|--|--------|---------|---|---------------|---------------|
|              | 2018               | 2017          | 2018  | 2017            |               | 2018   | 2017   | 2016    | 2018  | 2017          | 2016          |
|              | Series A           | 11,500        | 11,500  | \$ 287.5        |               | \$ 287.5                                     | 5.625% | \$ 1.41 | \$ 1.41                                     | \$ 1.41       | \$ 16         |
| Series C     | —                  | 15,400        | —   | 385.0           | 6.750%        | 1.69   | 1.69   | 1.69    | 26 <sup>(2)</sup>                           | 26            | 26            |
| Series D     | 5,400              | 5,400         | 135.0   | 135.0           | 6.625%        | 1.66   | 1.66   | 1.66    | 9   | 9             | 9             |
| Series E     | 29,900             | 29,900        | 747.5   | 747.5           | 6.625%        | 1.66   | 1.66   | 1.66    | 49  | 49            | 49            |
| Series F     | 10,000             | 10,000        | 250.0   | 250.0           | 6.250%        | 1.56   | 1.56   | 1.56    | 16  | 16            | 16            |
| Series G     | 23,000             | —             | 575.0   | —               | 5.625%        | 1.41   | —      | —       | 18  | —             | —             |
| <b>Total</b> | <b>79,800</b>      | <b>72,200</b> | <b>\$ 1,995</b>                                   | <b>\$ 1,805</b> |               |  |        |         | <b>\$ 134<sup>(2)</sup></b>                 | <b>\$ 116</b> | <b>\$ 116</b> |

<sup>(1)</sup> Each depository share represents a 1/1,000<sup>th</sup> interest in a share of preferred stock.

<sup>(2)</sup> Excludes \$13 million related to the excess of redemption price over carrying value recognized as part of preferred stock dividends on the Consolidated Statements of Operations and Consolidated Statements of Shareholders' Equity.

On October 15, 2018, the Company redeemed all 15,400 shares of its Fixed Rate Noncumulative Perpetual Preferred Stock, Series C (the "Series C Preferred Stock"), par value \$1.00 per share and liquidation preference \$25,000 per share and the corresponding depository shares for a total redemption payment of \$385 million. The redemption price in excess of the carrying value for the preferred shares was recognized as part of preferred stock dividends on the Consolidated Statements of Operations and Consolidated Statements of Shareholders' Equity.

On March 29, 2018, the Company issued 23,000 shares of 5.625% Fixed Rate Noncumulative Perpetual Preferred Stock, Series G, par value \$1.00 per share

and liquidation preference \$25,000 per share, for gross proceeds of \$575 million. The proceeds of this issuance were used for general corporate purposes, including the redemption of the Series C Preferred Stock.

The preferred stock ranks senior to the Company's common stock with respect to the payment of dividends and liquidation rights. The Company will pay dividends on the preferred stock on a noncumulative basis only when, as and if declared by the Company's board of directors (or a duly authorized committee of the board) and to the extent that the Company has legally available funds to pay dividends. If dividends are declared on the preferred stock, they will be

payable quarterly in arrears at an annual fixed rate. Dividends on the preferred stock are not cumulative. Accordingly, in the event dividends are not declared on the preferred stock for payment on any dividend payment date, then those dividends will cease to be payable. If the Company has not declared a dividend before the dividend payment date for any dividend period, the Company has no obligation to pay dividends for that dividend period, whether or not dividends are declared for any future dividend period. No dividends may be paid or declared on the Company's common stock and no shares of the Company's common stock may be repurchased unless the full dividends for the latest completed dividend period on the preferred stock have been declared and paid or provided for.

The Company is prohibited from declaring or paying dividends on preferred stock in excess of the amount of net proceeds from an issuance of common stock taking place within 90 days before a dividend declaration date if, on that dividend declaration date, either: (1) the risk-based capital ratios of the largest U.S. property-casualty insurance subsidiaries that collectively account for 80% or more of the net written premiums of U.S. property-casualty insurance business on a weighted average basis were less than 175% of their company action level risk-based capital as of the end of the most recent year; or (2) consolidated net income for the four-quarter period ending on the preliminary quarter end test date (the quarter that is two quarters prior to the most recently completed quarter) is zero or negative and consolidated shareholders' equity (excluding AOCI, and subject to certain other adjustments relating to changes in U.S. GAAP) as of each of the preliminary quarter test date and the most recently completed quarter has declined by 20% or more from its level as measured at the end of the benchmark quarter (the date that is ten quarters prior to the most recently completed quarter). If the Company fails to satisfy either of these tests on any dividend declaration date, the restrictions on dividends will continue until the Company is able again to satisfy the test on a dividend declaration date. In

addition, in the case of a restriction arising under (2) above, the restrictions on dividends will continue until consolidated shareholders' equity (excluding AOCI, and subject to certain other adjustments relating to changes in U.S. GAAP) has increased, or has declined by less than 20%, in either case as compared to its level at the end of the benchmark quarter for each dividend payment date as to which dividend restrictions were imposed.

The preferred stock does not have voting rights except with respect to certain changes in the terms of the preferred stock, in the case of certain dividend nonpayments, certain other fundamental corporate events, mergers or consolidations and as otherwise provided by law. If and when dividends have not been declared and paid in full for at least six quarterly dividend periods or their equivalent (whether or not consecutive), the authorized number of directors then constituting our board of directors will be increased by two. The holders of the preferred stock, together with the holders of all other affected classes and series of voting parity stock, voting as a single class, will be entitled to elect the two additional members of the board of directors of the Company, subject to certain conditions. The board of directors shall at no time have more than two preferred stock directors.

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 June 15, 2018 for Series A, April 15, 2019 for Series D and E, October 15, 2019 for Series F, and April 15, 2023 for Series G, at a redemption price of \$25,000 per share of preferred stock, plus declared and unpaid dividends. Prior to April 15, 2019 for Series D and E, October 15, 2019 for Series F, and April 15, 2023 for Series G, 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 or, if greater, a make-whole redemption price, plus declared and unpaid dividends.

### Note 13 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 ("1999 reorganization"). The expenses related to these activities are included in the Consolidated Statements of Operations as restructuring and related charges, and totaled \$83 million, \$109 million and \$30 million in 2018, 2017 and 2016, respectively. Restructuring expenses in 2018 primarily related to realignment of certain employees to centralized talent centers as well as legal settlements and expenses.

**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                                       | 50             | 36           | 86              |
| Adjustments to liability                               | (1)            | (2)          | (3)             |
| Payments and non-cash pension settlements              | (35)           | (49)         | (84)            |
| <b>Restructuring liability as of December 31, 2018</b> | <b>\$ 29</b>   | <b>\$ 15</b> | <b>\$ 44</b>    |

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 December 31, 2018, the cumulative amount incurred to date for active programs related to employee severance, relocation benefits and post-exit

rent expenses totaled \$91 million for employee costs and \$11 million for exit costs. The cumulative amounts exclude \$59 million of employee costs and \$115 million of exit costs related to the 1999 reorganization. In 2018, the Company settled the litigation related to the 1999 reorganization and therefore, this matter is no longer an active program.

**Note 14 Commitments, Guarantees and Contingent Liabilities****Leases**

The Company leases certain office facilities, computer and office equipment, aircraft and automobiles. Total rent expense for all leases was \$151 million, \$149 million and \$147 million in 2018, 2017 and 2016, respectively.

Minimum rental commitments under operating leases with an initial or remaining term of more than one year as of December 31, 2018 are in the following table:

| (\$ in millions) |               |
|------------------|---------------|
| 2019             | \$ 130        |
| 2020             | 121           |
| 2021             | 96            |
| 2022             | 80            |
| 2023             | 65            |
| Thereafter       | 151           |
| <b>Total</b>     | <b>\$ 643</b> |

**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.

The Company routinely reviews its exposure to assessments from these plans, facilities and government programs. 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.

**Florida Citizens** Castle Key is subject to assessments from Citizens Property Insurance Corporation in the state of Florida ("FL Citizens"), which was initially created by the state of Florida to provide

insurance to property owners unable to obtain coverage in the private insurance market. FL Citizens, at the discretion and direction of its Board of Governors ("FL Citizens Board"), can levy a regular assessment on assessable insurers and assessable insureds for a deficit in any calendar year up to a maximum of the greater of: 2% of the projected deficit or 2% of the aggregate statewide direct written premium for the prior calendar year. The base of assessable insurers includes all property and casualty premiums in the state, except workers' compensation, medical malpractice, accident and health insurance and policies written under the NFIP. An insurer may recoup a regular assessment through a surcharge to policyholders. In order to recoup this assessment, an insurer must file for a policy surcharge with the FL OIR at least fifteen days prior to imposing the surcharge on policies. If a deficit remains after the regular assessment, FL Citizens' can also levy emergency assessments in the current and subsequent years. Companies are required to collect the emergency assessments directly from residential property policyholders and remit to FL Citizens as collected. Currently, the emergency assessment is zero for all policies issued or renewed on or after July 1, 2015.

**Louisiana Citizens** The Company is also subject to assessments from Louisiana Citizens Property Insurance Corporation ("LA Citizens"). LA Citizens can levy a regular assessment on participating companies for a deficit in any calendar year up to a maximum of the greater of 10% of the calendar year deficit or 10% of Louisiana direct property premiums industry-wide for the prior calendar year. If the plan year deficit exceeds the amount that can be recovered through Regular Assessments, LA Citizens may fund the remaining deficit by issuing revenue assessment bonds in the capital markets. LA Citizens then declares Emergency Assessments each year to provide debt service on the bonds until they are retired. Companies writing assessable lines must surcharge their policyholders Emergency Assessments in the percentage established annually by LA Citizens and must remit amounts collected to the bond trustee on a quarterly basis. Emergency assessments to pay off bonds

issued in 2007 for the hurricanes of 2005 will continue until 2025.

Facilities such as FL Citizens and LA Citizens are generally designed so that the ultimate cost is borne by policyholders; however, the exposure to assessments from these facilities and the availability of recoupments or premium rate increases may not offset each other in the Company's financial statements. Moreover, even if they do offset each other, they may not offset each other in financial statements for the same fiscal period due to the ultimate timing of the assessments and recoupments or premium rate increases, as well as the possibility of policies not being renewed in subsequent years.

**California Earthquake Authority** Exposure to certain potential losses from earthquakes in California is limited by the Company's participation in the California Earthquake Authority ("CEA"), which provides insurance for California earthquake losses. The CEA is a privately-financed, publicly-managed state agency created to provide insurance coverage for earthquake damage. Insurers selling homeowners insurance in California are required to offer earthquake insurance to their customers either through their company or by participation in the CEA. The Company's homeowners policies continue to include coverages for losses caused by explosions, theft, glass breakage and fires following an earthquake, which are not underwritten by the CEA.

As of September 30, 2018, the CEA's capital balance was approximately \$5.54 billion. Should losses arising from an earthquake cause a deficit in the CEA, an additional \$682 million would be obtained from the proceeds of revenue bonds the CEA may issue, an existing \$8.15 billion reinsurance layer, and finally, if needed, assessments on participating insurance companies. Participating insurers are required to pay an assessment, currently estimated not to exceed \$1.66 billion, if the capital of the CEA falls below \$350 million. Within the limits previously described, the assessment could be intended to restore the CEA's capital to a level of \$350 million. There is no provision that allows insurers to recover assessments through a premium surcharge or other mechanism. The CEA's projected aggregate claim paying capacity is \$16.02 billion as of September 30, 2018 and if an event were to result in claims greater than its capacity, affected policyholders may be paid a prorated portion of their covered losses, paid on an installment basis, or no payments may be made if the claim paying capacity of the CEA is insufficient.

All future assessments on participating CEA insurers are based on their CEA insurance market share as of December 31 of the preceding year. As of December 31, 2017, the Company's market share was 10.2%. The Company does not expect its market share to materially change. At this level, the Company's maximum possible CEA assessment would be \$168.8 million during 2019. These amounts are re-evaluated by the board of directors of the CEA on an annual basis. Accordingly, assessments from the CEA 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. Management believes the Company's exposure to earthquake losses in California has been significantly reduced as a result of its participation in the CEA.

**Texas Windstorm Insurance Association** The Company participates as a member of the Texas Windstorm Insurance Association ("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.

During 2018, the TWIA Board announced assessments related to Hurricane Harvey for which the Company's share was \$37 million. These costs were recorded in property and casualty insurance claims and claims expense as catastrophe losses on the 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 to the financial position of the Company.

**Texas Fair Plan Association** The Company participates as a member of the Texas Fair Plan Association ("FAIR Plan"), which provides residential property insurance to inland areas designated as underserved by the Commissioner of Insurance and the applicant(s) are unable to procure coverage in the voluntary market. The FAIR Plan issues insurance policies, like an insurance company, and it also functions as a pooling mechanism that allocates premiums, claims and expenses back to the insurance industry. As a result of the losses incurred related to Hurricane Harvey, in 2017 the FAIR Plan Board unanimously voted to approve its first ever member assessment of which the Company's share was \$8 million based on total direct premium written in Texas. Insurers are permitted to recover the assessment through either a premium surcharge applied to existing customers over a three-year period or increased rates, but the ability to fully recover the assessment may be impacted by market conditions or other factors.

**North Carolina Joint Underwriters Association** The North Carolina Joint Underwriters Association ("NCJUA") was created to provide property insurance for properties (other than the state's beach and coastal areas) that insurers are not otherwise willing to insure. All insurers licensed to write property insurance in North Carolina are members of the NCJUA. Premiums, losses and expenses of the NCJUA are shared by the member companies in proportion to their respective North Carolina property insurance writings. Member companies participate in plan deficits or surpluses based on their participation ratios, which are determined annually. The Company had a \$4.1 million receivable from the NCJUA at December 31, 2018 and had paid a \$5.3 million assessment in 2018,

representing our participation in the NCJUA's deficit of \$20.4 million for all open years.

**North Carolina Insurance Underwriting Association** The North Carolina Insurance Underwriting Association ("NCIUA") provides windstorm and hail coverage as well as homeowners policies for properties located in the state's beach and coastal areas that insurers are not otherwise willing to insure. All insurers licensed to write residential and commercial property insurance in North Carolina are members of the NCIUA. Members are assessed in proportion to their North Carolina residential and commercial property insurance writings, which is determined annually and varies by coverage, for plan deficits. As of December 31, 2018, the NCIUA had a surplus of \$720.5 million. No member company shall be entitled to the distribution of any portion of the Association's surplus. The Company does not recognize any interest related to this surplus. Legislation in 2009 capped insurers' assessments for losses incurred in any calendar year at \$1 billion. Subsequent to an industry assessment of \$1 billion, if the plan continues to require funding, it may authorize insurers to assess a 10% catastrophe recovery charge on each property insurance policy statewide to be remitted to the plan.

**Other programs** The Company is also subject to assessments by the NCRF and the FHCF, which are described in Note 10.

### Guaranty funds

Under state insurance guaranty fund laws, insurers doing business in a state can be assessed, up to prescribed limits, for certain obligations of insolvent insurance companies to policyholders and claimants. Amounts assessed to each company are typically related to its proportion of business written in each state. The Company's policy is to accrue assessments when the entity for which the insolvency relates has met its state of domicile's statutory definition of insolvency, the amount of the loss is reasonably estimable and the related premium upon which the assessment is based is written. In most states, the definition is met with a declaration of financial insolvency by a court of competent jurisdiction. In certain states there must also be a final order of liquidation. Since most states allow a credit against premium or other state related taxes for assessments, an asset is recorded based on paid and accrued assessments for the amount the Company expects to recover on the respective state's tax return and is realized over the period allowed by each state. As of both December 31, 2018 and 2017, the liability balance included in other liabilities and accrued expenses was \$12 million. The related premium tax offsets included in other assets were \$16 million and \$19 million as of December 31, 2018 and 2017, respectively.

### 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 December 31, 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 agency 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 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 \$100 million, pre-tax. This disclosure is not an indication of expected loss, if any. Under accounting guidance, an event is “reasonably possible” if “the chance of the future event or events occurring is more than remote but less than likely” and an event is “remote” if “the chance of the future event or events occurring is slight.” This estimate is based upon currently available information and is subject to significant judgment and a variety of assumptions, and known and unknown uncertainties. The matters underlying the estimate will change from time to time, and actual results may vary significantly from the current estimate. The estimate does not include matters or losses for which an estimate is not possible. Therefore, this estimate represents an estimate of possible loss only for certain matters meeting these criteria. It does not represent the Company’s maximum possible loss exposure. Information is provided below regarding the nature of all of the disclosed matters and, where specified, the amount, if any, of plaintiff claims associated with these loss contingencies.

Due to the complexity and scope of the matters disclosed in the “Claims related proceedings” and “Other proceedings” subsections below and the many uncertainties that exist, the ultimate outcome of these matters cannot be predicted and in the Company’s judgment, a loss, in excess of amounts accrued, if any, is not probable. In the event of an unfavorable outcome in one or more of these matters, the ultimate

liability may be in excess of amounts currently accrued, if any, and may be material to the Company’s operating results or cash flows for a particular quarterly or annual period. However, based on information currently known to it, management believes that the ultimate outcome of all matters described below, as they are resolved over time, is not likely to have a material effect on the financial position of the Company.

**Claims related proceedings** The Company is 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 on August 13, 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 was recently decided by the Florida Supreme Court in a matter involving another insurer, *Progressive v. Florida Hospital*. The Florida Supreme Court ruled in favor of the providers, and held that under the Florida law, the personal injury protection deductible must be applied to the full amount charged by the providers before any other adjustments are applied. The Company has taken steps to comply with the Florida Supreme Court’s ruling in this case, including the recalculation of benefits recorded.

**Other proceedings** The case of *Jack Jimenez, et al. v. Allstate Insurance Company* was filed in the United States District Court for the Central District of California on September 30, 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 stockholder 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.

**Biefeldt / IBEW Consolidated Action.** Two separately filed stockholder derivative actions have been consolidated into a single proceeding that is pending in the Circuit Court for Cook County, Illinois, Chancery Division. The original complaint in the first-filed of those actions, *Biefeldt v. Wilson, et al.*, was filed on August 3, 2017, in that court by a plaintiff alleging that she is a stockholder of the Company. On June 29, 2018, the court granted defendants' motion to dismiss that complaint for failure to make a pre-suit demand on the Allstate board before instituting the suit, but granted the plaintiff permission to file an amended complaint. The original complaint in *IBEW Local No. 98 Pension Fund v. Wilson, et al.*, was filed on April 12, 2018, in the same court by another plaintiff alleging to be a stockholder of the Company. After the court issued its dismissal decision in the *Biefeldt* action, the plaintiffs agreed to consolidate the two actions and filed a consolidated amended complaint naming the Company's chairman, president and chief executive officer, its former president, and certain present or former members of the board of directors. In that complaint, the plaintiffs allege that the directors and officer defendants breached their fiduciary duties to the Company in connection with allegedly material misstatements or omissions concerning the Company's automobile insurance claim frequency statistics and the reasons for a claim frequency increase for Allstate brand auto insurance between October 2014 and August 3, 2015. The factual allegations are substantially similar to those at issue in *In re The Allstate Corp. Securities Litigation*. The plaintiffs further allege that a senior officer and several outside directors engaged in stock option exercises allegedly while in possession of material nonpublic information. The plaintiffs seek, on behalf of the Company, an unspecified amount of damages and various forms of equitable relief. Defendants moved to dismiss the consolidated complaint on September 24, 2018 for failure to make a demand on the Allstate board. The motion to dismiss was fully briefed as of December 10, 2018 and argument on the motion is scheduled for March 7, 2019.

In *Sundquist v. Wilson, et al.*, another plaintiff alleging to be a stockholder of the Company filed a stockholder derivative complaint in the United States District Court for 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 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 certain present or former members of the board of directors. The complaint alleges breaches of fiduciary duty based on allegations similar to those asserted in *In re The Allstate Corp. Securities Litigation* as well as 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 certain members of the board of

directors. Defendants moved to dismiss and/or stay the complaint on August 7, 2018. On December 4, 2018, the court granted the defendants' motion and stayed the case pending the resolution of the consolidated *Biefeldt/IBEW* matter.

*In re The Allstate Corp. Securities Litigation* is a putative class action filed on November 11, 2016 in the United States District Court for the Northern District of Illinois against the Company and two of its officers asserting claims under the federal securities laws. Plaintiffs allege that they purchased Allstate common stock during the putative class period and suffered damages as the result of the conduct alleged. Plaintiffs seek an unspecified amount of damages, costs, attorney's fees, and 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 between October 2014 and August 3, 2015. Plaintiffs' further allege that a senior officer engaged in stock option exercises during that time allegedly while in possession of material nonpublic information about Allstate brand auto insurance claim frequency. The Company, its chairman, president and chief executive officer, and its former president are the named defendants. After the court denied their motion to dismiss on February 27, 2018, defendants answered the complaint, denying plaintiffs' allegations that there was any misstatement or omission or other misconduct. On June 22, 2018, plaintiffs filed their motion for class certification, which was fully briefed as of January 11, 2019 and is currently pending before the court. On September 12, 2018, the court allowed the lead plaintiffs to amend their complaint to add the City of Providence Employee Retirement System as a proposed class representative. The amended complaint was filed the same day.

#### Asbestos and environmental

Management believes its net loss reserves for asbestos, environmental and other discontinued lines exposures are appropriately established based on available facts, technology, laws and regulations. However, establishing net loss reserves for asbestos, environmental and other discontinued lines claims is subject to uncertainties that are much greater than those presented by other types of claims. The ultimate cost of losses may vary materially from recorded amounts, which are based on management's best estimate. Among the complications are lack of historical data, long reporting delays, uncertainty as to the number and identity of insureds with potential exposure and unresolved legal issues regarding policy coverage; unresolved legal issues regarding the determination, availability and timing of exhaustion of policy limits; plaintiffs' evolving and expanding theories of liability; availability and collectability of recoveries from reinsurance; retrospectively determined premiums and other contractual agreements; estimates of the extent and timing of any contractual liability; the impact of bankruptcy protection sought by various asbestos producers and other asbestos



defendants; and other uncertainties. There are also complex legal issues concerning the interpretation of various insurance policy provisions and whether those losses are covered, or were ever intended to be covered, and could be recoverable through retrospectively determined premium, reinsurance or other contractual agreements. Courts have reached different and sometimes inconsistent conclusions as to when losses are deemed to have occurred and which policies provide coverage; what types of losses are covered; whether there is an insurer obligation to defend; how policy limits are determined; how policy exclusions and conditions are applied and interpreted; and whether clean-up costs represent insured property damage. Further, insurers and claims administrators acting on behalf of insurers are increasingly pursuing evolving and expanding theories of reinsurance coverage for asbestos and environmental losses. Adjudication of reinsurance coverage is predominately

decided in confidential arbitration proceedings which may have limited precedential or predictive value further complicating management's ability to estimate probable loss for reinsured asbestos and environmental claims. Management believes these issues are not likely to be resolved in the near future, and the ultimate costs may vary materially from the amounts currently recorded resulting in material changes in loss reserves. In addition, while the Company believes that improved actuarial techniques and databases have assisted in its ability to estimate asbestos, environmental, and other discontinued lines net loss reserves, these refinements may subsequently prove to be inadequate indicators of the extent of probable losses. Due to the uncertainties and factors described above, management believes it is not practicable to develop a meaningful range for any such additional net loss reserves that may be required.

## Note 15 Income Taxes

The Company and its domestic subsidiaries file a consolidated federal income tax return. Tax liabilities and benefits realized by the consolidated group are allocated as generated by the respective entities.

Deferred income taxes result from temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements that will result in taxable or deductible amounts in future years. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in years in which those temporary differences are expected to be recovered or settled. Deferred tax assets and liabilities are adjusted through income tax expense as changes in tax laws or rates are enacted.

**Tax Legislation** On December 22, 2017, the Tax Legislation became effective and impacted the Company generally in four areas:

1. Amended the U.S. Internal Revenue Code of 1986, as amended, which among other items, permanently reduced the corporate income tax rate from a maximum of 35% to 21% beginning January 1, 2018. As a result, the corporate tax rate is not comparable between periods.
2. Changed international taxation to a modified territorial tax system whereby U.S. federal income taxes are generally eliminated on dividends from foreign subsidiaries, and certain earnings of controlled foreign corporations are included in U.S. federal taxable income.
3. Contained several other provisions, such as limitations of deductibility of executive compensation, meals and entertainment and lobbying expenses and changes to the dividends received deduction.
4. Affected the timing of certain tax deductions for reserves and deferred acquisition costs, but does not impact the Company's overall income tax expense.

The Company recorded a net tax benefit of \$506 million, recognized as a reduction to income tax expense in the Company's Consolidated Statements of Operations for the year ended December 31, 2017. The net benefit was primarily due to re-measurement of the Company's deferred tax assets and liabilities from 35% to 21%. This was partially offset by the transition to a modified territorial system for international taxation which required the Company to recognize a liability based on non-U.S. income from international subsidiaries that had not been repatriated to the U.S. parent company (the "Transition Tax"). The Company's effective income tax rate for 2017 was 20.1% and included a one-time benefit of 12.7%.

During 2018, the impact of the Tax Legislation was adjusted from the Company's preliminary estimates due to, among other things, changes in interpretations and assumptions the Company previously made, guidance that was issued and actions the Company took as a result of the Tax Legislation, resulting in a net tax benefit of \$29 million, recognized as a reduction to income tax expense in the Company's Consolidated Statements of Operations. The accounting for income tax effects of the Tax Legislation has been completed.

**Regulatory tax examinations** The Internal Revenue Service ("IRS") is currently examining the Company's 2015 and 2016 federal income tax returns, with the 2017 tax year exam scheduled to begin mid-2019. The 2015-17 cycle is expected to be completed in 2020. The 2013 and 2014 federal income tax return audit is complete through the exam phase and the Company will progress to the appeals process for one unagreed issue in 2019. Any adjustments that may result from IRS examinations of the Company's tax returns are not expected to have a material effect on the consolidated financial statements.

**Unrecognized tax benefits** The Company recognizes tax positions in the consolidated financial statements only when it is more likely than not that the position will be sustained on examination by the relevant taxing authority based on the technical merits

of the position. A position that meets this standard is measured at the largest amount of benefit that will more likely than not be realized on settlement. A liability is established for differences between positions

taken in a tax return and amounts recognized in the consolidated financial statements.

### Reconciliation of the change in the amount of unrecognized tax benefits

| (\$ in millions)                                     | For the years ended December 31, |              |              |
|--|----------------------------------|--------------|--------------|
|  | 2018                             | 2017         | 2016         |
| Balance – beginning of year                          | \$ 55                            | \$ 10        | \$ 7         |
| Increase for tax positions taken in a prior year     | 3                                | 34           | —            |
| Increase for tax positions taken in the current year | 12                               | 11           | 3            |
| <b>Balance – end of year</b>                         | <b>\$ 70</b>                     | <b>\$ 55</b> | <b>\$ 10</b> |

The Company believes it is reasonably possible that a decrease of up to \$58 million in unrecognized tax benefits may occur within the next twelve months due to IRS settlements.

### Components of the deferred income tax assets and liabilities

| (\$ in millions)                      | As of December 31, |                 |
|---------------------------------------|--------------------|-----------------|
|                                       | 2018               | 2017            |
| <b>Deferred tax assets</b>            |                    |                 |
| Unearned premium reserves             | \$ 594             | \$ 545          |
| Accrued compensation                  | 145                | 137             |
| Pension                               | 192                | 86              |
| Discount on loss reserves             | 67                 | 53              |
| Net operating loss carryover          | 50                 | 50              |
| Other assets                          | 57                 | 49              |
| Other postretirement benefits         | 45                 | 48              |
| <b>Total deferred tax assets</b>      | <b>1,150</b>       | <b>968</b>      |
| <b>Deferred tax liabilities</b>       |                    |                 |
| DAC                                   | (854)              | (770)           |
| Unrealized net capital gains          | (2)                | (422)           |
| Life and annuity reserves             | (194)              | (241)           |
| Intangible assets                     | (145)              | (113)           |
| Investments                           | (278)              | (106)           |
| Other liabilities                     | (102)              | (98)            |
| <b>Total deferred tax liabilities</b> | <b>(1,575)</b>     | <b>(1,750)</b>  |
| <b>Net deferred tax liability</b>     | <b>\$ (425)</b>    | <b>\$ (782)</b> |

Although realization is not assured, management believes it is more likely than not that the deferred tax assets will be realized based on the Company's assessment that the deductions ultimately recognized for tax purposes will be fully utilized. As of December 31, 2018, the Company has U.S. federal and foreign net operating loss carryforwards of \$209 million and \$30 million, respectively.

The provisions of the Tax Cuts and Jobs Act eliminated the 20-year carryforward period and made it indefinite for federal net operating losses generated in tax years after December 31, 2017. For such amounts generated prior to 2018, the 20-year carryforward period continues to apply.

### Components of the net operating loss carryforwards as of December 31, 2018

| (\$ in millions) | 20-Year                                  | Indefinite             | Total         |
|------------------|--|------------------------|---------------|
|                  | Carryforward<br>Expires in 2025-<br>2036 | Carryforward<br>Period |               |
| US Federal       | \$ 149                                   | \$ 60                  | \$ 209        |
| Foreign          | —  | 30                     | 30            |
| <b>Total</b>     | <b>\$ 149</b>                            | <b>\$ 90</b>           | <b>\$ 239</b> |

### Components of income tax expense

| (\$ in millions)                | For the years ended December 31, |               |               |
|---------------------------------|----------------------------------|---------------|---------------|
|                                 | 2018                             | 2017          | 2016          |
| Current                         | \$ 704                           | \$ 1,018      | \$ 654        |
| Deferred                        | (212)                            | (216)         | 223           |
| <b>Total income tax expense</b> | <b>\$ 492</b>                    | <b>\$ 802</b> | <b>\$ 877</b> |

The Company paid income taxes of \$731 million, \$968 million and \$359 million in 2018, 2017 and 2016, respectively.

The Company had a current income tax receivable of \$124 million and a current tax payable of \$44 million as of December 31, 2018 and 2017, respectively.

#### Reconciliation of the statutory federal income tax rate to the effective income tax rate

|   | For the years ended December 31, |               |               |
|---|----------------------------------|---------------|---------------|
|   | 2018                             | 2017          | 2016          |
| Statutory federal income tax rate on income from operations | 21.0 %                           | 35.0 %        | 35.0 %        |
| Tax Legislation benefit                                     | (1.1)                            | (12.7)        | —             |
| Share-based payments  | (0.6)                            | (1.6)         | —             |
| Tax-exempt income   | (0.9)                            | (0.8)         | (1.2)         |
| Tax credits   | (1.2)                            | (0.9)         | (1.2)         |
| Non-deductible goodwill impairment                          | —                                | 1.1           | —             |
| Other   | 0.7                              | —             | (0.7)         |
| <b>Effective income tax rate on income from operations</b>  | <b>17.9 %</b>                    | <b>20.1 %</b> | <b>31.9 %</b> |

#### Note 16 Statutory Financial Information and Dividend Limitations

Allstate's domestic property and casualty and life insurance subsidiaries prepare their statutory-basis financial statements in conformity with accounting practices prescribed or permitted by the insurance department of the applicable state of domicile. Prescribed statutory accounting practices include a variety of publications of the National Association of Insurance Commissioners ("NAIC"), as well as state laws, regulations and general administrative rules. Permitted statutory accounting practices encompass all accounting practices not so prescribed.

All states require domiciled insurance companies to prepare statutory-basis financial statements in conformity with the NAIC Accounting Practices and Procedures Manual, subject to any deviations prescribed or permitted by the applicable insurance commissioner and/or director. Statutory accounting practices differ from GAAP primarily since they require charging policy acquisition and certain sales inducement costs to expense as incurred, establishing life insurance reserves based on different actuarial assumptions, and valuing certain investments and establishing deferred taxes on a different basis.

#### Statutory net income (loss) and capital and surplus of Allstate's domestic insurance subsidiaries

| (\$ in millions)  | Net income (loss) |                 |                 | Capital and surplus |                  |
|---|-------------------|-----------------|-----------------|---------------------|------------------|
|   | 2018              | 2017            | 2016            | 2018                | 2017             |
| Amounts by major business type:                                       |                   |                 |                 |                     |                  |
| Property and casualty insurance                                       | \$ 2,939          | \$ 3,050        | \$ 1,520        | \$ 14,328           | \$ 14,903        |
| Life insurance, annuities and voluntary accident and health insurance | 465               | 327             | 197             | 3,819               | 3,727            |
| <b>Amount per statutory accounting practices</b>                      | <b>\$ 3,404</b>   | <b>\$ 3,377</b> | <b>\$ 1,717</b> | <b>\$ 18,147</b>    | <b>\$ 18,630</b> |

#### Dividend Limitations

There are no regulatory restrictions that limit the payment of dividends by the Corporation, except those generally applicable to corporations incorporated in Delaware. Dividends are payable only out of certain components of shareholders' equity as permitted by Delaware law. However, the ability of the Corporation to pay dividends is dependent on business conditions, income, cash requirements of the Company, receipt of dividends from AIC and other relevant factors.

The payment of shareholder dividends by AIC without the prior approval of the Illinois Department of Insurance ("IL DOI") is limited to formula amounts based on net income and capital and surplus, determined in conformity with statutory accounting practices, as well as the timing and amount of dividends paid in the preceding twelve months. AIC paid dividends of \$2.87 billion in 2018. The maximum amount of dividends AIC will be able to pay without prior IL DOI approval at a given point in time during 2019 is \$2.73 billion, less dividends paid during the

preceding twelve months measured at that point in time. The payment of a dividend in excess of this amount requires 30 days advance written notice to the IL DOI. The dividend is deemed approved, unless the IL DOI disapproves it within the 30 day notice period. Additionally, any dividend must be paid out of unassigned surplus excluding unrealized appreciation from investments, which for AIC totaled \$11.15 billion as of December 31, 2018, and cannot result in capital and surplus being less than the minimum amount required by law.

Under state insurance laws, insurance companies are required to maintain paid up capital of not less than the minimum capital requirement applicable to the types of insurance they are authorized to write. Insurance companies are also subject to risk-based capital ("RBC") requirements adopted by state insurance regulators. A company's "authorized control level RBC" is calculated using various factors applied to certain financial balances and activity. Companies that do not maintain adjusted statutory capital and surplus

at a level in excess of the company action level RBC, which is two times authorized control level RBC, are required to take specified actions. Company action level RBC is significantly in excess of the minimum capital requirements. Total adjusted statutory capital and surplus and authorized control level RBC of AIC were \$17.29 billion and \$3.01 billion, respectively, as of December 31, 2018. Substantially all of the Corporation's insurance subsidiaries are subsidiaries of and/or reinsure all of their business to AIC, including ALIC. AIC's subsidiaries are included as a component of AIC's total statutory capital and surplus.

The amount of restricted net assets, as represented by the Corporation's investment in its insurance subsidiaries, was \$25 billion as of December 31, 2018.

#### Intercompany transactions

Notification and approval of intercompany lending activities is also required by the IL DOI for transactions that exceed a level that is based on a formula using statutory admitted assets and statutory surplus.

## Note 17 Benefit Plans

### Pension and other postretirement plans

Defined benefit pension plans cover most full-time employees, certain part-time employees and employee-agents. Benefits under the pension plans are based upon the employee's length of service, eligible annual compensation and, prior to January 1, 2014, either a cash balance or final average pay formula. A cash balance formula applies to all eligible employees hired after August 1, 2002. Eligible employees hired before August 1, 2002 chose between the cash balance formula and the final average pay formula. In July 2013, the Company amended its primary plans effective January 1, 2014 to introduce a new cash balance formula to replace the previous formulas (including the final average pay formula and the previous cash balance formula) under which eligible employees accrue benefits.

The Company also provides a medical coverage subsidy for eligible employees hired before January 1, 2003, including their eligible dependents, when they retire and certain life insurance benefits for eligible retirees ("postretirement benefits"). In July 2013, the Company amended the plan to eliminate the life insurance benefits effective January 1, 2014 for current eligible employees and effective January 1, 2016 for eligible retirees who retired after 1989. The Company continues to pay life insurance premiums for certain retiree plaintiffs subject to a court order requiring it to do so until such time as their lawsuit seeking to keep their life insurance benefits intact is resolved. Qualified employees may become eligible for a medical subsidy if they retire in accordance with the terms of the applicable plans and are continuously insured under the Company's group plans or other approved plans in accordance with the plan's participation requirements.

The Company shares the cost of retiree medical benefits with non Medicare-eligible retirees based on years of service, with the Company's share being subject to a 5% limit on future annual medical cost inflation after retirement. For Medicare-eligible retirees, the Company provides a fixed Company contribution based on years of service and other factors, which is not subject to adjustments for inflation.

The Company has reserved the right to modify or terminate its benefit plans at any time and for any reason.

### Obligations and funded status

The Company calculates benefit obligations based upon generally accepted actuarial methodologies using the projected benefit obligation ("PBO") for pension plans and the accumulated postretirement benefit obligation ("APBO") for other postretirement plans. The determination of pension costs and other postretirement obligations are determined using a December 31 measurement date. The benefit obligations represent the actuarial present value of all benefits attributed to employee service rendered as of the measurement date. The PBO is measured using the pension benefit formulas and assumptions as to future compensation levels. A plan's funded status is calculated as the difference between the benefit obligation and the fair value of plan assets. The Company's funding policy for the pension plans is to make contributions at a level in accordance with regulations under the Internal Revenue Code ("IRC") and generally accepted actuarial principles. The Company's other postretirement benefit plans are not funded.

**Components of the pension and other postretirement plans' funded status reflected in the Consolidated Statements of Financial Position**

| (\$ in millions)   | As of December 31, |                 |                         |                 |
|--|--------------------|-----------------|-------------------------|-----------------|
|  | Pension benefits   |                 | Postretirement benefits |                 |
|  | 2018               | 2017            | 2018                    | 2017            |
| Fair value of plan assets  | \$ 5,299           | \$ 6,284        | \$ —                    | \$ —            |
| Less: Benefit obligation   | 6,224              | 6,815           | 375                     | 386             |
| <b>Funded status</b>   | <b>\$ (925)</b>    | <b>\$ (531)</b> | <b>\$ (375)</b>         | <b>\$ (386)</b> |
| Items not yet recognized as a component of net periodic cost:              |                    |                 |                         |                 |
| Net actuarial loss (gain)  | \$ 2,313           | \$ 2,224        | \$ (200)                | \$ (218)        |
| Prior service credit   | (198)              | (254)           | (16)                    | (37)            |
| <b>Unrecognized pension and other postretirement benefit cost, pre-tax</b> | <b>2,115</b>       | <b>1,970</b>    | <b>(216)</b>            | <b>(255)</b>    |
| Deferred income tax  | (449)              | (419)           | 41                      | 51              |
| <b>Unrecognized pension and other postretirement benefit cost</b>          | <b>\$ 1,666</b>    | <b>\$ 1,551</b> | <b>\$ (175)</b>         | <b>\$ (204)</b> |

The \$89 million increase in the pension net actuarial loss during 2018 is primarily related to losses from unfavorable asset performance compared to the expected return on plan assets which was partially offset by an increase in the discount rate used to value the liabilities, amortization of unrecognized pension costs and recognition of a settlement loss. A significant component of the \$2.31 billion net actuarial pension benefit losses not yet recognized in 2018 reflects decreases in the discount rate. The \$18 million decrease in the OPEB net actuarial gain during 2018 primarily related to amortization of net actuarial gains.

The primary qualified employee plan represents 78% of the pension benefits' underfunded status as of December 31, 2018.

The change in items not yet recognized as a component of net periodic cost is recorded in unrecognized pension and other postretirement benefit cost.

**Changes in items not yet recognized as a component of net periodic cost**

| (\$ in millions)  | Pension benefits | Postretirement benefits |
|---|------------------|-------------------------|
| Items not yet recognized as a component of net periodic cost – December 31, 2017        | \$ 1,970         | \$ (255)                |
| Net actuarial loss (gain) arising during the period                                     | 476              | (3)                     |
| Net actuarial (loss) gain amortized to net periodic benefit cost                        | (379)            | 22                      |
| Prior service credit amortized to net periodic benefit cost                             | 56               | 21                      |
| Translation adjustment and other  | (8)              | (1)                     |
| <b>Items not yet recognized as a component of net periodic cost – December 31, 2018</b> | <b>\$ 2,115</b>  | <b>\$ (216)</b>         |

The net actuarial loss (gain) and prior service credit is recognized as a component of net periodic cost amortized over the average remaining service period of active employees expected to receive benefits.

**Estimates of 2019 prior service credit**

| (\$ in millions)     | Pension benefits | Postretirement benefits |
|----------------------|------------------|-------------------------|
| Prior service credit | \$ (56)          | \$ (3)                  |

The accumulated benefit obligation ("ABO") for all defined benefit pension plans was \$6.15 billion and \$6.74 billion as of December 31, 2018 and 2017, respectively. The ABO is the actuarial present value of all benefits attributed by the pension benefit formula to employee service rendered at the measurement date. However, it differs from the PBO due to the exclusion of an assumption as to future compensation levels.

The PBO, ABO and fair value of plan assets for the Company's pension plans with an ABO in excess of plan assets were \$5.99 billion, \$5.93 billion and \$5.07 billion, respectively, as of December 31, 2018 and \$6.42 billion, \$6.36 billion and \$5.89 billion, respectively, as of December 31, 2017. Included in the accrued benefit cost of the pension benefits are certain unfunded non-qualified plans with accrued benefit costs of \$135 million and \$140 million for 2018 and 2017, respectively.

**Changes in benefit obligations for all plans**

| (\$ in millions)                       | Pension benefits |                 | Postretirement benefits |               |
|--|------------------|-----------------|-------------------------|---------------|
|  | 2018             | 2017            | 2018                    | 2017          |
| Benefit obligation, beginning of year  | \$ 6,815         | \$ 6,591        | \$ 386                  | \$ 373        |
| Service cost                           | 113              | 114             | 7                       | 8             |
| Interest cost                          | 242              | 264             | 13                      | 15            |
| Participant contributions              | —                | —               | 13                      | 12            |
| Actuarial (gain) loss                  | (245)            | 395             | (3)                     | 8             |
| Benefits paid <sup>(1)</sup>           | (646)            | (553)           | (35)                    | (35)          |
| Plan amendments                        | —                | —               | —                       | —             |
| Translation adjustment and other       | (55)             | 4               | (6)                     | 5             |
| <b>Benefit obligation, end of year</b> | <b>\$ 6,224</b>  | <b>\$ 6,815</b> | <b>\$ 375</b>           | <b>\$ 386</b> |

(1) Benefits paid include lump sum distributions, a portion of which triggered settlement accounting treatment.

**Components of net periodic cost**

| (\$ in millions)                  | For the years ended December 31, |               |               |                         |                |                |
|-----------------------------------|----------------------------------|---------------|---------------|-------------------------|----------------|----------------|
|                                   | Pension benefits                 |               |               | Postretirement benefits |                |                |
|                                   | 2018                             | 2017          | 2016          | 2018                    | 2017           | 2016           |
| Service cost                      | \$ 113                           | \$ 114        | \$ 113        | \$ 7                    | \$ 8           | \$ 9           |
| Interest cost                     | 242                              | 264           | 286           | 13                      | 15             | 17             |
| Expected return on plan assets    | (421)                            | (409)         | (398)         | —                       | —              | —              |
| Amortization of:                  |                                  |               |               |                         |                |                |
| Prior service credit              | (56)                             | (56)          | (56)          | (21)                    | (25)           | (21)           |
| Net actuarial loss (gain)         | 176                              | 189           | 174           | (22)                    | (24)           | (24)           |
| Settlement loss                   | 203                              | 153           | 27            | —                       | —              | —              |
| <b>Net periodic cost (credit)</b> | <b>\$ 257</b>                    | <b>\$ 255</b> | <b>\$ 146</b> | <b>\$ (23)</b>          | <b>\$ (26)</b> | <b>\$ (19)</b> |

The service cost component is the actuarial present value of the benefits attributed by the plans' benefit formula to services rendered by the employees during the period. Interest cost is the increase in the PBO in the period due to the passage of time at the discount rate. Interest cost fluctuates as the discount rate changes and is also impacted by the related change in the size of the PBO. The decrease or increase in the PBO due to an increase or decrease in the discount rate is deferred and decreases or increases the net actuarial loss. It is recorded in AOCI as unrecognized pension benefit cost and may be amortized.

The expected return on plan assets is determined as the product of the expected long-term rate of return on plan assets and the adjusted fair value of plan assets, referred to as the market-related value of plan assets. To determine the market-related value, the fair value of plan assets is adjusted annually so that differences between changes in the fair value of equity securities and the expected long-term rate of return on these securities are recognized into the market-related value of plan assets over a five-year period. The Company believes this is consistent with the long-term nature of pension obligations.

When the actual return on plan assets exceeds the expected return it reduces the net actuarial loss recorded in AOCI; when the expected return exceeds the actual return it increases the net actuarial loss. These amounts are recorded in AOCI as unrecognized pension benefit cost and may be amortized. The market-related value adjustment represents the current difference between actual returns and

expected returns on equity securities recognized over a five-year period. The market-related value adjustment is a deferred net loss of \$420 million as of December 31, 2018. The expected return on plan assets fluctuates when the market-related value of plan assets changes and when the expected long-term rate of return on plan assets assumption changes.

Net actuarial loss fluctuations are due to changes in discount rate, differences between actual return on plan assets and expected long-term rate of return on plan assets, and differences between actual plan experience and other actuarial assumptions when there is an excess sufficient to qualify for amortization.

Net periodic costs related to the pension plan and postretirement benefits are reported in operating costs and expenses.

Amortization of net actuarial loss in pension cost is recorded when the net actuarial loss excluding the unamortized market-related value adjustment exceeds 10% of the greater of the PBO or the market-related value of plan assets. The amount of amortization is equal to the excess divided by the average remaining service period for active employees for each plan, which approximates 10 years for Allstate's largest plan. As a result, the effect of changes in the PBO due to changes in the discount rate and changes in the fair value of plan assets may be experienced in our net periodic pension cost in periods subsequent to those in which the fluctuations actually occur.

Settlement losses are non-cash charges that accelerate the recognition of unrecognized pension benefit cost that would have been incurred in

subsequent periods, when plan payments, primarily lump sums from qualified pension plans, exceed a threshold of service plus interest cost for the period. The value of lump sums paid in 2018 and 2017 was higher than in 2017 and 2016, respectively, and exceeded the settlement charge threshold, in the primary employee plan, due to higher-than-expected

retirement levels. As a result, a pension settlement loss of \$172 million and \$122 million, pre-tax, in 2018 and 2017, respectively, was recorded as part of operating costs and expenses in the Corporate and Other segment.

#### Weighted average assumptions used to determine net pension cost and net postretirement benefit cost

| (\$ in millions)                                 | For the years ended December 31, |       |       |                         |       |       |
|--|----------------------------------|-------|-------|-------------------------|-------|-------|
|  | Pension benefits                 |       |       | Postretirement benefits |       |       |
|  | 2018                             | 2017  | 2016  | 2018                    | 2017  | 2016  |
| Discount rate                                    | 3.68%                            | 4.15% | 4.83% | 3.63%                   | 3.63% | 4.59% |
| Rate of increase in compensation levels          | 3.20                             | 3.20  | 3.20  | n/a                     | n/a   | n/a   |
| Expected long-term rate of return on plan assets | 7.32                             | 7.31  | 7.30  | n/a                     | n/a   | n/a   |

#### Weighted average assumptions used to determine benefit obligations

|   | For the years ended December 31, |       |                         |       |
|---|----------------------------------|-------|-------------------------|-------|
|   | Pension benefits                 |       | Postretirement benefits |       |
|   | 2018                             | 2017  | 2018                    | 2017  |
| Discount rate                           | 4.31%                            | 3.68% | 4.22%                   | 4.06% |
| Rate of increase in compensation levels | 3.16                             | 3.20  | n/a                     | n/a   |

The weighted average health care cost trend rate used in measuring the accumulated postretirement benefit cost is 5.9% for 2019, gradually declining to 4.5% in 2038 and remaining at that level thereafter.

#### Pension plan assets

##### Change in pension plan assets

| (\$ in millions)                              | For the years ended December 31, |                 |
|---|----------------------------------|-----------------|
|   | 2018                             | 2017            |
| Fair value of plan assets, beginning of year  | \$ 6,284                         | \$ 5,650        |
| Actual return on plan assets                  | (300)                            | 1,051           |
| Employer contribution                         | 16                               | 131             |
| Benefits paid                                 | (646)                            | (553)           |
| Translation adjustment and other              | (55)                             | 5               |
| <b>Fair value of plan assets, end of year</b> | <b>\$ 5,299</b>                  | <b>\$ 6,284</b> |

In general, the Company's pension plan assets are managed in accordance with investment policies approved by pension investment committees. The purpose of the policies is to ensure the plans' long-term ability to meet benefit obligations by prudently investing plan assets and Company contributions, while taking into consideration regulatory and legal requirements and current market conditions. The investment policies are reviewed periodically and specify target plan asset allocation by asset category. In addition, the policies specify various asset allocation and other risk limits. The target asset allocation takes the plans' funding status into consideration, among other factors, including anticipated demographic changes or liquidity requirements that may affect the funding status such as the potential impact of lump sum settlements as well as existing or expected market conditions. In general, the allocation has a

lower overall investment risk when a plan is in a stronger funded status position since there is less economic incentive to take risk to increase the expected returns on the plan assets. As a result, the primary employee plan has a greater allocation to equity securities than the employee-agent plan. The primary qualified employee plan comprises 81% of total plan assets and 82% of equity securities. The pension plans' asset exposure within each asset category is tracked against widely accepted established benchmarks for each asset class with limits on variation from the benchmark established in the investment policy. Pension plan assets are regularly monitored for compliance with these limits and other risk limits specified in the investment policies.

**Weighted average target asset allocation and actual percentage of plan assets by asset category**

| Pension plan's asset category                          | As of December 31, 2018                |                                  |             |
|--|--|----------------------------------|-------------|
|  | Target asset allocation <sup>(1)</sup> | Actual percentage of plan assets |             |
|  | 2018                                   | 2018                             | 2017        |
| Equity securities <sup>(2)</sup>                       | 36 - 53%                               | 47%                              | 58%         |
| Fixed income securities                                | 40 - 53%                               | 41                               | 34          |
| Limited partnership interests                          | 0 - 15%                                | 9                                | 6           |
| Short-term investments and other                       | —                                      | 3                                | 2           |
| <b>Total without securities lending <sup>(3)</sup></b> |  | <b>100%</b>                      | <b>100%</b> |

(1) The target asset allocation considers risk based exposure while the actual percentage of plan assets utilizes a financial reporting view excluding exposure provided through derivatives.

(2) The actual percentage of plan assets for equity securities includes 1% and 2% of private equity investments in 2018 and 2017, respectively, that are subject to the limited partnership interests target allocation and 4% and 3% of fixed income mutual funds in 2018 and 2017, respectively, that are subject to the fixed income securities target allocation.

(3) Securities lending collateral reinvestment of \$208 million and \$202 million is excluded from the table above in 2018 and 2017, respectively.

The target asset allocation for an asset category may be achieved either through direct investment holdings, through replication using derivative instruments (e.g., futures or swaps) or net of hedges using derivative instruments to reduce exposure to an asset category. The net notional amount of derivatives used for replication and hedges is limited to 105% or 115% of total plan assets depending on the plan. Market performance of the different asset categories may, from time to time, cause deviation from the target

asset allocation. The asset allocation mix is reviewed on a periodic basis and rebalanced to bring the allocation within the target ranges.

Outside the target asset allocation, the pension plans participate in a securities lending program to enhance returns. As of December 31, 2018, U.S. government fixed income securities and U.S. equity securities are lent out and cash collateral is invested in short-term investments.



**Fair values of pension plan assets as of December 31, 2018**

| (\$ in millions)   | Quoted prices in active markets for identical assets (Level 1) | Significant other observable inputs (Level 2) | Significant unobservable inputs (Level 3) | Balance as of December 31, 2018 |
|--|--|---|---|---------------------------------|
| Equity securities  | \$ 51  | \$ 265  | \$ —                                      | \$ 316                          |
| Fixed income securities:   |  |   |   |                                 |
| U.S. government and agencies                                       | 172  | 509   | —   | 681                             |
| Corporate  | —  | 1,479   | 5   | 1,484                           |
| Short-term investments   | 122  | 198   | —   | 320                             |
| Free-standing derivatives:   |  |   |   |                                 |
| Assets   | —  | 19  | —   | 19                              |
| Liabilities  | —  | (11)  | —   | (11)                            |
| <b>Total plan assets at fair value</b>                             | <b>\$ 345</b>  | <b>\$ 2,459</b>                               | <b>\$ 5</b>                               | <b>2,809</b>                    |
| % of total plan assets at fair value                               | 12.3%  | 87.5%   | 0.2%                                      | 100.0%                          |
| Investments measured using the net asset value practical expedient |  |   |   | 2,687                           |
| Securities lending obligation <sup>(1)</sup>                       |  |   |   | (222)                           |
| Derivatives Counterparty and Cash Collateral Netting               |  |   |   | (6)                             |
| Other net plan assets <sup>(2)</sup>                               |  |   |   | 31                              |
| <b>Total reported plan assets</b>                                  |  |   |   | <b>\$ 5,299</b>                 |

<sup>(1)</sup> The securities lending obligation represents the plan's obligation to return securities lending collateral received under a securities lending program. The terms of the program allow both the plan and the counterparty the right and ability to redeem/return the securities loaned on short notice. Due to its relatively short-term nature, the outstanding balance of the obligation approximates fair value.

<sup>(2)</sup> Other net plan assets represent cash and cash equivalents, interest and dividends receivable and net receivables related to settlements of investment transactions, such as purchases and sales.

**Fair values of pension plan assets as of December 31, 2017**

| (\$ in millions)   | Quoted prices in active markets for identical assets (Level 1) | Significant other observable inputs (Level 2) | Significant unobservable inputs (Level 3) | Balance as of December 31, 2017 |
|--|--|---|---|---------------------------------|
| Equity securities  | \$ 126   | \$ 264  | \$ 29                                     | \$ 419                          |
| Fixed income securities:   |  |   |   |                                 |
| U.S. government and agencies                                       | 174  | 420   | —   | 594                             |
| Corporate  | —  | 1,543   | 10  | 1,553                           |
| Short-term investments   | 97   | 197   | —   | 294                             |
| Cash and cash equivalents  | 21   | —   | —   | 21                              |
| Free-standing derivatives:   |  |   |   |                                 |
| Assets   | —  | 1   | —   | 1                               |
| <b>Total plan assets at fair value</b>                             | <b>\$ 418</b>  | <b>\$ 2,425</b>                               | <b>\$ 39</b>                              | <b>2,882</b>                    |
| % of total plan assets at fair value                               | 14.5%  | 84.1%   | 1.4%                                      | 100.0%                          |
| Investments measured using the net asset value practical expedient |  |   |   | 3,598                           |
| Securities lending obligation                                      |  |   |   | (216)                           |
| Other net plan assets  |  |   |   | 20                              |
| <b>Total reported plan assets</b>                                  |  |   |   | <b>\$ 6,284</b>                 |

The fair values of pension plan assets are estimated using the same methodologies and inputs as those used to determine the fair values for the respective asset category of the Company. These methodologies and inputs are disclosed in Note 6.

**Rollforward of Level 3 plan assets during December 31, 2018**

| (\$ in millions)                 | Balance as of<br>December 31, 2017 | Actual return on plan assets:                   |   | Purchases, sales and<br>settlements, net | Net transfers in<br>and/or (out) of Level<br>3 | Balance as of<br>December 31, 2018 |
|----------------------------------|------------------------------------|---|---|--|--|------------------------------------|
|                                  |                                    | Relating to assets<br>sold during the<br>period | Relating to assets still<br>held at the reporting<br>date |  |  |                                    |
| Equity securities                | \$ 29                              | \$ —  | \$ 3  | \$ —                                     | \$ (32)  | \$ —                               |
| Fixed income securities:         |                                    |   |   |  |  |                                    |
| Corporate                        | 10                                 | —   | —   | (5)                                      | —  | 5                                  |
| <b>Total Level 3 plan assets</b> | <b>\$ 39</b>                       | <b>\$ —</b>                                     | <b>\$ 3</b>   | <b>\$ (5)</b>                            | <b>\$ (32)</b>                                 | <b>\$ 5</b>                        |

**Rollforward of Level 3 plan assets during December 31, 2017**

| (\$ in millions)                 | Balance as of<br>December 31, 2016 | Actual return on plan assets:                   |   | Purchases, sales and<br>settlements, net | Net transfers in<br>and/or (out) of Level<br>3 | Balance as of<br>December 31, 2017 |
|----------------------------------|------------------------------------|---|---|--|--|------------------------------------|
|                                  |                                    | Relating to assets<br>sold during the<br>period | Relating to assets still<br>held at the reporting<br>date |  |  |                                    |
| Equity securities                | \$ —                               | \$ —  | \$ —  | \$ 29                                    | \$ —   | \$ 29                              |
| Fixed income securities:         |                                    |   |   |  |  |                                    |
| Corporate                        | 10                                 | —   | —   | —  | —  | 10                                 |
| <b>Total Level 3 plan assets</b> | <b>\$ 10</b>                       | <b>\$ —</b>                                     | <b>\$ —</b>   | <b>\$ 29</b>                             | <b>\$ —</b>                                    | <b>\$ 39</b>                       |

**Rollforward of Level 3 plan assets during December 31, 2016**

| (\$ in millions)                 | Balance as of<br>December 31, 2015 | Actual return on plan assets:                   |   | Purchases, sales and<br>settlements, net | Net transfers in<br>and/or (out) of Level<br>3 | Balance as of<br>December 31, 2016 |
|----------------------------------|------------------------------------|---|---|--|--|------------------------------------|
|                                  |                                    | Relating to assets<br>sold during the<br>period | Relating to assets still<br>held at the reporting<br>date |  |  |                                    |
| Equity securities                | \$ 1                               | \$ (1)  | \$ —  | \$ —                                     | \$ —   | \$ —                               |
| Fixed income securities:         |                                    |   |   |  |  |                                    |
| Municipal                        | 7                                  | —   | —   | (7)                                      | —  | —                                  |
| Corporate                        | 10                                 | —   | —   | (5)                                      | 5  | 10                                 |
| <b>Total Level 3 plan assets</b> | <b>\$ 18</b>                       | <b>\$ (1)</b>                                   | <b>\$ —</b>   | <b>\$ (12)</b>                           | <b>\$ 5</b>                                    | <b>\$ 10</b>                       |

The expected long-term rate of return on plan assets reflects the average rate of earnings expected on plan assets. The Company's assumption for the expected long-term rate of return on plan assets is reviewed annually giving consideration to appropriate financial data including, but not limited to, the plan asset allocation, forward-looking expected returns for the period over which benefits will be paid, historical returns on plan assets and other relevant market data. Given the long-term forward looking nature of this assumption, the actual returns in any one year do not immediately result in a change. In giving consideration to the targeted plan asset allocation, the Company evaluated returns using the same sources it has used historically which include: historical average asset class returns from an independent nationally recognized vendor of this type of data blended together using the asset allocation policy weights for the Company's pension plans; asset class return forecasts from a large global independent asset management firm that specializes in providing multi-asset class investment fund products which were blended together using the asset allocation policy weights; and expected portfolio returns from a proprietary simulation methodology of a widely recognized external investment consulting firm that performs asset allocation and actuarial services for corporate pension plan sponsors. This same methodology has been applied on a consistent basis

each year. All of these were consistent with the Company's weighted average long-term rate of return on plan assets assumption of 7.32% used for 2018 and 7.33% that will be used for 2019. The assumption for the primary qualified employee plan is 7.75% and the employee-agent plan is 5.75% for both years. The employee-agent plan assumption is lower than the primary qualified employee plan assumption due to a lower investment allocation to equity securities and a higher allocation to fixed income securities. As of the 2018 measurement date, the arithmetic average of the annual actual return on plan assets for the most recent 10 and 5 years was 9.0% and 6.6%, respectively.

**Cash flows** There was no required cash contribution necessary to satisfy the minimum funding requirement under the Internal Revenue Code for the tax qualified pension plans as of December 31, 2018. The Company currently plans to contribute \$26 million to its unfunded non-qualified plans and zero to its qualified funded pension plans in 2019.

The Company contributed \$22 million and \$23 million to the postretirement benefit plans in 2018 and 2017, respectively. Contributions by participants were \$13 million and \$12 million in 2018 and 2017, respectively.

**Estimated future benefit payments expected to be paid in the next 10 years**

| (\$ in millions)              | As of December 31, 2018 |                         |
|-------------------------------|-------------------------|-------------------------|
|                               | Pension benefits        | Postretirement benefits |
| 2019                          | \$ 448                  | \$ 24                   |
| 2020                          | 462                     | 25                      |
| 2021                          | 495                     | 26                      |
| 2022                          | 509                     | 27                      |
| 2023                          | 528                     | 28                      |
| 2024-2028                     | 2,383                   | 142                     |
| <b>Total benefit payments</b> | <b>\$ 4,825</b>         | <b>\$ 272</b>           |

**2019 changes in pension and other postretirement plan accounting**

At January 1, 2019, the Company changed its accounting principle for recognizing actuarial gains and losses and expected return on plan assets for its pension and other postretirement plans to a more preferable policy under U.S. GAAP. Prior to 2019, actuarial gains and losses were recognized as a component of AOCI, and were generally amortized into earnings in future periods. Under the new principle, actuarial gains and losses will be immediately recognized through earnings ("fair value accounting").

In addition, the Company changed its policy for recognizing expected returns on plan assets by eliminating the permitted accounting practice allowing the five-year smoothing of equity returns and moving to an unadjusted fair value method.

The Company believes that fair value accounting is preferable as it provides greater transparency of its economic obligations in accounting results and better aligns with the fair value accounting principles by recognizing the effects of economic and interest rate changes on pension and other postretirement plan assets and liabilities in the year in which the gains and losses are incurred. These changes will be applied retrospectively thereby requiring restatement of prior

periods presented and upon adoption will have no impact on shareholders' equity or book value per share.

**Allstate 401(k) Savings Plan**

Employees of the Company, with the exception of those employed by the Company's international, SquareTrade, Esurance and Answer Financial subsidiaries, are eligible to become members of the Allstate 401(k) Savings Plan ("Allstate Plan"). The Company's contributions are based on the Company's matching obligation. The Company is responsible for funding its anticipated contribution to the Allstate Plan, and may, at the discretion of management, use the ESOP to pre-fund certain portions. In connection with the Allstate Plan, the Company has a note from the ESOP with a principal balance of \$2 million as of December 31, 2018. The ESOP note has a fixed interest rate of 7.9% and matures in 2019. The Company records dividends on the ESOP shares in retained income and all the shares held by the ESOP are included in basic and diluted weighted average common shares outstanding.

The Company's contribution to the Allstate Plan was \$89 million, \$81 million and \$80 million in 2018, 2017 and 2016, respectively. These amounts were reduced by the ESOP benefit.

**ESOP benefit**

| (\$ in millions)                              | For the years December 31, |                |                |
|---|----------------------------|----------------|----------------|
|   | 2018                       | 2017           | 2016           |
| Interest expense recognized by ESOP           | \$ —                       | \$ —           | \$ 1           |
| Less: dividends accrued on ESOP shares        | (1)                        | (1)            | (3)            |
| Cost of shares allocated                      | —                          | 3              | 7              |
| <b>Compensation expense</b>                   | <b>(1)</b>                 | <b>2</b>       | <b>5</b>       |
| Reduction of defined contribution due to ESOP | 1                          | 38             | 60             |
| <b>ESOP benefit</b>                           | <b>\$ (2)</b>              | <b>\$ (36)</b> | <b>\$ (55)</b> |

The Company made zero, \$1 million and \$2 million in contributions to the ESOP in 2018, 2017 and 2016, respectively. As of December 31, 2018, total committed to be released, allocated and unallocated ESOP shares were zero, 39 million and 0.4 million, respectively.

Allstate's Canadian, SquareTrade, Esurance and Answer Financial subsidiaries sponsor defined contribution plans for their eligible employees. Expense for these plans was \$15 million, \$12 million and \$10 million in 2018, 2017 and 2016, respectively.

## Note 18 Equity Incentive Plans

The Company currently has equity incentive plans under which the Company grants nonqualified stock options, restricted stock units and performance stock awards to certain employees and directors of the Company. The total compensation expense related to equity awards was \$125 million, \$106 million and \$80 million and the total income tax benefits were \$22 million, \$22 million and \$28 million for 2018, 2017 and 2016, respectively. Total cash received from the exercise of options was \$92 million, \$178 million and \$187 million for 2018, 2017 and 2016, respectively. Total tax benefit realized on options exercised and the release of stock restrictions was \$28 million, \$96 million and \$61 million for 2018, 2017 and 2016, respectively.

The Company records compensation expense related to awards under these plans over the shorter of the period in which the requisite service is rendered or retirement eligibility is attained. Compensation expense for performance share awards is based on the probable number of awards expected to vest using the performance level most likely to be achieved at the end of the performance period. As of December 31, 2018, total unrecognized compensation cost related to all nonvested awards was \$89 million, of which \$29 million related to nonqualified stock options which is expected to be recognized over the weighted average vesting period of 1.71 years, \$23 million related to restricted stock units which is expected to be recognized over the weighted average vesting period of 1.69 years and \$37 million related to performance stock awards which is expected to be recognized over the weighted average vesting period of 1.59 years.

Options are granted to employees with exercise prices equal to the closing share price of the Company's common stock on the applicable grant date. Options granted to employees on or after February 18, 2014 vest ratably over a three-year period. Options granted prior to February 18, 2014 vest 50% on the second anniversary of the grant date and 25% on each of the third and fourth anniversaries of the grant date. Vesting is subject to continued service, except for employees who are retirement eligible and in certain other limited circumstances. Options may be exercised once vested and will expire no later than ten years after the date of grant.

Restricted stock units for directors vest immediately and convert into shares of stock on the earlier of the day of the third anniversary of the grant date or the date the director's service terminates, unless a deferred period of restriction is elected. Restricted stock units granted to directors prior to

June 1, 2016 convert upon leaving the board. Restricted stock units granted to employees on or after February 18, 2014 vest on the day prior to the third anniversary of the grant date. Awards granted to employees prior to February 18, 2014 vest 50% on the day prior to the second anniversary of the grant date and 25% on each of the days prior to the third and fourth anniversaries of the grant date. Restricted stock units granted to employees subsequently convert into shares of stock on the day of the respective anniversary of the grant date. Vesting is subject to continued service, except for employees who are retirement eligible and in certain other limited circumstances.

Performance stock awards vest into shares of stock on the day prior to the third anniversary of the grant date. Vesting of the number of performance stock awards earned based on the attainment of performance goals for each of the performance periods is subject to continued service, except for employees who are retirement eligible and in certain other limited circumstances, and achievement of performance goals. Performance stock awards subsequently convert into shares of stock in full the day of the anniversary of the grant date.

A total of 98.0 million shares of common stock were authorized to be used for awards under the plans, subject to adjustment in accordance with the plans' terms. As of December 31, 2018, 15.0 million shares were reserved and remained available for future issuance under these plans. The Company uses its treasury shares for these issuances.

The fair value of each option grant is estimated on the date of grant using a binomial lattice model. The Company uses historical data to estimate option exercise and employee termination within the valuation model. In addition, separate groups of employees that have similar historical exercise behavior are considered separately for valuation purposes. The expected term of options granted is derived from the output of the binomial lattice model and represents the period of time that options granted are expected to be outstanding. The expected volatility of the price of the underlying shares is implied based on traded options and historical volatility of the Company's common stock. The expected dividends were based on the current dividend yield of the Company's stock as of the date of the grant. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

### Option grant assumptions

|                                     | 2018         | 2017         | 2016         |
|-------------------------------------|--------------|--------------|--------------|
| Weighted average expected term      | 5.7 years    | 6.1 years    | 5.0 years    |
| Expected volatility                 | 15.6 - 30.7% | 15.7 - 32.7% | 16.0 - 34.3% |
| Weighted average volatility         | 19.8%        | 21.0%        | 24.3%        |
| Expected dividends                  | 1.5 - 2.2%   | 1.4 - 1.9%   | 1.9 - 2.1%   |
| Weighted average expected dividends | 2.0%         | 1.9%         | 2.1%         |
| Risk-free rate                      | 1.3 - 3.2%   | 0.5 - 2.5%   | 0.2 - 2.4%   |

**Summary of option activity**

|  | Number<br>(in 000s) | For the year ended December 31, 2018 |  |   |
|--|---------------------|--------------------------------------|--|---|
|  |                     | Weighted average exercise price      | Aggregate intrinsic value<br>(in 000s) | Weighted average remaining contractual term (years) |
| Outstanding as of January 1, 2018          | 11,262              | \$ 58.46                             |  |   |
| Granted                                    | 2,388               | 93.04                                |  |   |
| Exercised                                  | (1,710)             | 53.57                                |  |   |
| Forfeited                                  | (206)               | 80.79                                |  |   |
| Expired                                    | (4)                 | 52.21                                |  |   |
| <b>Outstanding as of December 31, 2018</b> | <b>11,730</b>       | <b>65.82</b>                         | <b>\$ 221,999</b>                      | <b>6.3</b>  |
| Outstanding, net of expected forfeitures   | 11,614              | 65.59                                | 221,832                                | 6.3   |
| Outstanding, exercisable ("vested")        | 6,968               | 54.14                                | 198,747                                | 5.0   |

The weighted average grant date fair value of options granted was \$17.03, \$14.60 and \$12.25 during 2018, 2017 and 2016, respectively. The intrinsic value, which is the difference between the fair value and the exercise price, of options exercised was \$72 million, \$199 million and \$119 million during 2018, 2017 and 2016, respectively.

**Changes in restricted stock units**

|  | For the year ended December 31, 2018 |  |
|--|--------------------------------------|--|
|  | Number<br>(in 000s)                  | Weighted average grant date fair value |
| Nonvested as of January 1, 2018          | 1,241                                | \$ 67.93                               |
| Granted                                  | 255                                  | 93.16                                  |
| Vested                                   | (498)                                | 67.45                                  |
| Forfeited                                | (41)                                 | 75.40                                  |
| <b>Nonvested as of December 31, 2018</b> | <b>957</b>                           | <b>74.58</b>                           |

The fair value of restricted stock units is based on the market value of the Company's stock as of the date of the grant. The market value in part reflects the payment of future dividends expected. The weighted average grant date fair value of restricted stock units granted was \$93.16, \$80.12 and \$63.51 during 2018, 2017 and 2016, respectively. The total fair value of restricted stock units vested was \$47 million, \$58 million and \$29 million during 2018, 2017 and 2016, respectively.

**Changes in performance stock awards**

|  | For the year ended December 31, 2018 |  |
|--|--------------------------------------|--|
|  | Number<br>(in 000s)                  | Weighted average grant date fair value |
| Nonvested as of January 1, 2018          | 1,090                                | \$ 70.35                               |
| Granted                                  | 402                                  | 92.88                                  |
| Adjustment for performance achievement   | (34)                                 | 70.53                                  |
| Vested                                   | (161)                                | 70.53                                  |
| Forfeited                                | (49)                                 | 76.33                                  |
| <b>Nonvested as of December 31, 2018</b> | <b>1,248</b>                         | <b>77.35</b>                           |

The change in PSA's comprises those initially granted in 2018 and the adjustment to previously granted PSA's for performance achievement. The fair value of performance stock awards is based on the market value of the Company's stock as of the date of the grant. The market value in part reflects the payment of future dividends expected. The weighted average grant date fair value of performance stock awards granted was \$92.88, \$78.47 and \$62.32 during 2018, 2017 and 2016, respectively. The total fair value of performance stock awards vested was \$15 million, \$17 million and \$28 million during 2018, 2017 and 2016, respectively.

Under the employee share-based payment accounting standard adopted in 2017, the Company recognizes all tax effects related to share-based payments at settlement or expiration through the income statement. Prior to the adoption, the Company recognized excess tax effects through the statement of shareholders' equity. The tax benefit recognized through the statement of shareholders' equity related to tax deductions from stock option exercises was \$23 million in 2016. The tax benefit recognized through shareholders' equity related to all stock-based compensation was \$30 million in 2016.

**Note 19 Supplemental Cash Flow Information**

Non-cash investing activities include \$94 million, \$106 million and \$326 million related to mergers and exchanges completed with equity securities, fixed income securities and limited partnerships, and modifications of certain mortgage loans and other investments in 2018, 2017 and 2016, respectively. Non-cash financing activities include \$32 million, \$43 million and \$41 million related to the issuance of Allstate common shares for vested equity awards in 2018, 2017 and 2016, respectively. Non-cash financing activities also included \$90 million and \$34 million related to debt acquired in conjunction with purchases of investments in 2017 and 2016, respectively.

Liabilities for collateral received in conjunction with the Company's securities lending program were \$1.44 billion as of December 31, 2018, and \$1.12 billion as of both December 31, 2017 and 2016, and are reported in other liabilities and accrued expenses. Obligations to return cash collateral for OTC and cleared derivatives were \$21 million, \$3 million and \$5 million as of December 31, 2018, 2017 and 2016, respectively, and 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 Consolidated Statements of Cash Flows along with the activities resulting from management of the proceeds as follows:

| (\$ in millions)                              | For the years ended December 31, |               |                 |
|---|----------------------------------|---------------|-----------------|
|   | 2018                             | 2017          | 2016            |
| <b>Net change in proceeds managed</b>         |                                  |               |                 |
| Net change in fixed income securities         | \$ 234                           | \$ 259        | \$ (584)        |
| Net change in short-term investments          | (568)                            | (255)         | 295             |
| <b>Operating cash flow (used) provided</b>    | <b>(334)</b>                     | <b>4</b>      | <b>(289)</b>    |
| Net change in cash                            | —                                | 1             | —               |
| <b>Net change in proceeds managed</b>         | <b>\$ (334)</b>                  | <b>\$ 5</b>   | <b>\$ (289)</b> |
| <b>Cash flows from operating activities</b>   |                                  |               |                 |
| <b>Net change in liabilities</b>              |                                  |               |                 |
| Liabilities for collateral, beginning of year | \$ (1,124)                       | \$ (1,129)    | \$ (840)        |
| Liabilities for collateral, end of year       | (1,458)                          | (1,124)       | (1,129)         |
| <b>Operating cash flow provided (used)</b>    | <b>\$ 334</b>                    | <b>\$ (5)</b> | <b>\$ 289</b>   |

**Note 20 Other Comprehensive Income****Components of other comprehensive income (loss) on a pre-tax and after-tax basis**

| (\$ in millions)  | For the years ended December 31, |            |              |            |              |            |              |              |              |
|---|----------------------------------|------------|--------------|------------|--------------|------------|--------------|--------------|--------------|
|   | 2018                             |            |              | 2017       |              |            | 2016         |              |              |
|   | Pre-tax                          | Tax        | After-tax    | Pre-tax    | Tax          | After-tax  | Pre-tax      | Tax          | After-tax    |
| Unrealized net holding gains and losses arising during the period, net of related offsets         | \$ (1,142)                       | \$ 241     | \$ (901)     | \$ 866     | \$ (304)     | \$ 562     | \$ 486       | \$ (170)     | \$ 316       |
| Less: reclassification adjustment of realized capital gains and losses                            | (186)                            | 39         | (147)        | 374        | (131)        | 243        | (180)        | 63           | (117)        |
| <b>Unrealized net capital gains and losses</b>  | <b>(956)</b>                     | <b>202</b> | <b>(754)</b> | <b>492</b> | <b>(173)</b> | <b>319</b> | <b>666</b>   | <b>(233)</b> | <b>433</b>   |
| <b>Unrealized foreign currency translation adjustments</b>  | <b>(70)</b>                      | <b>15</b>  | <b>(55)</b>  | <b>72</b>  | <b>(25)</b>  | <b>47</b>  | <b>15</b>    | <b>(5)</b>   | <b>10</b>    |
| Unrecognized pension and other postretirement benefit cost arising during the period              | (464)                            | 99         | (365)        | 232        | (79)         | 153        | (263)        | 94           | (169)        |
| Less: reclassification adjustment of net periodic cost recognized in operating costs and expenses | (280)                            | 59         | (221)        | (237)      | 83           | (154)      | (100)        | 35           | (65)         |
| <b>Unrecognized pension and other postretirement benefit cost</b>                                 | <b>(184)</b>                     | <b>40</b>  | <b>(144)</b> | <b>469</b> | <b>(162)</b> | <b>307</b> | <b>(163)</b> | <b>59</b>    | <b>(104)</b> |
| Other comprehensive (loss) income   | \$ (1,210)                       | \$ 257     | \$ (953)     | \$ 1,033   | \$ (360)     | \$ 673     | \$ 518       | \$ (179)     | \$ 339       |

**Note 21**    **Quarterly Results (unaudited)**

| (\$ in millions, except per share data)             | First Quarter |          | Second Quarter |          | Third Quarter |          | Fourth Quarter |           |
|---|---------------|----------|----------------|----------|---------------|----------|----------------|-----------|
|   | 2018          | 2017     | 2018           | 2017     | 2018          | 2017     | 2018           | 2017      |
| Revenues  | \$ 9,770      | \$ 9,644 | \$ 10,099      | \$ 9,813 | \$ 10,465     | \$ 9,888 | \$ 9,481       | \$ 10,062 |
| Net income (loss) applicable to common shareholders | 946           | 666      | 637            | 550      | 833           | 637      | (312)          | 1,220     |
| Earnings per common share - Basic                   | 2.67          | 1.82     | 1.82           | 1.51     | 2.41          | 1.76     | (0.91)         | 3.41      |
| Earnings per common share - Diluted                 | 2.63          | 1.79     | 1.80           | 1.49     | 2.37          | 1.74     | (0.91)         | 3.35      |

## Report of Independent Registered Public Accounting Firm

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

### Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying Consolidated Statements of Financial Position of The Allstate Corporation and subsidiaries (the "Company") as of December 31, 2018 and 2017, and the related Consolidated Statements of Operations, Comprehensive Income, Shareholders' Equity, and Cash Flows for each of the three years in the period ended December 31, 2018, and the related notes and the schedules listed in the Index at Item 15 (collectively referred to as the "financial statements"). We also have audited the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission – ("COSO").

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the COSO.

### Change in Adopted Accounting Principle

As discussed in Note 2 to the financial statements, the Company changed its presentation and method of accounting for the recognition and measurement of financial assets and financial liabilities on January 1, 2018, due to the adoption of FASB Accounting Standards Update No. 2016-01, Financial Instruments - Overall (Subtopic 825-10).

### Basis for Opinions

The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying *Item 9A. Controls and Procedures*. Our responsibility is to express an opinion on these financial statements and an opinion on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("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 audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the financial statements included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures to respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.



### Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ DELOITTE & TOUCHE LLP

Chicago, Illinois

February 15, 2019

We have served as the Company's auditor since 1992.

## Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

### Item 9A. Controls and Procedures

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

**Management's Report on Internal Control over Financial Reporting.** Management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934.

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2018 based on the criteria related to internal control over financial reporting described in "Internal Control – Integrated Framework (2013)" issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation, management concluded that our internal control over financial reporting was effective as of December 31, 2018.

Deloitte & Touche LLP, the independent registered public accounting firm that audited the consolidated financial statements included in this Form 10-K, has issued their attestation report on the Company's internal control over financial reporting, which is included herein.

**Changes in Internal Control over Financial Reporting.** During the fiscal quarter ended December 31, 2018, there have been no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

### Item 9B. Other Information

None.

## Part III

### Item 10. Directors, Executive Officers and Corporate Governance

Information regarding directors of The Allstate Corporation standing for election at the 2019 annual stockholders meeting is incorporated in this Item 10 by reference to the descriptions in the Proxy Statement under the captions "Corporate Governance – Director Nominees."

Information regarding our audit committee and audit committee financial experts is incorporated in this Item 10 by reference to the information under the caption "Corporate Governance – Board Meetings and Committees" in the Proxy Statement.

Information regarding compliance with Section 16(a) of the Securities Exchange Act of 1934 is incorporated in this Item 10 by reference to "Stock Ownership Information – Section 16(a) Beneficial Ownership Reporting Compliance" in the Proxy Statement.

Information regarding executive officers of The Allstate Corporation is incorporated in this Item 10 by reference to Part I, Item 1 of this report under the caption "Executive Officers of the Registrant."

We have adopted a Global Code of Business Conduct that applies to all of our directors and employees, including our principal executive officer, principal financial officer and controller and principal accounting officer. The text of our Global Code of Business Conduct is posted on our website, [www.allstateinvestors.com](http://www.allstateinvestors.com). We intend to satisfy the disclosure requirements, regarding amendments to, and waiver from, the provisions of our Global Code of Business Conduct by posting such information on the same website pursuant to applicable NYSE and SEC rules.

### Item 11. Executive Compensation

Information required for Item 11 is incorporated by reference to the sections of the Proxy Statement with the following captions:

- Corporate Governance – Director Compensation
- Executive Compensation

### Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Information regarding security ownership of certain beneficial owners and management is incorporated in this Item 12 by reference to the sections of the Proxy Statement with the following captions:

- Equity Incentive Plan – Proposal 3. Approval of the 2019 Equity Incentive Plan
- Stock Ownership Information – Security Ownership of Directors and Executive Officers

- Stock Ownership Information – Security Ownership of Certain Beneficial Owners

Asset managers, such as those that manage mutual funds and exchange traded funds, principally on behalf of third party investors, at times acquire sufficient voting ownership interests in Allstate to require disclosure. State Street Corp. manages an investment portfolio of \$2.8 billion on behalf of participants in Allstate's 401(k) Savings Plan and \$1.8 billion on behalf of Allstate domestic qualified pension plans. The terms of these arrangements are customary and the aggregate related fees are not material.

### Item 13. Certain Relationships and Related Transactions, and Director Independence

Information required for Item 13 is incorporated by reference to the material in the Proxy Statement under the captions "Corporate Governance – Board Independence and Related Person Transactions - Related Person Transactions," "Corporate Governance – Board Independence and Related Person Transactions - Nominee Independence Determinations" and "Other Information - Appendix B – Categorical Standards of Independence."

### Item 14. Principal Accounting Fees and Services

Information required for Item 14 is incorporated by reference to the material in the Proxy Statement under the caption "Audit Committee Matters – Proposal 4. Ratification of Deloitte & Touche LLP as the Independent Registered Public Accountant for 2019."

## Part IV

**Item 15. (a) (1) Exhibits and Financial Statement Schedules.**

The following consolidated financial statements, notes thereto and related information of The Allstate Corporation (the "Company") are included in Item 8.

- Consolidated Statements of Operations
- Consolidated Statements of Comprehensive Income
- Consolidated Statements of Financial Position
- Consolidated Statements of Shareholders' Equity
- Consolidated Statements of Cash Flows
- Notes to the Consolidated Financial Statements
- Report of Independent Registered Public Accounting Firm

**Item 15. (a) (2)**

The following additional financial statement schedules are furnished herewith pursuant to the requirements of Form 10-K.

| The Allstate Corporation   |  | Page |
|--|--|------|
| Schedules required to be filed under the provisions of Regulation S-X Article 7: |  |      |
| Schedule I   | Summary of Investments – Other than Investments in Related Parties       | S-1  |
| Schedule II  | Condensed Financial Information of Registrant (The Allstate Corporation) | S-2  |
| Schedule III   | Supplementary Insurance Information                                      | S-6  |
| Schedule IV  | Reinsurance  | S-7  |
| Schedule V   | Valuation Allowances and Qualifying Accounts                             | S-8  |

All other schedules are omitted because they are not applicable, or not required, or because the required information is included in the Consolidated Financial Statements or in notes thereto.

**Item 15. (a) (3)**

The following is a list of the exhibits filed as part of this Form 10-K. The exhibit numbers followed by an asterisk (\*) indicate exhibits that are management contracts or compensatory plans or arrangements. A dagger (†) indicates an award form first used under The Allstate Corporation 2001 Equity Incentive Plan, which was amended and restated as The Allstate Corporation 2009 Equity Incentive Plan. A plus (+) indicates an award form first used under The Allstate Corporation 2009 Equity Incentive Plan, which was amended and restated as The Allstate Corporation 2013 Equity Incentive Plan.

| Exhibit Number | Exhibit Description  | Incorporated by Reference |             |         |                    | Filed or Furnished Herewith |
|----------------|--|---------------------------|-------------|---------|--------------------|-----------------------------|
|                |  | Form                      | File Number | Exhibit | Filing Date        |                             |
| 2.1            | <a href="#">Agreement and Plan of Merger, dated as of November 28, 2016, by and among SquareTrade Holding Company, Inc., Allstate Non-Insurance Holdings, Inc., Piazza Merger Sub Inc., Shareholder Representative Services LLC, and the Registrant. (Certain schedules and exhibits to the Agreement and Plan of Merger are omitted pursuant to Item 601(b)(2) of Regulation S-K. The Registrant agrees to furnish to the Securities and Exchange Commission, upon request, a copy of any omitted schedule or exhibit.)</a> | 8-K                       | 1-11840     | 2.1     | November 28, 2016  |                             |
| 3.1            | <a href="#">Restated Certificate of Incorporation filed with the Secretary of State of Delaware on May 23, 2012</a>  | 8-K                       | 1-11840     | 3(i)    | May 23, 2012       |                             |
| 3.2            | <a href="#">Amended and Restated Bylaws of The Allstate Corporation as amended November 19, 2015</a>   | 8-K                       | 1-11840     | 3.1     | November 19, 2015  |                             |
| 3.3            | <a href="#">Certificate of Designations with respect to the Preferred Stock, Series A of the Registrant, dated June 10, 2013</a>   | 8-K                       | 1-11840     | 3.1     | June 12, 2013      |                             |
| 3.4            | <a href="#">Certificate of Designations with respect to the Preferred Stock, Series C of the Registrant, dated September 26, 2013</a>  | 8-K                       | 1-11840     | 3.1     | September 30, 2013 |                             |
| 3.5            | <a href="#">Certificate of Designations with respect to the Preferred Stock, Series D of the Registrant, dated December 13, 2013</a>   | 8-K                       | 1-11840     | 3.1     | December 16, 2013  |                             |

| Exhibit Number | Exhibit Description  | Incorporated by Reference |             |         |                   | Filed or Furnished Herewith |
|----------------|--|---------------------------|-------------|---------|-------------------|-----------------------------|
|                |  | Form                      | File Number | Exhibit | Filing Date       |                             |
| 3.6            | <a href="#">Certificate of Correction of Certificate of Designations with respect to the Preferred Stock, Series A of the Registrant dated February 18, 2014</a>   | 10-K                      | 1-11840     | 3.6     | February 20, 2014 |                             |
| 3.7            | <a href="#">Certificate of Designations with respect to the Preferred Stock, Series E of the Registrant, dated February 27, 2014</a>   | 8-K                       | 1-11840     | 3.1     | March 3, 2014     |                             |
| 3.8            | <a href="#">Certificate of Designations with respect to the Preferred Stock, Series F of the Registrant, dated June 11, 2014</a>   | 8-K                       | 1-11840     | 3.1     | June 12, 2014     |                             |
| 3.9            | <a href="#">Certificate of Designations with respect to the Preferred Stock, Series G of the Registrant, dated March 27, 2018</a>  | 8-K                       | 1-11840     | 3.1     | March 29, 2018    |                             |
| 4.1            | The Allstate Corporation hereby agrees to furnish to the Commission, upon request, the instruments defining the rights of holders of each issue of long-term debt of it and its consolidated subsidiaries  |                           |             |         |                   |                             |
| 4.2            | <a href="#">Deposit Agreement, dated June 12, 2013, among the Registrant, Wells Fargo Bank, N.A., as depository, and the holders from time to time of the depository receipts described therein (Series A)</a>   | 8-K                       | 1-11840     | 4.1     | June 12, 2013     |                             |
| 4.3            | <a href="#">Form of Preferred Stock Certificate, Series A (included as Exhibit A to Exhibit 3.3 above)</a>   | 8-K                       | 1-11840     | 4.2     | June 12, 2013     |                             |
| 4.4            | <a href="#">Form of Depository Receipt, Series A (included as Exhibit A to Exhibit 4.2 above)</a>  | 8-K                       | 1-11840     | 4.3     | June 12, 2013     |                             |
| 4.5            | <a href="#">Deposit Agreement, dated December 16, 2013, among the Registrant, Wells Fargo Bank, N.A., as depository, and the holders from time to time of the depository receipts described therein (Series D)</a>   | 8-K                       | 1-11840     | 4.1     | December 16, 2013 |                             |
| 4.6            | <a href="#">Form of Preferred Stock Certificate, Series D (included as Exhibit A to Exhibit 3.5 above)</a>   | 8-K                       | 1-11840     | 4.2     | December 16, 2013 |                             |
| 4.7            | <a href="#">Form of Depository Receipt, Series D (included as Exhibit A to Exhibit 4.5 above)</a>  | 8-K                       | 1-11840     | 4.3     | December 16, 2013 |                             |
| 4.8            | <a href="#">Deposit Agreement, dated March 3, 2014, among the Registrant, Wells Fargo Bank, N.A., as depository, and the holders from time to time of the depository receipts described therein (Series E)</a>   | 8-K                       | 1-11840     | 4.1     | March 3, 2014     |                             |
| 4.9            | <a href="#">Form of Preferred Stock Certificate, Series E (included as Exhibit A to Exhibit 3.7 above)</a>   | 8-K                       | 1-11840     | 4.2     | March 3, 2014     |                             |
| 4.10           | <a href="#">Form of Depository Receipt, Series E (included as Exhibit A to Exhibit 4.8 above)</a>  | 8-K                       | 1-11840     | 4.3     | March 3, 2014     |                             |
| 4.11           | <a href="#">Deposit Agreement, dated June 12, 2014, among the Registrant, Wells Fargo Bank, N.A., as depository, and the holders from time to time of the depository receipts described therein (Series F)</a>   | 8-K                       | 1-11840     | 4.1     | June 12, 2014     |                             |
| 4.12           | <a href="#">Form of Preferred Stock Certificate, Series F (included as Exhibit A to Exhibit 3.8 above)</a>   | 8-K                       | 1-11840     | 4.2     | June 12, 2014     |                             |
| 4.13           | <a href="#">Form of Depository Receipt, Series F (included as Exhibit A to Exhibit 4.11 above)</a>   | 8-K                       | 1-11840     | 4.3     | June 12, 2014     |                             |
| 4.14           | <a href="#">Deposit Agreement, dated March 29, 2018, among the Registrant, Equiniti Trust Company, as depository, and the holders from time to time of the depository receipts described therein (Series G)</a>  | 8-K                       | 1-11840     | 4.1     | March 29, 2018    |                             |
| 4.15           | <a href="#">Form of Preferred Stock Certificate, Series G (included as Exhibit A to Exhibit 3.9 above)</a>   | 8-K                       | 1-11840     | 4.2     | March 29, 2018    |                             |
| 4.16           | <a href="#">Form of Depository Receipt, Series G (included as Exhibit A to Exhibit 4.14 above)</a>   | 8-K                       | 1-11840     | 4.3     | March 29, 2018    |                             |
| 10.1           | <a href="#">Credit Agreement dated April 27, 2012 among The Allstate Corporation, Allstate Insurance Company and Allstate Life Insurance Company, as Borrowers; the Lenders party thereto, Wells Fargo Bank, National Association, as Syndication Agent; Citibank, N.A. and Bank of America, N.A., as Documentation Agents; and JPMorgan Chase Bank, N.A., as Administrative Agent</a> | 10-Q                      | 1-11840     | 10.6    | May 2, 2012       |                             |
| 10.2           | <a href="#">Amendment No. 1 to Credit Agreement dated as of April 27, 2014</a>   | 8-K                       | 1-11840     | 10.1    | April 29, 2014    |                             |

| Exhibit Number | Exhibit Description   | Incorporated by Reference |             |         |                    | Filed or Furnished Herewith |
|----------------|---|---------------------------|-------------|---------|--------------------|-----------------------------|
|                |   | Form                      | File Number | Exhibit | Filing Date        |                             |
| 10.3*          | <a href="#">The Allstate Corporation Annual Executive Incentive Plan</a>  | Proxy                     | 1-11840     | App. B  | April 7, 2014      |                             |
| 10.4*          | <a href="#">The Allstate Corporation Deferred Compensation Plan, as amended and restated effective January 1, 2019</a>  | S-8                       | 1-11840     | 4       | November 20, 2018  |                             |
| 10.5*          | <a href="#">The Allstate Corporation 2013 Equity Incentive Plan, as amended and restated effective July 24, 2018</a>  | 10-Q                      | 1-11840     | 10.1    | October 31, 2018   |                             |
| 10.6*          | <a href="#">Form of Performance Stock Award Agreement for awards granted on or after April 13, 2018, under The Allstate Corporation 2013 Equity Incentive Plan</a>  | 10-Q                      | 1-11840     | 10.2    | May 1, 2018        |                             |
| 10.7*+         | <a href="#">Form of Performance Stock Award Agreement for awards granted on or after March 6, 2012 and prior to April 13, 2018 under The Allstate Corporation 2009 Equity Incentive Plan</a>  | 10-Q                      | 1-11840     | 10.4    | May 2, 2012        |                             |
| 10.8*          | <a href="#">Form of Option Award Agreement for awards granted on or after April 13, 2018, under The Allstate Corporation 2013 Equity Incentive Plan</a>   | 10-Q                      | 1-11840     | 10.3    | May 1, 2018        |                             |
| 10.9*+         | <a href="#">Form of Option Award Agreement for awards granted on or after February 21, 2012 and prior to April 13, 2018 under The Allstate Corporation 2009 Equity Incentive Plan</a>   | 10-Q                      | 1-11840     | 10.3    | May 2, 2012        |                             |
| 10.10*+        | <a href="#">Form of Option Award Agreement for awards granted on or after December 30, 2011 and prior to February 21, 2012 under The Allstate Corporation 2009 Equity Incentive Plan</a>  | 8-K                       | 1-11840     | 10.2    | December 28, 2011  |                             |
| 10.11*+        | <a href="#">Form of Option Award Agreement for awards granted on or after February 22, 2011 and prior to December 30, 2011 under The Allstate Corporation 2009 Equity Incentive Plan</a>  | 10-Q                      | 1-11840     | 10.3    | April 27, 2011     |                             |
| 10.12*+        | <a href="#">Form of Option Award Agreement for awards granted on or after May 19, 2009 and prior to February 22, 2011 under The Allstate Corporation 2009 Equity Incentive Plan</a>   | 8-K/A                     | 1-11840     | 10.3    | May 20, 2009       |                             |
| 10.13*†        | <a href="#">Form of Option Award Agreement for awards granted on or after September 13, 2008 and prior to May 19, 2009 under The Allstate Corporation 2001 Equity Incentive Plan</a>  | 8-K                       | 1-11840     | 10.3    | September 19, 2008 |                             |
| 10.14*+        | <a href="#">Form of Restricted Stock Unit Award Agreement for awards granted on or after February 21, 2012 and prior to April 13, 2018 under The Allstate Corporation 2009 Equity Incentive Plan</a>                                | 10-Q                      | 1-11840     | 10.2    | May 2, 2012        |                             |
| 10.15*         | <a href="#">Form of Restricted Stock Unit Award Agreement for awards granted on or after April 13, 2018, under The Allstate Corporation 2013 Equity Incentive Plan</a>  | 10-Q                      | 1-11840     | 10.4    | May 1, 2018        |                             |
| 10.16*         | <a href="#">Supplemental Retirement Income Plan, as amended and restated effective October 19, 2018</a>   |                           |             |         |                    | X                           |
| 10.17*         | <a href="#">The Allstate Corporation Change in Control Severance Plan effective December 30, 2011</a>   | 8-K                       | 1-11840     | 10.1    | December 28, 2011  |                             |
| 10.18*         | <a href="#">The Allstate Corporation Deferred Compensation Plan for Non-Employee Directors, as amended and restated effective September 15, 2008</a>  | 8-K                       | 1-11840     | 10.7    | September 19, 2008 |                             |
| 10.19*         | <a href="#">The Allstate Corporation Equity Incentive Plan for Non-Employee Directors, as amended and restated effective September 15, 2008</a>   | 8-K                       | 1-11840     | 10.5    | September 19, 2008 |                             |
| 10.20*         | <a href="#">The Allstate Corporation 2006 Equity Compensation Plan for Non-Employee Directors, as amended and restated effective September 15, 2008</a>   | 8-K                       | 1-11840     | 10.6    | September 19, 2008 |                             |
| 10.21*         | <a href="#">The Allstate Corporation 2017 Equity Compensation Plan for Non-Employee Directors</a>   | Proxy                     | 1-11840     | App. D  | April 12, 2017     |                             |
| 10.22*         | <a href="#">Form of Option Award Agreement under The Allstate Corporation 2006 Equity Compensation Plan for Non-Employee Directors</a>  | 8-K                       | 1-11840     | 10.3    | May 19, 2006       |                             |
| 10.23*         | <a href="#">Form of amended and restated Restricted Stock Unit Award Agreement with regards to awards outstanding on September 15, 2008 under The Allstate Corporation 2006 Equity Compensation Plan for Non-Employee Directors</a> | 8-K                       | 1-11840     | 10.8    | September 19, 2008 |                             |

| Exhibit Number | Exhibit Description   | Incorporated by Reference |             |         |                    | Filed or Furnished Herewith |
|----------------|---|---------------------------|-------------|---------|--------------------|-----------------------------|
|                |   | Form                      | File Number | Exhibit | Filing Date        |                             |
| 10.24*         | <a href="#">Form of Restricted Stock Unit Award Agreement for awards granted on or after September 15, 2008, and prior to June 1, 2016, under The Allstate Corporation 2006 Equity Compensation Plan for Non-Employee Directors</a> | 8-K                       | 1-11840     | 10.9    | September 19, 2008 |                             |
| 10.25*         | <a href="#">Form of Restricted Stock Unit Award Agreement for awards granted on or after June 1, 2016, and prior to June 1, 2017, under The Allstate Corporation 2006 Equity Compensation Plan for Non-Employee Directors</a>       | 10-Q                      | 1-11840     | 10.2    | August 3, 2016     |                             |
| 10.26*         | <a href="#">Form of Restricted Stock Unit Award Agreement for awards granted on or after June 1, 2017, under The Allstate Corporation 2017 Equity Compensation Plan for Non-Employee Directors</a>                                  | 10-Q                      | 1-11840     | 10.2    | August 1, 2017     |                             |
| 10.27*         | <a href="#">Form of Indemnification Agreement between the Registrant and Director</a>   | 10-Q                      | 1-11840     | 10.2    | August 1, 2007     |                             |
| 10.28*         | <a href="#">Resolutions regarding Non-Employee Director Compensation adopted November 18, 2016</a>  | 10-K                      | 1-11840     | 10.24   | February 17, 2017  |                             |
| 10.29*         | <a href="#">Resolutions regarding Non-Employee Director Compensation adopted November 16, 2018</a>  |                           |             |         |                    | X                           |
| 10.30          | <a href="#">Amended and Restated Reinsurance Agreement, dated April 1, 2014, between Allstate Life Insurance Company and Lincoln Benefit Life Company.</a>  | 8-K                       | 1-11840     | 10.1    | April 7, 2014      |                             |
| 10.31*         | <a href="#">Offer Letter dated September 30, 2016, to John E. Dugenske</a>  | 10-Q                      | 1-11840     | 10.1    | May 1, 2018        |                             |
| 21             | <a href="#">Subsidiaries of The Allstate Corporation</a>  |                           |             |         |                    | X                           |
| 23             | <a href="#">Consent of Independent Registered Public Accounting Firm</a>  |                           |             |         |                    | X                           |
| 31(i)          | <a href="#">Rule 13a-14(a) Certification of Principal Executive Officer</a>   |                           |             |         |                    | X                           |
| 31(i)          | <a href="#">Rule 13a-14(a) Certification of Principal Financial Officer</a>   |                           |             |         |                    | X                           |
| 32             | <a href="#">Section 1350 Certifications</a>   |                           |             |         |                    | X                           |
| 101.INS        | XBRL Instance Document  |                           |             |         |                    | X                           |
| 101.SCH        | XBRL Taxonomy Extension Schema  |                           |             |         |                    | X                           |
| 101.CAL        | XBRL Taxonomy Extension Calculation Linkbase  |                           |             |         |                    | X                           |
| 101.DEF        | XBRL Taxonomy Extension Definition Linkbase   |                           |             |         |                    | X                           |
| 101.LAB        | XBRL Taxonomy Extension Label Linkbase  |                           |             |         |                    | X                           |
| 101.PRE        | XBRL Taxonomy Extension Presentation Linkbase   |                           |             |         |                    | X                           |

**Item 15. (b)**

The exhibits are listed in Item 15. (a)(3) above.

**Item 15. (c)**

The financial statement schedules are listed in Item 15. (a)(2) above.

**Item 16.**

None.

## Signatures

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

The Allstate Corporation  
(Registrant)

/s/ Eric K. Ferren

**By: Eric K. Ferren**  
Senior Vice President, Controller, and Chief Accounting Officer

February 15, 2019

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| <u>Signature</u>                                      | <u>Title</u>   | <u>Date</u>       |
|---|--|-------------------|
| /s/ Thomas J. Wilson<br>_____<br>Thomas J. Wilson     | Chairman of the Board, President, Chief Executive Officer and a<br>Director<br>(Principal Executive Officer) | February 15, 2019 |
| /s/ Mario Rizzo<br>_____<br>Mario Rizzo               | Executive Vice President and Chief Financial Officer (Principal<br>Financial Officer)                        | February 15, 2019 |
| /s/ Eric K. Ferren<br>_____<br>Eric K. Ferren         | Senior Vice President, Controller, and Chief Accounting Officer<br>(Principal Accounting Officer)            | February 15, 2019 |
| /s/ Kermit R. Crawford<br>_____<br>Kermit R. Crawford | Director   | February 15, 2019 |
| /s/ Michael L. Eskew<br>_____<br>Michael L. Eskew     | Director   | February 15, 2019 |
| /s/ Margaret M. Keane<br>_____<br>Margaret M. Keane   | Director   | February 15, 2019 |
| /s/ Siddharth N. Mehta<br>_____<br>Siddharth N. Mehta | Director   | February 15, 2019 |
| /s/ Jacques P. Perold<br>_____<br>Jacques P. Perold   | Director   | February 15, 2019 |
| /s/ Andrea Redmond<br>_____<br>Andrea Redmond         | Director   | February 15, 2019 |
| /s/ Gregg M. Sherrill<br>_____<br>Gregg M. Sherrill   | Director   | February 15, 2019 |
| /s/ Judith A. Sprieser<br>_____<br>Judith A. Sprieser | Lead Director  | February 15, 2019 |
| /s/ Perry M. Traquina<br>_____<br>Perry M. Traquina   | Director   | February 15, 2019 |



**The Allstate Corporation and Subsidiaries**  
**Schedule I — Summary of Investments Other than Investments in Related Parties**

| (\$ in millions)  | As of December 31, 2018 |                               |   |
|---|-------------------------|-------------------------------|---|
|   | Cost/amortized cost     | Fair value<br>(if applicable) | Amount shown in<br>the<br>Balance Sheet |
| Type of investment  |                         |                               |   |
| Fixed maturities:   |                         |                               |   |
| Bonds:  |                         |                               |   |
| United States government, government agencies and authorities | \$ 5,386                | \$ 5,517                      | \$ 5,517                                |
| States, municipalities and political subdivisions             | 8,963                   | 9,169                         | 9,169                                   |
| Foreign governments   | 739                     | 747                           | 747                                     |
| Public utilities  | 5,410                   | 5,514                         | 5,514                                   |
| All other corporate bonds                                     | 35,126                  | 34,622                        | 34,622                                  |
| Asset-backed securities                                       | 1,049                   | 1,045                         | 1,045                                   |
| Residential mortgage-backed securities                        | 377                     | 464                           | 464                                     |
| Commercial mortgage-backed securities                         | 63                      | 70                            | 70                                      |
| Redeemable preferred stocks                                   | 21                      | 22                            | 22                                      |
| Total fixed maturities  | 57,134                  | \$ 57,170                     | 57,170                                  |
| Equity securities:  |                         |                               |   |
| Common stocks:  |                         |                               |   |
| Public utilities  | 78                      | 93                            | 93                                      |
| Banks, trusts and insurance companies                         | 452                     | 525                           | 525                                     |
| Industrial, miscellaneous and all other                       | 3,737                   | 4,159                         | 4,159                                   |
| Nonredeemable preferred stocks                                | 222                     | 259                           | 259                                     |
| Total equity securities                                       | 4,489                   | \$ 5,036                      | 5,036                                   |
| Mortgage loans on real estate                                 | 4,670                   | 4,703                         | 4,670                                   |
| Real estate (none acquired in satisfaction of debt)           | 624                     |                               | 624                                     |
| Policy loans  | 891                     |                               | 891                                     |
| Derivative instruments  | 117                     | 117                           | 117                                     |
| Limited partnership interests                                 | 7,505                   |                               | 7,505                                   |
| Other long-term investments                                   | 2,220                   |                               | 2,220                                   |
| Short-term investments  | 3,027                   | 3,027                         | 3,027                                   |
| Total investments   | \$ 80,677               |                               | \$ 81,260                               |

**The Allstate Corporation and Subsidiaries**  
**Schedule II — Condensed Financial Information of Registrant Statement of Operations**

| (\$ in millions)  | Year Ended December 31, |              |              |
|---|-------------------------|--------------|--------------|
|   | 2018                    | 2017         | 2016         |
| <b>Revenues</b>   |                         |              |              |
| Investment income, less investment expense  | \$ 25                   | \$ 10        | \$ 11        |
| Realized capital gains and losses   | (10)                    | (2)          | 2            |
| Other income  | 3                       | 36           | 55           |
|   | 18                      | 44           | 68           |
| <b>Expenses</b>   |                         |              |              |
| Interest expense  | 337                     | 334          | 295          |
| Pension and other postretirement benefit expense  | 238                     | 119          | 10           |
| Other operating expenses  | 50                      | 50           | 28           |
|   | 625                     | 503          | 333          |
| Loss from operations before income tax benefit and equity in net income of subsidiaries | (607)                   | (459)        | (265)        |
| Income tax benefit  | (115)                   | (92)         | (115)        |
| Loss before equity in net income of subsidiaries  | (492)                   | (367)        | (150)        |
| Equity in net income of subsidiaries  | 2,744                   | 3,556        | 2,027        |
| <b>Net income</b>   | <b>2,252</b>            | <b>3,189</b> | <b>1,877</b> |
| Preferred stock dividends   | 148                     | 116          | 116          |
| Net income applicable to common shareholders  | 2,104                   | 3,073        | 1,761        |
| <b>Other comprehensive income (loss), after-tax</b>                                     |                         |              |              |
| Changes in:   |                         |              |              |
| Unrealized net capital gains and losses   | (754)                   | 319          | 433          |
| Unrealized foreign currency translation adjustments                                     | (55)                    | 47           | 10           |
| Unrecognized pension and other postretirement benefit cost                              | (144)                   | 307          | (104)        |
| Other comprehensive (loss) income, after-tax  | (953)                   | 673          | 339          |
| Comprehensive income  | \$ 1,299                | \$ 3,862     | \$ 2,216     |

See accompanying notes to condensed financial information and notes to consolidated financial statements.

**The Allstate Corporation and Subsidiaries**  
**Schedule II (Continued) — Condensed Financial Information of Registrant Statement of Financial Position**

| (\$ in millions, except par value data)  | December 31,     |                  |
|--|------------------|------------------|
|  | 2018             | 2017             |
| <b>Assets</b>  |                  |                  |
| Investments in subsidiaries  | \$ 29,301        | \$ 29,126        |
| Fixed income securities, at fair value (amortized cost \$355 and \$361)  | 356              | 362              |
| Short-term investments, at fair value (amortized cost \$285 and \$171)   | 285              | 171              |
| Receivable from subsidiaries   | 426              | 427              |
| Deferred income taxes  | 225              | 124              |
| Other assets   | 92               | 150              |
| <b>Total assets</b>  | <b>\$ 30,685</b> | <b>\$ 30,360</b> |
| <b>Liabilities</b>   |                  |                  |
| Long-term debt   | \$ 6,451         | \$ 6,350         |
| Pension and other postretirement benefit obligations   | 1,050            | 675              |
| Deferred compensation  | 281              | 297              |
| Payable to subsidiaries  | 3                | —                |
| Notes due to subsidiaries  | 1,250            | 250              |
| Dividends payable to shareholders  | 198              | 167              |
| Other liabilities  | 140              | 70               |
| <b>Total liabilities</b>   | <b>9,373</b>     | <b>7,809</b>     |
| <b>Shareholders' equity</b>  |                  |                  |
| Preferred stock and additional capital paid-in, \$1 par value, 25 million shares authorized, 79.8 thousand and 72.2 thousand shares issued and outstanding, \$1,995 and \$1,805 aggregate liquidation preference | 1,930            | 1,746            |
| Common stock, \$.01 par value, 2.0 billion shares authorized and 900 million issued, 332 million and 355 million shares outstanding  | 9                | 9                |
| Additional capital paid-in   | 3,310            | 3,313            |
| Retained income  | 45,708           | 43,162           |
| Deferred ESOP expense  | (3)              | (3)              |
| Treasury stock, at cost (568 million and 545 million shares)   | (28,085)         | (25,982)         |
| Accumulated other comprehensive income:  |                  |                  |
| Unrealized net capital gains and losses  | (2)              | 1,662            |
| Unrealized foreign currency translation adjustments  | (64)             | (9)              |
| Unrecognized pension and other postretirement benefit cost   | (1,491)          | (1,347)          |
| Total accumulated other comprehensive (loss) income  | (1,557)          | 306              |
| <b>Total shareholders' equity</b>  | <b>21,312</b>    | <b>22,551</b>    |
| <b>Total liabilities and shareholders' equity</b>  | <b>\$ 30,685</b> | <b>\$ 30,360</b> |

See accompanying notes to condensed financial information and notes to consolidated financial statements.

**The Allstate Corporation and Subsidiaries**  
**Schedule II (Continued) — Condensed Financial Information of Registrant Statement of Cash Flows**

| (\$ in millions)  | Years Ended December 31, |          |          |
|---|--------------------------|----------|----------|
|   | 2018                     | 2017     | 2016     |
| <b>Cash flows from operating activities</b>                                       |                          |          |          |
| Net income  | \$ 2,252                 | \$ 3,189 | \$ 1,877 |
| Adjustments to reconcile net income to net cash provided by operating activities: |                          |          |          |
| Equity in net income of subsidiaries  | (2,744)                  | (3,556)  | (2,027)  |
| Dividends received from subsidiaries  | 2,059                    | 1,671    | 1,874    |
| Realized capital gains and losses   | 10                       | 2        | (2)      |
| Changes in:   |                          |          |          |
| Pension and other postretirement benefits   | 238                      | 119      | 10       |
| Income taxes  | (7)                      | 35       | 13       |
| Operating assets and liabilities  | 160                      | 56       | 43       |
| Net cash provided by operating activities   | 1,968                    | 1,516    | 1,788    |
| <b>Cash flows from investing activities</b>                                       |                          |          |          |
| Proceeds from sales of investments  | 1,370                    | 880      | 389      |
| Proceeds from sales of investments to subsidiaries                                | 390                      | —        | —        |
| Investment purchases  | (1,037)                  | (748)    | (243)    |
| Investment collections  | 108                      | 13       | 60       |
| Capital contribution or return of capital from subsidiaries                       | (975)                    | 42       | (1,500)  |
| Transfers to subsidiaries through intercompany loan agreement                     | —                        | —        | (30)     |
| Change in short-term investments, net   | (115)                    | 48       | 58       |
| Net cash (used in) provided by investing activities                               | (259)                    | 235      | (1,266)  |
| <b>Cash flows from financing activities</b>                                       |                          |          |          |
| Proceeds from borrowings from subsidiaries  | 1,250                    | 300      | —        |
| Repayment of notes due to subsidiaries  | (250)                    | (50)     | —        |
| Proceeds from issuance of long-term debt  | 498                      | —        | 1,236    |
| Redemption of preferred stock   | (385)                    | —        | —        |
| Redemption and repayment of long-term debt  | (400)                    | —        | (17)     |
| Proceeds from issuance of preferred stock   | 557                      | —        | —        |
| Dividends paid on common stock  | (614)                    | (525)    | (486)    |
| Dividends paid on preferred stock   | (134)                    | (116)    | (116)    |
| Treasury stock purchases  | (2,303)                  | (1,495)  | (1,337)  |
| Shares reissued under equity incentive plans, net                                 | 73                       | 135      | 164      |
| Excess tax benefits on share-based payment arrangements                           | —                        | —        | 32       |
| Other   | (1)                      | (2)      | —        |
| Net cash used in financing activities   | (1,709)                  | (1,753)  | (524)    |
| Net decrease in cash  | —                        | (2)      | (2)      |
| Cash at beginning of year   | —                        | 2        | 4        |
| Cash at end of year   | \$ —                     | \$ —     | \$ 2     |

See accompanying notes to condensed financial information and notes to consolidated financial statements.

**The Allstate Corporation and Subsidiaries**  
**Schedule II (Continued) — Condensed Financial Information of Registrant**  
**Notes to Condensed Financial Information**

**1. General**

The financial statements of the Registrant should be read in conjunction with the consolidated financial statements and notes thereto included in Item 8. The long-term debt presented in Note 12 "Capital Structure" are direct obligations of the Registrant. A majority of the pension and other postretirement benefits plans presented in Note 17 "Benefit Plans" are direct obligations of the Registrant.

Participating subsidiaries fund the pension plans contributions under a master services cost sharing agreement. In addition, as a result of joint and several pension liability rules under the Internal Revenue Code and the Employee Retirement Income Security Act of 1974, as amended, many liabilities that arise in connection with pension plans are joint and several across all members of a controlled group of entities.

**2. Notes due to subsidiaries**

On October 11, 2018 and December 18, 2018 the Registrant issued \$250 million and \$1.00 billion notes, with a rate of 2.49% and 3.03% due on April 11, 2019 and June 18, 2019 respectively, both to its wholly owned subsidiary Kennett Capital Inc. The proceeds of these issuances were used for cash management purposes.

On December 11, 2017, the Registrant issued \$125 million and \$175 million notes, each with a rate of 1.59% and due on June 11, 2018, to its wholly owned subsidiaries Kennett Capital Inc. and Allstate Non-Insurance Holdings Inc ("ANIHI"), respectively. The proceeds of these issuances were used for cash management purposes. On December 20, 2017, the Registrant repaid \$50 million to ANIHI. On April 17, 2018, the Registrant repaid \$125 million and \$125 million to Kennett Capital Inc. and ANIHI, respectively.

**3. Supplemental Disclosures of Cash Flow Information**

The Registrant paid \$330 million, \$331 million and \$287 million of interest on debt in 2018, 2017 and 2016, respectively.

**The Allstate Corporation and Subsidiaries**  
**Schedule III — Supplementary Insurance Information**

| (\$ in millions)                         | As of December 31,                |  |                   |                                      | For the years ended December 31,     |   |   |                                    |                                   |
|--|-----------------------------------|--|-------------------|--------------------------------------|--------------------------------------|---|---|------------------------------------|-----------------------------------|
|  | Deferred policy acquisition costs | Reserves for claims and claims expense, contract benefits and contractholder funds | Unearned premiums | Premium revenue and contract charges | Net investment income <sup>(1)</sup> | Claims and claims expense, contract benefits and interest credited to contractholders | Amortization of deferred policy acquisition costs | Other operating costs and expenses | Premiums written (excluding life) |
| Segment                                  |                                   |  |                   |                                      |                                      |   |   |                                    |                                   |
| <b>2018</b>                              |                                   |  |                   |                                      |                                      |   |   |                                    |                                   |
| Property-Liability                       |                                   |  |                   |                                      |                                      |   |   |                                    |                                   |
| Allstate Protection                      | \$ 1,618                          | \$ 25,495  | \$ 11,953         | \$ 32,950                            |                                      | \$ 22,408   | \$ 4,475  | \$ 4,618                           | \$ 33,555                         |
| Discontinued Lines and Coverages         | —                                 | 1,864  | —                 | —                                    |                                      | 87  | —   | 3                                  | —                                 |
| Total Property-Liability                 | 1,618                             | 27,359   | 11,953            | 32,950                               | \$ 1,464                             | 22,495  | 4,475   | 4,621                              | 33,555                            |
| Service Businesses <sup>(2)</sup>        | 1,290                             | 64   | 2,546             | 1,220                                | 27                                   | 351   | 463   | 609                                | 1,431                             |
| Allstate Life                            | 1,300                             | 10,333   | 3                 | 1,315                                | 505                                  | 1,094   | 132   | 372                                | —                                 |
| Allstate Benefits                        | 549                               | 1,905  | 8                 | 1,135                                | 77                                   | 630   | 145   | 285                                | 980                               |
| Allstate Annuities                       | 27                                | 18,341   | —                 | 15                                   | 1,096                                | 903   | 7   | 32                                 | —                                 |
| Corporate and Other                      | —                                 | —  | —                 | —                                    | 71                                   | —   | —   | 585                                | —                                 |
| Intersegment Eliminations <sup>(2)</sup> | —                                 | —  | —                 | (122)                                | —                                    | (7)   | —   | (115)                              | —                                 |
| Total                                    | \$ 4,784                          | \$ 58,002  | \$ 14,510         | \$ 36,513                            | \$ 3,240                             | \$ 25,466   | \$ 5,222  | \$ 6,389                           | \$ 35,966                         |
| <b>2017</b>                              |                                   |  |                   |                                      |                                      |   |   |                                    |                                   |
| Property-Liability                       |                                   |  |                   |                                      |                                      |   |   |                                    |                                   |
| Allstate Protection                      | \$ 1,510                          | \$ 24,336  | \$ 11,409         | \$ 31,433                            |                                      | \$ 21,470   | \$ 4,205  | \$ 4,350                           | \$ 31,648                         |
| Discontinued Lines and Coverages         | —                                 | 1,893  | —                 | —                                    |                                      | 96  | —   | 3                                  | —                                 |
| Total Property-Liability                 | 1,510                             | 26,229   | 11,409            | 31,433                               | \$ 1,478                             | 21,566  | 4,205   | 4,353                              | 31,648                            |
| Service Businesses <sup>(2)</sup>        | 954                               | 96   | 2,052             | 977                                  | 16                                   | 369   | 296   | 572                                | 1,094                             |
| Allstate Life                            | 1,152                             | 10,244   | 4                 | 1,280                                | 489                                  | 1,047   | 134   | 354                                | —                                 |
| Allstate Benefits                        | 541                               | 1,869  | 8                 | 1,084                                | 72                                   | 599   | 142   | 269                                | 919                               |
| Allstate Annuities                       | 34                                | 19,870   | —                 | 14                                   | 1,305                                | 967   | 7   | 35                                 | —                                 |
| Corporate and Other                      | —                                 | —  | —                 | —                                    | 41                                   | —   | —   | 631                                | —                                 |
| Intersegment Eliminations <sup>(2)</sup> | —                                 | —  | —                 | (110)                                | —                                    | (6)   | —   | (104)                              | —                                 |
| Total                                    | \$ 4,191                          | \$ 58,308  | \$ 13,473         | \$ 34,678                            | \$ 3,401                             | \$ 24,542   | \$ 4,784  | \$ 6,110                           | \$ 33,661                         |
| <b>2016</b>                              |                                   |  |                   |                                      |                                      |   |   |                                    |                                   |
| Property-Liability                       |                                   |  |                   |                                      |                                      |   |   |                                    |                                   |
| Allstate Protection                      | \$ 1,432                          | \$ 23,263  | \$ 11,160         | \$ 30,727                            |                                      | \$ 21,863   | \$ 4,053  | \$ 4,172                           | \$ 30,888                         |
| Discontinued Lines and Coverages         | —                                 | 1,953  | —                 | —                                    |                                      | 105   | —   | 2                                  | 3                                 |
| Total Property-Liability                 | 1,432                             | 25,216   | 11,160            | 30,727                               | \$ 1,253                             | 21,968  | 4,053   | 4,174                              | 30,891                            |
| Service Businesses <sup>(2)</sup>        | 756                               | 34   | 1,411             | 685                                  | 13                                   | 258   | 214   | 287                                | 709                               |
| Allstate Life                            | 1,200                             | 10,042   | 4                 | 1,250                                | 482                                  | 1,027   | 131   | 339                                | —                                 |
| Allstate Benefits                        | 526                               | 1,821  | 8                 | 1,011                                | 71                                   | 545   | 145   | 240                                | 855                               |
| Allstate Annuities                       | 40                                | 20,636   | —                 | 14                                   | 1,181                                | 1,011   | 7   | 32                                 | —                                 |
| Corporate and Other                      | —                                 | —  | —                 | —                                    | 42                                   | —   | —   | 324                                | —                                 |
| Intersegment Eliminations <sup>(2)</sup> | —                                 | —  | —                 | (105)                                | —                                    | (5)   | —   | (100)                              | —                                 |
| Total                                    | \$ 3,954                          | \$ 57,749  | \$ 12,583         | \$ 33,582                            | \$ 3,042                             | \$ 24,804   | \$ 4,550  | \$ 5,296                           | \$ 32,455                         |

(1) A single investment portfolio supports both Allstate Protection and Discontinued Lines and Coverages segments.

(2) Includes intersegment premiums and service fees and the related incurred losses and expenses that are eliminated in the consolidated financial statements.

**The Allstate Corporation and Subsidiaries**  
**Schedule IV — Reinsurance**

| (\$ in millions)                    | Gross amount | Ceded to other companies <sup>(1)</sup> | Assumed from other companies | Net amount | Percentage of amount assumed to net |
|-------------------------------------|--------------|---|------------------------------|------------|-------------------------------------|
| <b>Year ended December 31, 2018</b> |              |   |                              |            |                                     |
| Life insurance in force             | \$ 207,434   | \$ 81,186                               | \$ 243,161                   | \$ 369,409 | 65.8%                               |
| Premiums and contract charges:      |              |   |                              |            |                                     |
| Life insurance                      | \$ 994       | \$ 266                                  | \$ 754                       | \$ 1,482   | 50.9%                               |
| Accident and health insurance       | 1,007        | 24                                      | —                            | 983        | —%                                  |
| Property and casualty insurance     | 34,977       | 1,016                                   | 87                           | 34,048     | 0.3%                                |
| Total premiums and contract charges | \$ 36,978    | \$ 1,306                                | \$ 841                       | \$ 36,513  | 2.3%                                |
| <b>Year ended December 31, 2017</b> |              |   |                              |            |                                     |
| Life insurance in force             | \$ 188,186   | \$ 86,642                               | \$ 259,671                   | \$ 361,215 | 71.9%                               |
| Premiums and contract charges:      |              |   |                              |            |                                     |
| Life insurance                      | \$ 936       | \$ 276                                  | \$ 787                       | \$ 1,447   | 54.4%                               |
| Accident and health insurance       | 958          | 27                                      | —                            | 931        | —%                                  |
| Property and casualty insurance     | 33,221       | 971                                     | 50                           | 32,300     | 0.2%                                |
| Total premiums and contract charges | \$ 35,115    | \$ 1,274                                | \$ 837                       | \$ 34,678  | 2.4%                                |
| <b>Year ended December 31, 2016</b> |              |   |                              |            |                                     |
| Life insurance in force             | \$ 167,355   | \$ 90,011                               | \$ 275,008                   | \$ 352,352 | 78.0%                               |
| Premiums and contract charges:      |              |   |                              |            |                                     |
| Life insurance                      | \$ 877       | \$ 279                                  | \$ 818                       | \$ 1,416   | 57.8%                               |
| Accident and health insurance       | 889          | 30                                      | —                            | 859        | —%                                  |
| Property and casualty insurance     | 32,249       | 987                                     | 45                           | 31,307     | 0.1%                                |
| Total premiums and contract charges | \$ 34,015    | \$ 1,296                                | \$ 863                       | \$ 33,582  | 2.6%                                |

<sup>(1)</sup> No reinsurance or coinsurance income was netted against premium ceded in 2018, 2017 or 2016.

**The Allstate Corporation and Subsidiaries**  
**Schedule V — Valuation Allowances and Qualifying Accounts**

| (\$ in millions)                                 | Additions                               |                                  |                    |            |                                   |
|--|---|----------------------------------|--------------------|------------|-----------------------------------|
| Description                                      | Balance as<br>of beginning<br>of period | Charged to costs<br>and expenses | Other<br>additions | Deductions | Balance<br>as of end<br>of period |
| <b>Year ended December 31, 2018</b>              |   |                                  |                    |            |                                   |
| Allowance for reinsurance recoverables           | \$ 70                                   | \$ (5)                           | \$ —               | \$ —       | \$ 65                             |
| Allowance for premium installment receivable     | 77                                      | 118                              | —                  | 118        | 77                                |
| Allowance for deferred tax assets                | —                                       | —                                | —                  | —          | —                                 |
| Allowance for estimated losses on mortgage loans | 3                                       | —                                | —                  | —          | 3                                 |
| <b>Year ended December 31, 2017</b>              |   |                                  |                    |            |                                   |
| Allowance for reinsurance recoverables           | \$ 84                                   | \$ (10)                          | \$ —               | \$ 4       | \$ 70                             |
| Allowance for premium installment receivable     | 84                                      | 109                              | —                  | 116        | 77                                |
| Allowance for deferred tax assets                | —                                       | —                                | —                  | —          | —                                 |
| Allowance for estimated losses on mortgage loans | 3                                       | 1                                | —                  | 1          | 3                                 |
| <b>Year ended December 31, 2016</b>              |   |                                  |                    |            |                                   |
| Allowance for reinsurance recoverables           | \$ 80                                   | \$ 5                             | \$ —               | \$ 1       | \$ 84                             |
| Allowance for premium installment receivable     | 90                                      | 107                              | —                  | 113        | 84                                |
| Allowance for deferred tax assets                | —                                       | —                                | —                  | —          | —                                 |
| Allowance for estimated losses on mortgage loans | 3                                       | —                                | —                  | —          | 3                                 |



SUPPLEMENTAL RETIREMENT INCOME PLAN

(As Amended and Restated Effective October 19, 2018)

SECTION 1Definitions

- 1.1 Agent. Any Employee who is classified as an Employee Subgroup Code 8 Regular Employee Agent Exempt or an Employee Subgroup Code 18 New York Financial Specialist Agent Exempt (formerly referred to collectively as Employee Type Code 30 Agent-Full Time) on an Employer's human resource system.
- 1.2 Beneficiary. A Participant's "Beneficiary" under the Plan means the person or persons entitled to benefits under the Retirement Plan because of the Participant's death.
- 1.3 Board of Directors. "Board of Directors" means the Board of Directors of The Allstate Corporation.
- 1.4 Code. "Code" means the Internal Revenue Code of 1986, as amended, including regulations and other guidance of general applicability promulgated thereunder.
- 1.5 Committee. "Committee" means the Administrative Committee under the Retirement Plan.
- 1.6 Company. "Company" means The Allstate Corporation, a Delaware corporation.
- 1.7 Date of Death. "Date of Death" means the date of the Participant's death.
- 1.8 Deferral Period Interest for Pre-409A Benefits. "Deferral Period Interest for Pre-409A Benefits" for the deferred portion of Pre-409A Benefits means the blended first segment lump sum interest rate used to calculate the lump sum payment under the Retirement Plan and will apply to the deferred portion of the Pre-409A Benefit from the period beginning on the Payment Start Date and ending on the Plan Payment Date for Pre-409A Benefits, or, if earlier, the date Pre-409A Benefits are paid.
- 1.9 Eligible Annual Compensation. "Eligible Annual Compensation" means a Participant's Annual Compensation as defined in the Retirement Plan, but without regard to the applicable calendar year limitation imposed by Section 401(a)(17) of the Code.
- 1.10 Employers. The Company and each subsidiary or affiliate of the Company which adopts the Retirement Plan is referred to herein individually as an "Employer" and collectively as the "Employers."
- 1.11 ERISA. "ERISA" means the Employee Retirement Income Security Act of 1974, as amended.

- 1.12 Hardship. Hardship means an urgent financial need that cannot be satisfied through other reasonable sources, as determined by the Committee.
- 1.13 Participant. "Participant" means any employee of an Employer who is participating in the Plan, as provided herein.
- 1.14 Payment Start Date. "Payment Start Date" means the date on which a Participant's benefits are paid or commence to be paid to him from the Retirement Plan.
- 1.15 Plan. "Plan" means the Supplemental Retirement Income Plan, as described herein.
- 1.16 Plan Payment Date for Pre-409A Benefits. "Plan Payment Date for Pre-409A Benefits" means the January 1 coincident with or next following the Payment Start Date on which the Retirement Plan becomes obligated to pay a Participant's benefits.
- 1.17 Plan Payment Date for Post-409A Benefits. "Plan Payment Date for Post-409A Benefits" for a participant who separates from service prior to age 55 means the first business day of the calendar month after the Participant's separation from service that is, or next follows, the later of (i) the January 1 following the Participant's attainment of age 55 or (ii) the date that is the six-month anniversary of the separation from service. "Plan Payment Date for Post-409A Benefits" for a Participant who separates from service on or after reaching age 55 means the first business day of the calendar month after the Participant's separation from service that is, or next follows, the later of (i) the January 1 following the Participant's separation from service or (ii) the date that is the six-month anniversary of the separation from service. If a Participant dies prior to a separation from service or after a separation from service but before the Plan Payment Date for Post-409A Benefits and such death occurs between January 1 and June 30, the Post-409A Benefits payable to the Beneficiary shall be paid between July 1 and December 31 of the same calendar year as the Participant's death. If a Participant dies prior to a separation from service or after a separation from service but before the Plan Payment Date for Post-409A Benefits and such death occurs between July 1 and December 31, the Post-409A Benefits payable to the Beneficiary shall be paid between January 1 and December 31 of the calendar year next following the Participant's death.

For purposes of this subsection, "separation from service" shall mean a termination of employment upon which a Participant ceases performing services for all entities within the Company's controlled group, as defined in Code Sections 414(b) and 414(c) (*i.e.*, the 80-percent controlled group). Notwithstanding, a separation from service shall also include a reduction in a Participant's rate of services to any such entity that is reasonably anticipated to be a permanent reduction to a rate that is 20 percent or less of the average rate of services performed by the Participant in the 36 months prior to such reduction. If a Participant ceases or reduces services under a bona fide leave of absence, a separation from service occurs after the close of the 6-month anniversary of the commencement of such leave; provided, however, that if the Participant has a statutory or contractual right to reemployment, the separation from service shall be delayed until the date that the

Participant's right ceases or, if the Participant resumes services, until the Participant subsequently separates from service. For purposes of determining whether a Participant has a separation from service, services taken into account shall include services performed for the Company as an independent contractor but not services performed as a non-employee director of any entity within the controlled group. Determination of whether a separation from service occurs shall be made in a manner that is consistent with Treas. Reg. 1.409A-1(h).

- 1.18 Plan Payment Date for Small Benefits. "Plan Payment Date for Small Benefits" means the January 1st immediately following the applicable Valuation Date as defined in Section 4.5.
- 1.19 Pre-409A Benefit. "Pre-409A Benefit" means the benefit that was fully earned and vested as of December 31, 2004, under the terms of the Plan as in effect on October 3, 2004, including any Deferral Period Interest for Pre-409A Benefits and, therefore, is not subject to Code Section 409A.
- 1.20 Post-409A Benefit. "Post-409A Benefit" means any benefit that is not a Pre-409A Benefit.
- 1.21 Required Distributions. "Required Distributions" means distributions required to be made by the Retirement Plan as defined in Section 401(a)(9) of the Code.
- 1.22 Retirement Plan. "Retirement Plan" means the Allstate Retirement Plan, as amended from time to time.

## SECTION 2

### Introduction

- 2.1 History. The Plan was established as of January 1, 1978 and amended and restated as of January 1, 1996, December 31, 2008, November 30, 2011, January 1, 2014, and October 19, 2018.
- 2.2 Purpose. The Company maintains the Retirement Plan, a defined benefit pension plan which is intended to meet the applicable requirements of the Code. The Code places limitations and restrictions on the amount of benefits which may be paid from, and the amount of compensation which may be taken into account in calculating benefits under, the Retirement Plan. The purpose of this Plan is to provide benefits to Participants in the Plan which would otherwise be earned under but may not be provided from the Retirement Plan because of these limitations and restrictions of the Code. It is intended that this Plan only cover a select group of management or highly compensated employees for purposes of ERISA. The Plan is intended to conform to the requirements of Code Section 409A with respect to Post-409A Benefits.

2.3 Administration. The Plan will be administered by the Committee. The Committee has the discretionary authority to issue such rules as it deems appropriate and to construe and interpret the provisions of the Plan and make factual determinations thereunder, including the power to determine the rights or eligibility of employees or Participants and any other persons, and the amounts of their benefits under the Plan, and to remedy ambiguities, inconsistencies or omissions. Any decision by the Committee hereunder or with respect hereto shall be final, binding and conclusive on all Participants and all other persons whomsoever. The Committee shall interpret the Plan in a manner that it determines does not result in taxation of Participants under Code Section 409A.

2.4 Plan Benefits for Participants Whose Benefits Commenced Prior to December 31, 2008. Pre-409A Benefits that commenced prior to December 31, 2008 will, except as otherwise specifically provided herein, be governed in all respects by the terms of the Plan as in effect as of the date the Participant's benefits commenced and in good faith compliance with Code Section 409A. The benefits provided hereunder with respect to Participants whose benefits commence on or after December 31, 2008 will be governed in all respects by the terms of this Plan, which have been amended to conform the requirements of Code Section 409A for Post-409A Benefits.

### SECTION 3

#### Participation and Amount of Benefits

3.1 Eligibility. Each employee of an Employer who is a participant in the Retirement Plan, who is entitled to receive final average pay or cash balance benefits from the Retirement Plan, and whose benefits thereunder have been limited by the Code as described in Section 2.2 will become a Participant in this Plan. In the event of the death of such a Participant, his Beneficiary shall be entitled to receive the Participant's benefits under the Plan. Benefits payable under the Plan to a Participant or his Beneficiary are determined in accordance with Sections 3.2 and 3.3. Benefits under the Plan with respect to a Participant or Beneficiary (in the event of a Participant's death) may be comprised of both Pre-409A Benefits and Post-409A Benefits. An Agent entitled to a benefit under the Agents Pension Plan is not eligible for benefits under this Plan with respect to such Agent's period of employment used to determine his benefit under the Agents Pension Plan. An Agent may be eligible for benefits under this Plan if, after December 31, 2013, he becomes a Participant pursuant to the first sentence of this Section 3.1 but only with respect to his benefits paid from the Retirement Plan.

3.2 Amount of Pre-409A Benefits. The amount of any benefits which otherwise would have been provided for a Participant under the Retirement Plan as of December 31, 2004, but which may not be paid from such plan because of the limitations and restrictions imposed by the Code, shall be calculated as provided in this Section 3.2 and paid under this Plan as provided in Section 4 below. Such benefits shall be equal to the excess of: (a) the amount of retirement benefit as of December 31, 2004 which otherwise would have been provided for the Participant (or in the event of his death, his Beneficiary) by the Retirement Plan, determined without regard to the limitations of the Code and by taking

into account any compensation deferred on or before December 31, 2004 under The Allstate Corporation Deferred Compensation Plan and The Allstate Corporation Deferred Compensation Plan for Employee Agents which is not included as Annual Compensation (as defined in the Retirement Plan) under the Retirement Plan; over (b) the actual amount of retirement benefit determined for the Participant or his Beneficiary under the Retirement Plan as of December 31, 2004. The Amount of Pre-409A Benefits will be calculated on the Payment Start Date and will include Deferral Period Interest for Pre-409A Benefits, as applicable.

3.3 Amount of Post-409A Benefits. The amount of any benefits which otherwise would have been provided for a Participant under the Retirement Plan after December 31, 2004, but which may not be paid from such plan because of the limitations and restrictions imposed by the Code, shall be calculated as provided in this Section 3.3 and paid under this Plan as provided in Section 4 below. Such benefits shall be equal to the excess of: (a) the amount of retirement benefit earned after December 31, 2004 which otherwise would have been provided for the Participant (or in the event of his death, his Beneficiary) by the Retirement Plan, determined without regard to the limitations of the Code and by taking into account any compensation deferred after December 31, 2004 under The Allstate Corporation Deferred Compensation Plan and The Allstate Corporation Deferred Compensation Plan for Employee Agents which is not included as Annual Compensation (as defined in the Retirement Plan) under the Retirement Plan; over (b) the actual amount of retirement benefit determined for the Participant or his Beneficiary under the Retirement Plan after December 31, 2004. Notwithstanding the preceding sentences, if a Participant is entitled to a benefit under the Agents Pension Plan, the amount of retirement benefit earned under paragraph (a) of the preceding sentence or determined under paragraph (b) of the preceding sentence for such Participant shall not take into account such Participant's period of employment used to determine his benefit under the Agents Pension Plan.

The amount of any Post-409A Benefits paid to a Participant shall be determined on the Plan Payment Date for Post-409A Benefits using the lump sum death benefit calculation methodology described in Section E.6.(A)(1) of the Retirement Plan for final average pay benefits or Section 3.8(A) of the Retirement Plan for cash balance benefits, as applicable, and the lump sum methodology and actuarial methods in effect under the Retirement Plan.

The amount of any Post-409A Benefits paid to a Beneficiary shall be determined on the death benefit payment date for Post-409A Benefits using the lump sum death benefit provisions contained in Section E.6. of the Retirement Plan for final average pay benefits or Section 3.8(A) of the Retirement Plan for cash balance benefits, as applicable, and the lump sum methodology and actuarial methods in effect under the Retirement Plan.

Notwithstanding the foregoing, the lump sum interest rate and mortality table applicable to Participants who separate from service or die on or after age 55 after November 30, 2009 with a Plan Payment Date for Post-409A Benefits in the first six months of a calendar year shall be the applicable lump sum interest rate and

mortality table under the Retirement Plan during the year prior to the Plan Payment Date for Post-409A Benefits. The lump sum interest rate and mortality table applicable to Participants who separate from service or die on or after age 55 after November 30, 2009 with a Plan Payment Date for Post-409A Benefits in the last six months of a calendar year shall be the applicable lump sum interest rate and mortality table under the Retirement Plan during the year in which the Plan Payment Date for Post-409A Benefits occurs.

#### SECTION 4

##### Payment of Benefits<sup>1</sup>

- 4.1 Form and Time of Payment for Pre-409A Benefits and Post-409A Benefits. All Pre-409A Benefits shall be paid in a single lump sum on the Plan Payment Date for Pre-409A Benefits, except (i) upon demonstrating a Hardship to the Committee, Pre-409A Benefits may be paid after the Participant's Payment Start Date and before the January 1 first following the day preceding the Participant's Plan Payment Date for Pre-409A Benefits; or (ii) if a Participant or Beneficiary should die prior to receipt of Pre-409A Benefits, such benefits shall be paid in a lump sum as soon as practicable thereafter to the estate of such Participant or Beneficiary. Notwithstanding the foregoing, Participants receiving Required Distributions from the Retirement Plan will receive their Pre-409A Benefits at the same time their Retirement Plan Benefits commence. All Post-409A Benefits shall be paid in a single lump sum on the Plan Payment Date for Post-409A Benefits.
- 4.2 Facility of Payment. Any amount payable under the Plan to a person under legal disability or who, in the judgment of the Committee, is unable to properly manage his financial affairs, may be paid to such person's legal representative, or may be applied for the benefit of such person in any manner selected by the Committee.
- 4.3 Review of Benefit Determinations. The Committee will provide notice in writing to any Participant or Beneficiary whose claim for benefits under the Plan is denied and the Committee shall afford such Participant or Beneficiary a full and fair review of its decision if so requested.
- 4.4 Payment and Funding of Benefits. Amounts payable under the Plan to or on account of a Participant shall be paid directly by the Employers, and shall be provided from the general assets of the Employers. No assets of the Employers shall be set aside solely for the purpose of providing benefits hereunder, and the Employers' obligation to pay such benefits is not limited to any particular assets of the Employer. Benefits under the Plan are not funded, the Employers' obligation to pay such benefits is merely a contractual obligation, and a Participant or Beneficiary shall be treated as a general creditor of the Employers with respect to any benefits payable under the Plan.

<sup>1</sup> See Appendix A for Payment of Benefit information for Participants with a Plan Payment Date on or before January 1, 1996 or for Participants who retired under the Allstate Insurance Company's 1994 Special Retirement Opportunity.

- 4.5 Payment of Small Benefits. Notwithstanding anything contained herein to the contrary if on December 31, 2018 or any December 31 thereafter (a “Valuation Date”), (i) a Participant has been separated from service for a period of at least six-months prior to such Valuation Date and (ii) the aggregate value of such Participant’s Pre-409A Benefits and Post-409A Benefits, together with the value of any other benefits payable to the Participant under plans that are aggregated with this Plan for purposes of Code Section 409A, on such Valuation Date is less than the applicable dollar amount under Code section 402(g)(1)(B), the Participant’s Pre-409A Benefits and Post-409A Benefits will be paid out on the Plan Payment Date for Small Benefits.

## SECTION 5

### Miscellaneous

- 5.1 Action by Company. Any action required or permitted to be taken by the Company under the Plan shall be by resolution of its Board of Directors, by resolution of a duly authorized committee of its Board of Directors, or by a person or persons authorized by resolution of its Board of Directors or such committee.
- 5.2 Gender and Number. Where the context admits, words in the masculine gender shall include the feminine and neuter genders, the singular shall include the plural, and plural shall include the singular.
- 5.3 Controlling Law. Except to the extent superseded by laws of the United States, the laws of Illinois shall be controlling in all matters relating to the Plan.
- 5.4 Employment Rights. The Plan does not constitute a contract of employment, and participation in the Plan will not give any employee the right to be retained in the employ of an Employer, nor any right or claim to any benefit under the Plan, unless such right or claim has specifically accrued under the terms of the Plan.
- 5.5 Interests Not Transferable. The interests of persons entitled to benefits under the Plan are not subject to their debts or other obligations and, except as may be required by the tax withholding provisions of the Code or any state's income tax act, may not be voluntarily or involuntarily sold, transferred, alienated, assigned or encumbered.
- 5.6 Successors. The Plan is binding on all persons entitled to benefits hereunder and their respective heirs and legal representatives, and on the Employers and their successors and assigns.
- 5.7 Statute of Limitations. No legal or equitable action involving the Plan may be commenced later than two years from the time the person bringing the action knew, or had reason to know, of the circumstances giving rise to the action. This provision shall not be interpreted to extend any otherwise applicable statute of limitations, nor to bar the Plan from recovering overpayments of benefits or other amounts incorrectly paid to any

person under the Plan at any time or bringing any legal or equitable action against any party.

- 5.8 Forum for Legal Actions. Any legal or equitable action involving the Plan that is brought by any Participant, any beneficiary or any other person shall be litigated in the federal courts located in the Northern District of Illinois and no other federal or state court.
- 5.9 Legal Fees. Any award of legal fees against the Plan, the Administrative Committee or any member thereof, the Pension Committee or any member thereof, the Board of Directors or any member thereof, any Employer, any of their respective affiliates, officers, directors, employees, or agents (collectively, the “Plan Parties”) in connection with an action involving the Plan shall be calculated pursuant to a method that results in the lowest amount of fees being paid, which amount shall be no more than the amount that is reasonable. In no event shall legal fees be awarded against Plan Parties for work related to (a) administrative proceedings under the Plan or (b) unsuccessful claims brought by a Participant, beneficiary or any other person. In calculating any award of legal fees, there shall be no enhancement for the risk of contingency, nonpayment or any other risk nor shall there be applied a contingency multiplier or any other multiplier. In any action brought by a Participant, beneficiary or any other person against Plan Parties, legal fees of the Plan Parties in connection with such action shall be paid by the Participant, beneficiary or other person bringing the action, unless the court specifically finds that (a) there was a reasonable basis for the action and (b) the action was brought in good faith.
- 5.10 Severability. If a provision of the Plan, including any provision of an amendment to the Plan, shall be held illegal or invalid, the illegality or invalidity shall not affect the remaining parts of the Plan and the Plan shall be construed and enforced as if the illegal or invalid provision had not been included in the Plan.

## SECTION 6

### Amendment and Termination

The Company reserves the right at any time and from time to time to amend or terminate the Plan in accordance with the procedures set forth in Section 5.1. Notwithstanding the foregoing, no amendment or termination of this Plan with respect to Post-409 Benefits shall be made in accordance with this Section 6 unless such termination or amendment complies with Code Section 409A.



## Appendix A

### Payment of Benefits

#### Plan Payment Date on or Before January 1, 1996 or Special Retirement Opportunity Participants

- A.1 Normal Form of Payment for Pre-409A Benefits. Except as provided in subsection 4.2, for Participants with a plan payment date on or before January 1, 1996 or Participants who retired under the Company's 1994 Special Retirement Opportunity, benefits under the Plan shall be paid to a Participant (or in the case of his death, to his Beneficiary) monthly, commencing as of the earliest of (i) the Participant's Payment Start Date or (ii) the date 60 days following Participant's Date of Death (or the date the Committee receives notification of the Participant's death, if more than 7 days after Participant's Date of Death) and continuing during his lifetime (or the lifetime of his Beneficiary), with the last payment to be made for the month in which the Participant's or Beneficiary's death occurs. For purposes of this Appendix A, "plan payment date" means the day following the date on which the Retirement Plan becomes obligated to pay a Participant's benefits.
- A.2 Optional Forms of Payment for Pre-409A Benefits. In lieu of the form and amount of benefit specified in subsection A.1, a Participant with a plan payment date on or before January 1, 1996 or who retired under the Company's 1994 Special Retirement Opportunity (or in the case of his death, his Beneficiary) may elect (in accordance with subsection A.4) a benefit in such other form as then would be available to such Participant or Beneficiary under the Retirement Plan. The actuarial rates, factors and assumptions used to determine the amount of optional forms of benefit under the Retirement Plan shall be used to calculate the amount of optional forms of payment under this Plan.
- A.3 Time of Payment for Pre-409A Benefits. For Participants with a Plan Payment Date on or before January 1, 1996 or Participants who retired under the Company's 1994 Special Retirement Opportunity, benefits under the Plan shall be paid as of the earliest of (i) the Participant's Payment Start Date or (ii) the date 60 days following Participant's Date of Death (or the date the Committee receives notification of the Participant's death, if more than 7 days after Participant's Date of Death). Notwithstanding the foregoing, a Participant with a Plan Payment Date on or before January 1, 1996 or who retired under the Company's 1994 Special Retirement Opportunity (or in the case of his death, his Beneficiary) may elect (in accordance with subsection A.4) to defer payment of any lump sum benefits (elected under subsection A.2, if available) to the first or second January 1 next following his Plan Payment Date. If a Participant or Beneficiary elects to defer payment of benefits under this subsection A.3, simple interest (at the post-1990 PBGC rate used to calculate the participant's lump sum, or such other rate as may be used by the Retirement Plan) shall be added to such benefits, to the date of payment. If a Participant or Beneficiary who elects to defer payment of benefits under this subsection 4.3 should die prior to receipt of payment, such benefits shall be paid in a lump sum as soon as practicable thereafter to the estate of such Participant or Beneficiary.

- A.4. Pre-409A Benefit Payment Elections. For Participants with a plan payment date on or before January 1, 1996 or Participants who retired under the Company's 1994 Special Retirement Opportunity, except as otherwise provided below, elections of an optional form of payment under subsection 4.2 and elections to defer payment under subsection 4.4 shall be irrevocable, must be in writing, and must be filed with the Committee at least 30 days prior to the Participant's plan payment date or, in the case of an election by a Beneficiary, at any time prior to the date 60 days following Participant's Date of Death (or the date the Committee receives notification of the Participant's death, if more than 7 days after Participant's Date of Death). Notwithstanding the foregoing, (i) if a Participant is retiring by mutual agreement with the Company in less than 30 days, and the date of the Participant's retirement is outside his control, the Participant's election may be made at any time prior to his plan payment date; and (ii) elections by a Participant who retires after December 31, 1994 under the Company's 1994 Special Retirement Opportunity must be filed with the Committee on or before the December 31 of the year prior to their plan payment date for Pre-409A Benefits.
- A.5. Special Election to Commute Pre-409A Benefit Payments. Notwithstanding any other provision of the Plan, a Participant or Beneficiary who is receiving periodic benefit payments under the Plan on account of a Participant who terminated employment prior to October 1, 1994 may elect (as provided below) to have the remaining unpaid balance of such payments as of December 30, 1994 paid in a lump sum as soon as practicable after January 1, 1995. Each election under this subsection A.5 shall be irrevocable, must be in writing, and must be filed with the Committee on or before December 31, 1994. The actuarial rates, factors and assumptions used to determine lump sum payments under the Retirement Plan as of December 30, 1994 shall be used to calculate lump sum payments under this subsection A.5.

**RESOLUTION****Director Compensation**

RESOLVED, that effective January 1, 2019, directors who are not officers or employees of the Corporation or any of its subsidiaries (each a "Non-Employee Director") who serve as the chair of the Risk and Return Committee or the Compensation and Succession Committee shall be entitled to receive a quarterly chair fee in the amount of \$8,750 and \$7,500, respectively, to be paid on each January 1, April 1, July 1, and October 1, provided such Non-Employee Director is serving as a committee chair on such date.

FURTHER RESOLVED, that effective as of January 1, 2019, the foregoing resolutions supersede the resolutions adopted by the Board of Directors on November 18, 2016, pertaining to the quarterly chair fee for each Non-Employee Director who serves as the chair of the Risk and Return Committee or the Compensation and Succession Committee, and references to the 2006 Equity Compensation Plan for Non-Employee Directors in the November 18, 2016 resolutions are updated to reference the 2017 Equity Compensation Plan for Non-Employee Directors.

| Company Name  | Domicile         |
|---|------------------|
| AIMCO Private Fund I Holding, LLC                           | Delaware         |
| AIMCO Private Fund I, LLC                                   | Delaware         |
| AIMCO Private Fund II, LLC                                  | Delaware         |
| ALIC Reinsurance Company                                    | South Carolina   |
| ALINV Mosaic, LLC   | Delaware         |
| Allstate Assignment Company                                 | Nebraska         |
| Allstate Assurance Company                                  | Illinois         |
| Allstate County Mutual Insurance Company                    | Texas            |
| Allstate Digital Ventures, LLC                              | Delaware         |
| Allstate Distributors, L.L.C.                               | Delaware         |
| Allstate Enterprises, LLC                                   | Delaware         |
| Allstate Exchange Services, LLC                             | Delaware         |
| Allstate Finance Company, LLC                               | Delaware         |
| Allstate Finance Company Agency Loans, LLC                  | Delaware         |
| Allstate Financial Advisors, LLC                            | Delaware         |
| Allstate Financial Corporation                              | Illinois         |
| Allstate Financial Insurance Holdings Corporation           | Delaware         |
| Allstate Financial Services, LLC (1)                        | Delaware         |
| Allstate Financial, LLC                                     | Delaware         |
| Allstate Fire and Casualty Insurance Company                | Illinois         |
| Allstate Global Holdings Limited                            | Northern Ireland |
| Allstate Indemnity Company                                  | Illinois         |
| Allstate Insurance Company                                  | Illinois         |
| Allstate Insurance Company of Canada                        | Canada           |
| Allstate Insurance Holdings, LLC                            | Delaware         |
| Allstate International Assignments, Ltd.                    | Delaware         |
| Allstate International Holdings, Inc.                       | Delaware         |
| Allstate Investment Management Company                      | Delaware         |
| Allstate Investments, LLC                                   | Delaware         |
| Allstate Life Insurance Company (2)                         | Illinois         |
| Allstate Life Insurance Company of Canada                   | Canada           |
| Allstate Life Insurance Company of New York                 | New York         |
| Allstate Motor Club, Inc.                                   | Delaware         |
| Allstate New Jersey Insurance Company                       | Illinois         |
| Allstate New Jersey Property and Casualty Insurance Company | New Jersey       |
| Allstate Non-Insurance Holdings, Inc.                       | Delaware         |
| Allstate North American Insurance Company                   | Illinois         |
| Allstate Northbrook Indemnity Company                       | Illinois         |
| Allstate Northern Ireland Limited                           | Northern Ireland |
| Allstate Property and Casualty Insurance Company            | Illinois         |
| Allstate Settlement Corporation                             | Nebraska         |
| Allstate Short Term Pool, LLC                               | Delaware         |
| Allstate Solutions Private Limited                          | India            |
| Allstate Texas Lloyd's                                      | Texas            |
| Allstate Texas Lloyd's, Inc.                                | Texas            |
| Allstate Vehicle and Property Insurance Company             | Illinois         |
| American Heritage Life Insurance Company                    | Florida          |
| American Heritage Service Company                           | Florida          |
| ANIHI Newco, LLC  | Delaware         |
| Answer Financial Inc.                                       | Delaware         |
| Answer Marketplace, LLC                                     | Delaware         |
| AP Real Estate, LLC   | Delaware         |
| AP Riverway Plaza, LLC                                      | Delaware         |
| AP Timber, LLC  | Delaware         |
| Arity, LLC  | Delaware         |
| Arity 875, LLC  | Delaware         |



| <b>Company Name</b>   | <b>Domicile</b> |
|---|-----------------|
| Arity Services, LLC   | Delaware        |
| Castle Key Indemnity Company                                    | Illinois        |
| Castle Key Insurance Company                                    | Illinois        |
| CE Care Plan Corp   | Delaware        |
| Complete Product Care Corp                                      | Delaware        |
| Current Creek Investments, LLC                                  | Delaware        |
| E.R.J. Insurance Group, Inc. (3)                                | Florida         |
| Encompass Floridian Indemnity Company                           | Illinois        |
| Encompass Floridian Insurance Company                           | Illinois        |
| Encompass Home and Auto Insurance Company                       | Illinois        |
| Encompass Indemnity Company                                     | Illinois        |
| Encompass Independent Insurance Company                         | Illinois        |
| Encompass Insurance Company                                     | Illinois        |
| Encompass Insurance Company of America                          | Illinois        |
| Encompass Insurance Company of Massachusetts                    | Massachusetts   |
| Encompass Insurance Company of New Jersey                       | Illinois        |
| Encompass Insurance Holdings, LLC                               | Delaware        |
| Encompass Property and Casualty Company                         | Illinois        |
| Encompass Property and Casualty Insurance Company of New Jersey | Illinois        |
| Esurance Holdings, Inc.   | Delaware        |
| Esurance Insurance Company                                      | Wisconsin       |
| Esurance Insurance Company of Canada                            | Canada          |
| Esurance Insurance Company of New Jersey                        | Wisconsin       |
| Esurance Insurance Services Company of Canada                   | Canada          |
| Esurance Insurance Services, Inc. (4)                           | Delaware        |
| Esurance Property and Casualty Insurance Company                | Wisconsin       |
| First Colonial Insurance Company                                | Florida         |
| Identity Protection Strategic Solutions, LLC                    | New Jersey      |
| InfoArmor Aggra, Inc.   | Delaware        |
| InfoArmor, Inc.   | Delaware        |
| Insurance Answer Center, LLC (5)                                | Delaware        |
| Intramerica Life Insurance Company                              | New York        |
| Ivantage Insurance Brokers Inc.                                 | Canada          |
| Ivantage Select Agency, Inc.                                    | Illinois        |
| Kennett Capital, Inc.   | Delaware        |
| NBInv AF1, LLC  | Delaware        |
| NBInv AF2, LLC  | Delaware        |
| NBInv AF3, LLC  | Delaware        |
| NBInv AF4, LLC  | Delaware        |
| NBInv AF5, LLC  | Delaware        |
| NBInv AF6, LLC  | Delaware        |
| NBInv AP1, LLC  | Delaware        |
| NBInv AP2, LLC  | Delaware        |
| NBInv AP3, LLC  | Delaware        |
| NBInv AP4, LLC  | Delaware        |
| NBInv AP5, LLC  | Delaware        |
| NBInv AP6, LLC  | Delaware        |
| NBInv AP7, LLC  | Delaware        |
| NBInv AP8, LLC  | Delaware        |
| NBInv APAF1, LLC  | Delaware        |
| NBInv Riverside Cars1, LLC                                      | Delaware        |
| NBInv Riverside Management, LLC                                 | Delaware        |
| North Light Specialty Insurance Company                         | Illinois        |
| Northeast Agencies, Inc. (6)                                    | New York        |
| Pablo Creek Services, Inc.                                      | Illinois        |
| Pafco Insurance Company   | Canada          |
| Pembridge Insurance Company                                     | Canada          |
| PlumChoice Business Services, Inc.                              | Delaware        |



| Company Name                                       | Domicile       |
|--|----------------|
| PlumChoice, Inc.                                   | Delaware       |
| Protection Plan Group, Inc.                        | Delaware       |
| Right Answer Insurance Agency, LLC                 | Delaware       |
| Road Bay Investments, LLC                          | Delaware       |
| Signature Agency, Inc.                             | Delaware       |
| Signature Motor Club of California, Inc.           | California     |
| Signature Motor Club, Inc.                         | Delaware       |
| Signature Nationwide Auto Club of California, Inc. | California     |
| Signature's Nationwide Auto Club, Inc.             | Delaware       |
| SquareTradeGo, Inc.                                | Delaware       |
| SquareTrade, Inc. <sup>(7)</sup>                   | Delaware       |
| SquareTrade Australia Pty Ltd                      | Australia      |
| SquareTrade Canada, Inc.                           | Canada         |
| SquareTrade Europe Limited                         | Malta          |
| SquareTrade Holding Company, Inc.                  | Delaware       |
| SquareTrade Insurance Services, Inc.               | Delaware       |
| SquareTrade Limited                                | United Kingdom |
| SquareTrade Protection Solutions, Inc.             | Delaware       |
| ST Product Care Corp                               | Delaware       |
| Tech-Cor, LLC                                      | Delaware       |
| West Plaza RE Holdings, LLC                        | Delaware       |

(1) Doing business as LSA Securities in Louisiana and Pennsylvania

(2) Conducting commercial mortgage business in New York under the assumed name Allstate T.F.I.

(3) Doing business as American Heritage Insurance Services in all states, including the District of Columbia, except Massachusetts

(4) Doing business as Esurance Insurance Agency Services in New York

(5) Doing business as Insurance Answer Center, LLC, an Insurance Agency in New York

(6) Doing business as Northeast Agency Insurance Services in California, NEA Insurance Services in Georgia, NEA Brokerage Solutions in New Hampshire, and Northeast Insurance Agencies, Inc. in Utah

(7) Doing business as SquareTrade New York in New York



**Consent of Independent Registered Public Accounting Firm**

We consent to the incorporation by reference in the following registration statements of our reports dated February 15, 2019, relating to the financial statements and financial statement schedules of The Allstate Corporation and subsidiaries, and the effectiveness of The Allstate Corporation’s internal control over financial reporting, appearing in this Annual Report on Form 10-K of The Allstate Corporation for the year ended December 31, 2018 (which report expresses an unmodified opinion and includes an emphasis-of-matter paragraph relating to a change in accounting principle for the recognition and measurement of financial assets and financial liabilities), and to the reference to us under the heading “Experts” in the Prospectus, which is part of the registration statements.

| <u>Form S-3 Registration Statement Nos.</u> | <u>Form S-8 Registration Statement Nos.</u> |
|---|---|
| 333-34583                                   | 333-04919                                   |
| 333-224541                                  | 333-16129                                   |
|   | 333-40283                                   |
|   | 333-134242                                  |
|   | 333-134243                                  |
|   | 333-144691                                  |
|   | 333-159343                                  |
|   | 333-175526                                  |
|   | 333-188821                                  |
|   | 333-200390                                  |
|   | 333-218343                                  |
|   | 333-228490                                  |
|   | 333-228491                                  |
|   | 333-228492                                  |

/s/ DELOITTE & TOUCHE LLP

Chicago, Illinois  
February 15, 2019

## Certifications

Exhibit 31 (i)

I, Thomas J. Wilson, certify that:

1. I have reviewed this report on Form 10-K of The Allstate Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 15, 2019

/s/ Thomas J. Wilson

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Thomas J. Wilson

Chairman of the Board, President and Chief Executive Officer

## Certifications

Exhibit 31 (i)

I, Mario Rizzo, certify that:

1. I have reviewed this report on Form 10-K of The Allstate Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 15, 2019

/s/ Mario Rizzo

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Mario Rizzo

Executive Vice President and Chief Financial Officer

**Section 1350 Certifications**

Each of the undersigned hereby certifies that to his knowledge the report on Form 10-K for the fiscal year ended December 31, 2018 of The Allstate Corporation filed with the Securities and Exchange Commission fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in such report fairly presents, in all material respects, the financial condition and result of operations of The Allstate Corporation.

Date: February 15, 2019

/s/ Thomas J. Wilson  
\_\_\_\_\_  
Thomas J. Wilson  
Chairman of the Board, President and Chief Executive Officer

/s/ Mario Rizzo  
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Mario Rizzo  
Executive Vice President and Chief Financial Officer