

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

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

**For the quarterly period ended June 30, 2019**

**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**

(State or other jurisdiction of incorporation or organization)

**36-3871531**

(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:

Title of each class	Trading Symbols	Name of each exchange on which registered
Common Stock, par value \$.01 per share	ALL	New York Stock Exchange Chicago Stock Exchange
5.100% Fixed-to-Floating Rate Subordinated Debentures due 2053	ALL.PR.B	New York Stock Exchange
Depository Shares represent 1/1,000th of a share of 5.625% Noncumulative Preferred Stock, Series A	ALL PR A	New York Stock Exchange
Depository Shares represent 1/1,000th of a share of 6.625% Noncumulative Preferred Stock, Series D	ALL PR D	New York Stock Exchange
Depository Shares represent 1/1,000th of a share of 6.625% Noncumulative Preferred Stock, Series E	ALL PR E	New York Stock Exchange
Depository Shares represent 1/1,000th of a share of 6.250% Noncumulative Preferred Stock, Series F	ALL PR F	New York Stock Exchange
Depository Shares represent 1/1,000th of a share of 5.625% Noncumulative Preferred Stock, Series G	ALL PR G	New York Stock Exchange

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 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	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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

As of July 15, 2019, the registrant had 329,191,792 common shares, \$.01 par value, outstanding.

**The Allstate Corporation**  
**Index to Quarterly Report on Form 10-Q**  
**June 30, 2019**

**Part I Financial Information**

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**Part I. Financial Information**  
**Item 1. Financial Statements**

**The Allstate Corporation and Subsidiaries**  
**Condensed Consolidated Statements of Operations (unaudited)**

(\$ in millions, except per share data)	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
<b>Revenues</b>				
Property and casualty insurance premiums	\$ 8,986	\$ 8,460	\$ 17,788	\$ 16,746
Life premiums and contract charges	621	612	1,249	1,228
Other revenue	271	228	521	444
Net investment income	942	824	1,590	1,610
Realized capital gains and losses:				
Total other-than-temporary impairment ("OTTI") losses	(12)	(4)	(28)	(4)
OTTI losses reclassified (from) to other comprehensive income ("OCI")	(3)	—	(1)	(1)
<b>Net OTTI losses recognized in earnings</b>	<b>(15)</b>	<b>(4)</b>	<b>(29)</b>	<b>(5)</b>
Sales and valuation changes on equity investments and derivatives	339	(21)	1,015	(154)
<b>Total realized capital gains and losses</b>	<b>324</b>	<b>(25)</b>	<b>986</b>	<b>(159)</b>
<b>Total revenues</b>	<b>11,144</b>	<b>10,099</b>	<b>22,134</b>	<b>19,869</b>
<b>Costs and expenses</b>				
Property and casualty insurance claims and claims expense	6,356	5,777	12,176	10,906
Life contract benefits	511	483	1,008	987
Interest credited to contractholder funds	156	165	318	326
Amortization of deferred policy acquisition costs	1,362	1,296	2,726	2,569
Operating costs and expenses	1,380	1,358	2,760	2,661
Pension and other postretirement remeasurement gains and losses	125	(7)	140	7
Restructuring and related charges	9	23	27	42
Amortization of purchased intangibles	32	23	64	45
Impairment of purchased intangibles	55	—	55	—
Interest expense	82	86	165	169
<b>Total costs and expenses</b>	<b>10,068</b>	<b>9,204</b>	<b>19,439</b>	<b>17,712</b>
Gain on disposition of operations	2	2	3	3
<b>Income from operations before income tax expense</b>	<b>1,078</b>	<b>897</b>	<b>2,698</b>	<b>2,160</b>
Income tax expense	227	180	555	437
<b>Net income</b>	<b>851</b>	<b>717</b>	<b>2,143</b>	<b>1,723</b>
Preferred stock dividends	30	39	61	68
<b>Net income applicable to common shareholders</b>	<b>\$ 821</b>	<b>\$ 678</b>	<b>\$ 2,082</b>	<b>\$ 1,655</b>
<b>Earnings per common share</b>				
Net income applicable to common shareholders per common share - Basic	\$ 2.47	\$ 1.94	\$ 6.27	\$ 4.71
Weighted average common shares - Basic	332.0	349.2	332.3	351.6
Net income applicable to common shareholders per common share - Diluted	\$ 2.44	\$ 1.91	\$ 6.17	\$ 4.63
Weighted average common shares - Diluted	336.9	354.6	337.2	357.2

See notes to condensed consolidated financial statements.

**The Allstate Corporation and Subsidiaries**  
**Condensed Consolidated Statements of Comprehensive Income (unaudited)**

(\$ in millions)	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
<b>Net income</b>	\$ 851	\$ 717	\$ 2,143	\$ 1,723
<b>Other comprehensive income (loss), after-tax</b>				
Changes in:				
Unrealized net capital gains and losses	682	(133)	1,656	(698)
Unrealized foreign currency translation adjustments	4	(6)	9	(8)
Unamortized pension and other postretirement prior service credit	(11)	(16)	(23)	(30)
<b>Other comprehensive income (loss), after-tax</b>	<b>675</b>	<b>(155)</b>	<b>1,642</b>	<b>(736)</b>
<b>Comprehensive income</b>	<b>\$ 1,526</b>	<b>\$ 562</b>	<b>\$ 3,785</b>	<b>\$ 987</b>

See notes to condensed consolidated financial statements.

**The Allstate Corporation and Subsidiaries**  
**Condensed Consolidated Statements of Financial Position (unaudited)**

(\$ in millions, except par value data)	June 30, 2019	December 31, 2018
<b>Assets</b>		
Investments		
Fixed income securities, at fair value (amortized cost \$56,008 and \$57,134)	\$ 58,484	\$ 57,170
Equity securities, at fair value (cost \$6,673 and \$4,489)	7,906	5,036
Mortgage loans	4,687	4,670
Limited partnership interests	7,818	7,505
Short-term, at fair value (amortized cost \$3,740 and \$3,027)	3,740	3,027
Other	3,856	3,852
<b>Total investments</b>	<b>86,491</b>	<b>81,260</b>
Cash	599	499
Premium installment receivables, net	6,380	6,154
Deferred policy acquisition costs	4,667	4,784
Reinsurance and indemnification recoverables, net	9,292	9,565
Accrued investment income	633	600
Property and equipment, net	1,058	1,045
Goodwill	2,547	2,530
Other assets	3,649	3,007
Separate Accounts	3,058	2,805
<b>Total assets</b>	<b>\$ 118,374</b>	<b>\$ 112,249</b>
<b>Liabilities</b>		
Reserve for property and casualty insurance claims and claims expense	\$ 28,105	\$ 27,423
Reserve for life-contingent contract benefits	12,337	12,208
Contractholder funds	17,964	18,371
Unearned premiums	14,752	14,510
Claim payments outstanding	915	1,007
Deferred income taxes	997	425
Other liabilities and accrued expenses	9,142	7,737
Long-term debt	6,628	6,451
Separate Accounts	3,058	2,805
<b>Total liabilities</b>	<b>93,898</b>	<b>90,937</b>
<b>Commitments and Contingent Liabilities (Note 12)</b>		
<b>Shareholders' equity</b>		
Preferred stock and additional capital paid-in, \$1 par value, 25 million shares authorized, 79.8 thousand issued and outstanding, \$1,995 aggregate liquidation preference	1,930	1,930
Common stock, \$.01 par value, 2.0 billion shares authorized and 900 million issued, 330 million and 332 million shares outstanding	9	9
Additional capital paid-in	3,477	3,310
Retained income	45,803	44,033
Deferred Employee Stock Ownership Plan ("ESOP") expense	(3)	(3)
Treasury stock, at cost (570 million and 568 million shares)	(28,500)	(28,085)
Accumulated other comprehensive income:		
Unrealized net capital gains and losses:		
Unrealized net capital gains and losses on fixed income securities with OTTI	83	75
Other unrealized net capital gains and losses	1,865	(51)
Unrealized adjustment to DAC, DSI and insurance reserves	(294)	(26)
<b>Total unrealized net capital gains and losses</b>	<b>1,654</b>	<b>(2)</b>
Unrealized foreign currency translation adjustments	(40)	(49)
Unamortized pension and other postretirement prior service credit	146	169
<b>Total accumulated other comprehensive income ("AOCI")</b>	<b>1,760</b>	<b>118</b>
<b>Total shareholders' equity</b>	<b>24,476</b>	<b>21,312</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 118,374</b>	<b>\$ 112,249</b>

See notes to condensed consolidated financial statements.

**The Allstate Corporate and Subsidiaries**  
**Condensed Consolidated Statements of Shareholders' Equity (unaudited)**

(\$ in millions, except per share data)	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
<b>Preferred stock par value</b>	\$ —	\$ —	\$ —	\$ —
<b>Preferred stock additional capital paid-in</b>				
Balance, beginning of period	1,930	2,303	1,930	1,746
Preferred stock issuance	—	—	—	557
<b>Balance, end of period</b>	<b>1,930</b>	<b>2,303</b>	<b>1,930</b>	<b>2,303</b>
<b>Common stock par value</b>	<b>9</b>	<b>9</b>	<b>9</b>	<b>9</b>
<b>Common stock additional capital paid-in</b>				
Balance, beginning of period	3,291	3,367	3,310	3,313
Forward contract on accelerated share repurchase agreement	150	—	150	45
Activity under equity incentive plans	36	24	17	33
<b>Balance, end of period</b>	<b>3,477</b>	<b>3,391</b>	<b>3,477</b>	<b>3,391</b>
<b>Retained income</b>				
Balance, beginning of period	45,148	43,479	44,033	41,579
Cumulative effect of change in accounting principle	—	—	21	1,088
Net income	851	717	2,143	1,723
Dividends on common stock (declared per share of \$0.50, \$0.46, \$1.00 and \$0.92)	(166)	(160)	(333)	(325)
Dividends on preferred stock	(30)	(39)	(61)	(68)
<b>Balance, end of period</b>	<b>45,803</b>	<b>43,997</b>	<b>45,803</b>	<b>43,997</b>
<b>Deferred ESOP expense</b>	<b>(3)</b>	<b>(3)</b>	<b>(3)</b>	<b>(3)</b>
<b>Treasury stock</b>				
Balance, beginning of period	(28,042)	(26,280)	(28,085)	(25,982)
Shares acquired	(498)	(559)	(498)	(892)
Shares reissued under equity incentive plans, net	40	21	83	56
<b>Balance, end of period</b>	<b>(28,500)</b>	<b>(26,818)</b>	<b>(28,500)</b>	<b>(26,818)</b>
<b>Accumulated other comprehensive income</b>				
Balance, beginning of period	1,085	398	118	1,889
Cumulative effect of change in accounting principle	—	—	—	(910)
Change in unrealized net capital gains and losses	682	(133)	1,656	(698)
Change in unrealized foreign currency translation adjustments	4	(6)	9	(8)
Change in unamortized pension and other postretirement prior service credit	(11)	(16)	(23)	(30)
<b>Balance, end of period</b>	<b>1,760</b>	<b>243</b>	<b>1,760</b>	<b>243</b>
<b>Total shareholders' equity</b>	<b>\$ 24,476</b>	<b>\$ 23,122</b>	<b>\$ 24,476</b>	<b>\$ 23,122</b>

See notes to condensed consolidated financial statements.

**The Allstate Corporation and Subsidiaries**  
**Condensed Consolidated Statements of Cash Flows (unaudited)**

(\$ in millions)	Six months ended June 30,	
	2019	2018
<b>Cash flows from operating activities</b>		
Net income	\$ 2,143	\$ 1,723
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and other non-cash items	317	248
Realized capital gains and losses	(986)	159
Pension and other postretirement remeasurement gains and losses	140	7
Gain on disposition of operations	(3)	(3)
Interest credited to contractholder funds	318	326
Impairment of purchased intangibles	55	—
Changes in:		
Policy benefits and other insurance reserves	211	(22)
Unearned premiums	214	211
Deferred policy acquisition costs	(27)	(80)
Premium installment receivables, net	(209)	(185)
Reinsurance recoverables, net	235	(9)
Income taxes	159	(238)
Other operating assets and liabilities	(505)	(47)
<b>Net cash provided by operating activities</b>	<b>2,062</b>	<b>2,090</b>
<b>Cash flows from investing activities</b>		
Proceeds from sales		
Fixed income securities	17,811	19,515
Equity securities	2,098	3,576
Limited partnership interests	391	182
Other investments	223	135
Investment collections		
Fixed income securities	1,243	1,442
Mortgage loans	294	315
Other investments	138	235
Investment purchases		
Fixed income securities	(17,436)	(20,401)
Equity securities	(4,189)	(3,901)
Limited partnership interests	(672)	(873)
Mortgage loans	(311)	(316)
Other investments	(394)	(535)
Change in short-term investments, net	(213)	(512)
Change in other investments, net	66	(35)
Purchases of property and equipment, net	(173)	(128)
Acquisition of operations	(18)	(10)
<b>Net cash used in investing activities</b>	<b>(1,142)</b>	<b>(1,311)</b>
<b>Cash flows from financing activities</b>		
Proceeds from issuance of long-term debt	492	498
Redemption and repayment of long-term debt	(317)	(401)
Proceeds from issuance of preferred stock	—	557
Contractholder fund deposits	504	506
Contractholder fund withdrawals	(876)	(997)
Dividends paid on common stock	(324)	(295)
Dividends paid on preferred stock	(61)	(58)
Treasury stock purchases	(332)	(838)
Shares reissued under equity incentive plans, net	44	28
Other	50	93
<b>Net cash used in financing activities</b>	<b>(820)</b>	<b>(907)</b>
<b>Net increase (decrease) in cash</b>	<b>100</b>	<b>(128)</b>
Cash at beginning of period	499	617
<b>Cash at end of period</b>	<b>\$ 599</b>	<b>\$ 489</b>

See notes to condensed consolidated financial statements.





**The Allstate Corporation and Subsidiaries**  
**Notes to Condensed Consolidated Financial Statements**  
**(Unaudited)**

**Note 1      General**

**Basis of presentation**

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

The condensed consolidated financial statements and notes as of June 30, 2019 and for the three and six month periods ended June 30, 2019 and 2018 are unaudited. The condensed consolidated financial statements reflect all adjustments (consisting only of normal recurring accruals) which are, in the opinion of management, necessary for the fair presentation of the financial position, results of operations and cash flows for the interim periods.

These condensed consolidated financial statements and notes should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's annual report on Form 10-K for the year ended December 31, 2018, filed February 15, 2019, and the Company's Current Report on Form 8-K filed on May 16, 2019, Exhibit 99.1, reflecting the Company's 2018 Form 10-K with adjustments to Part II, Item 6., Item 7. and Item 8. for the Company's change in accounting principle for pension and other postretirement benefit plans. The results of operations for the interim periods should not be considered indicative of results to be expected for the full year. All significant intercompany accounts and transactions have been eliminated.

To conform to the current year presentation, certain amounts in the prior year condensed consolidated financial statements and notes have been reclassified.

**Impairment of purchased intangibles**

During the second quarter of 2019, the Company made the decision to phase-out the use of the SquareTrade trade name in the United States and sell consumer protection plans under the Allstate Protection Plan name. The SquareTrade trade name will continue to be used outside of the United States. The change in the second quarter of 2019 required an impairment evaluation of the indefinite-lived intangible asset recognized in the Service Businesses segment for SquareTrade's trade name that was recorded when SquareTrade was acquired in 2017.

As a result, the Company recognized an impairment of \$55 million pre-tax during the second quarter of 2019.

**Adopted accounting standards**

**Accounting for Leases** Effective January 1, 2019 the Company adopted new Financial Accounting Standards Board ("FASB") guidance related to accounting for leases. Upon adoption of the guidance under the optional transition method that allows application of the transition provisions at the adoption date instead of the earliest period presented, the Company recorded a \$585 million lease liability equal to the present value of lease payments and a \$488 million right-of-use ("ROU") asset, which is the corresponding lease liability adjusted for qualifying accrued lease payments. The lease liability and ROU asset were reported as part of other liabilities and other assets on the Condensed Consolidated Statements of Financial Position. The impact of these changes at adoption had no impact on net income or shareholders' equity. Prior periods were not restated under the new standard. The Company utilized practical expedients which do not require reassessment of existing contracts for the existence of a lease or reassessment of existing lease classifications.

Upon adoption, the new guidance required 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 was \$21 million, after-tax, and was recorded as an increase to retained income at the date of adoption.

**Accounting for Hedging Activities** Effective January 1, 2019 the Company adopted new FASB guidance intended to better align hedge accounting with an organization's risk management activities. The new guidance expands hedge accounting to nonfinancial and financial risk components and revises the measurement methodologies to better align with an organization's risk management activities. Separate presentation of hedge ineffectiveness is eliminated with the intention to provide greater transparency to 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 were designed to reduce complexity by simplifying hedge effectiveness testing. The adoption had no impact on the Company's results of operations or financial position.

## Changes to significant accounting policies

**Leases** The Company has certain operating leases for office facilities, computer and office equipment, and vehicles. The Company's leases have remaining lease terms of 1 year to 11 years, some of which include options to extend the leases for up to 20 years, and some of which include options to terminate the leases within 60 days.

The Company determines if an arrangement is a lease at inception. Leases with an initial term less than one year are not recorded on the balance sheet and the lease costs for these leases are recorded on a straight-line basis over the lease term. Operating leases with terms greater than one year result in a lease liability recorded in other liabilities with a corresponding ROU asset recorded in other assets. As of June 30, 2019, the Company had \$558 million in lease liabilities and \$461 million in ROU assets.

Operating lease liabilities are recognized at the commencement date based on the present value of future minimum lease payments over the lease term. ROU assets are recognized based on the corresponding lease liabilities adjusted for qualifying initial direct costs, prepaid or accrued lease payments and unamortized lease incentives. As most of the Company's leases do not disclose the implicit interest rate, the Company uses collateralized incremental borrowing rates based on information available at lease commencement when determining the present value of future lease payments. The Company has lease agreements with lease and non-lease components, which are generally accounted for as a single lease. Lease terms may include options to extend or terminate the lease which are incorporated into the Company's measurements when it is reasonably certain that the Company will exercise the option.

Operating lease costs are recognized on a straight-line basis over the lease term and include interest expense on the lease liability and amortization of the ROU asset. Variable lease costs are expensed as incurred and include maintenance costs and real estate taxes. Lease costs are reported in operating costs and expenses and totaled \$42 million and \$83 million, including \$8 million and \$15 million of variable lease costs for the three and six months ended June 30, 2019, respectively.

### Other information related to operating leases

	As of June 30, 2019
Weighted average remaining lease term (years)	6
Weighted average discount rate	3.39%

### Maturity of lease liabilities

(\$ in millions)	Operating leases	
2019 <sup>(1)</sup>	\$	50
2020		136
2021		107
2022		89
2023		74
2024		57
Thereafter		105
<b>Total lease payments</b>	<b>\$</b>	<b>618</b>
Less: interest		(60)
<b>Present value of lease liabilities</b>	<b>\$</b>	<b>558</b>

<sup>(1)</sup> Excludes maturity of lease liabilities for the six months ended June 30, 2019.

### Pending accounting standards

#### *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 and includes 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 a reporting entity to recognize its estimate of expected credit losses for affected financial assets in a valuation allowance that when deducted from the amortized cost basis of the related financial assets results in a net carrying value 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 which may change over time but once recorded cannot subsequently be reduced to an amount below zero. 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's implementation activities, which remain in process, include review and validation of models, methodologies, data inputs and assumptions to be used to estimate expected credit losses. The implementation impacts relate primarily to the Company's mortgage loans, bank loans and reinsurance recoverables and will depend on economic conditions and judgments at the date of adoption as well as the size and composition of the loan portfolios and reinsurance balances. 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 Defined 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 during the reporting 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 introduces material changes to 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 measured 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 required to be updated through OCI at each reporting date. Current GAAP requires reserves to utilize assumptions set at policy issuance unless updated current assumptions would result in reserves that are deficient compared to the reserves recorded.

The new guidance requires deferred policy acquisition costs ("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. 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 reporting entity'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 retrospectively using actual historical experience as of contract inception. The new guidance for market risk benefits is required to be adopted retrospectively. In July 2019, the FASB voted to expose a proposal for a thirty-day comment period to delay the effective date of the new guidance for public business entities that are SEC filers to reporting periods beginning after December 15, 2021. If adopted, the proposal would extend the effective date of the new guidance for public business entities that are SEC filers by one year.

The Company is evaluating the anticipated impacts of applying the new guidance to both retained income and AOCI. The requirements of the new guidance represent a material change from existing GAAP, however, the underlying economics of the business and related cash flows are unchanged. The Company is evaluating the specific impacts of adopting the new guidance and anticipates the financial statement impact of adopting the new guidance to be material, largely attributed to the impact of transitioning to a discount rate based on an upper-medium grade fixed income investment yield and updates to mortality assumptions. 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.

#### **Change in accounting principle**

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. Under the new principle, remeasurement of projected benefit obligation and plan assets are immediately recognized in earnings and are referred to as pension and other postretirement remeasurement gains and losses on the Condensed Consolidated Statements of Operations. Previously, actuarial gains and losses and differences between the expected and actual returns on plan assets were recognized as a component of AOCI and were subject to amortization into earnings in future periods. This change has been applied on a retrospective basis. The Company's policy is to remeasure its pension and postretirement plans on a quarterly basis.

Differences between expected and actual returns and changes in assumptions affect our pension and other postretirement obligations, plan assets and

expenses. The primary factors contributing to pension and other postretirement remeasurement 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.

The Company also 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 immediately recognizing remeasurement of projected benefit obligation and plan assets in earnings is preferable as it provides greater transparency of the Company's economic obligations in accounting results and better

aligns with 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 have been applied on a retrospective basis and as of January 1, 2018 resulted in a cumulative effect decrease to retained income of \$1.58 billion, with a corresponding offset to AOCI and had no impact on total shareholders' equity.

Pension and other postretirement service cost, interest cost, expected return on plan assets and amortization of prior service credits are allocated to the Company's reportable segments. The pension and other postretirement remeasurement gains and losses are now reported in the Corporate and Other segment.

The impacts of the adjustments on the financial statements are summarized in the following tables.

### Condensed Consolidated Statements of Operations (unaudited)

	Previous	Impact of change	As reported
	accounting principle	(1)	
<b>Three months ended June 30, 2019</b>			
<b>(\$ in millions, except per share data)</b>			
Property and casualty insurance claims and claims expense	\$ 6,376	\$ (20)	\$ 6,356
Operating costs and expenses	1,401	(21)	1,380
Pension and other postretirement remeasurement gains and losses	—	125	125
Restructuring and related charges	5	4	9
<b>Total costs and expenses</b>	<b>9,980</b>	<b>88</b>	<b>10,068</b>
<b>Income from operations before income tax expense</b>	<b>1,166</b>	<b>(88)</b>	<b>1,078</b>
Income tax expense	246	(19)	227
<b>Net income</b>	<b>920</b>	<b>(69)</b>	<b>851</b>
<b>Net income applicable to common shareholders</b>	<b>\$ 890</b>	<b>\$ (69)</b>	<b>\$ 821</b>
<b>Earnings per common share:</b>			
Net income applicable to common shareholders per common share - Basic	\$ 2.68	\$ (0.21)	\$ 2.47
Net income applicable to common shareholders per common share - Diluted	\$ 2.64	\$ (0.20)	\$ 2.44
<b>Six months ended June 30, 2019</b>			
Property and casualty insurance claims and claims expense	\$ 12,205	\$ (29)	\$ 12,176
Operating costs and expenses	2,789	(29)	2,760
Pension and other postretirement remeasurement gains and losses	—	140	140
Restructuring and related charges	27	—	27
<b>Total costs and expenses</b>	<b>19,357</b>	<b>82</b>	<b>19,439</b>
<b>Income from operations before income tax expense</b>	<b>2,780</b>	<b>(82)</b>	<b>2,698</b>
Income tax expense	573	(18)	555
<b>Net income</b>	<b>2,207</b>	<b>(64)</b>	<b>2,143</b>
<b>Net income applicable to common shareholders</b>	<b>\$ 2,146</b>	<b>\$ (64)</b>	<b>\$ 2,082</b>
<b>Earnings per common share:</b>			
Net income applicable to common shareholders per common share - Basic	\$ 6.46	\$ (0.19)	\$ 6.27
Net income applicable to common shareholders per common share - Diluted	\$ 6.36	\$ (0.19)	\$ 6.17

(1) The Company merged two of its pension plans, which had no impact on our financial statements as we remeasure pension plan assets and projected benefit obligations immediately in earnings on a quarterly basis. However, the plan merger increased the impact of change by \$18 million for both the second quarter and first six months of 2019, reflecting the shorter amortization period for losses deferred in AOCI from one of the merged plans that was required as part of the merger.

**Condensed Consolidated Statements of Operations (unaudited)**

(\$ in millions, except per share data)	Previously reported	Impact of change	As adjusted
	Three months ended June 30, 2018		
Property and casualty insurance claims and claims expense	\$ 5,792	\$ (15)	\$ 5,777
Operating costs and expenses	1,384	(26)	1,358
Pension and other postretirement rereasurement gains and losses	—	(7)	(7)
Restructuring and related charges	27	(4)	23
<b>Total costs and expenses</b>	<b>9,256</b>	<b>(52)</b>	<b>9,204</b>
<b>Income from operations before income tax expense</b>	<b>845</b>	<b>52</b>	<b>897</b>
Income tax expense	169	11	180
<b>Net income</b>	<b>676</b>	<b>41</b>	<b>717</b>
<b>Net income applicable to common shareholders</b>	<b>\$ 637</b>	<b>\$ 41</b>	<b>\$ 678</b>
<b>Earnings per common share:</b>			
Net income applicable to common shareholders per common share - Basic	\$ 1.82	\$ 0.12	\$ 1.94
Net income applicable to common shareholders per common share - Diluted	\$ 1.80	\$ 0.11	\$ 1.91
<b>Six months ended June 30, 2018</b>			
Property and casualty insurance claims and claims expense	\$ 10,941	\$ (35)	\$ 10,906
Operating costs and expenses	2,717	(56)	2,661
Pension and other postretirement rereasurement gains and losses	—	7	7
Restructuring and related charges	49	(7)	42
<b>Total costs and expenses</b>	<b>17,803</b>	<b>(91)</b>	<b>17,712</b>
<b>Income from operations before income tax expense</b>	<b>2,069</b>	<b>91</b>	<b>2,160</b>
Income tax expense	418	19	437
<b>Net income</b>	<b>1,651</b>	<b>72</b>	<b>1,723</b>
<b>Net income applicable to common shareholders</b>	<b>\$ 1,583</b>	<b>\$ 72</b>	<b>\$ 1,655</b>
<b>Earnings per common share:</b>			
Net income applicable to common shareholders per common share - Basic	\$ 4.50	\$ 0.21	\$ 4.71
Net income applicable to common shareholders per common share - Diluted	\$ 4.43	\$ 0.20	\$ 4.63

**Condensed Consolidated Statements of Comprehensive Income (unaudited)**

(\$ in millions)	Previous accounting principle	Impact of change	As reported
	Three months ended June 30, 2019		
<b>Net income</b>	<b>\$ 920</b>	<b>\$ (69)</b>	<b>\$ 851</b>
<b>Other comprehensive income (loss), after-tax</b>			
Changes in:			
Unrealized net capital gains and losses	682	—	682
Unrealized foreign currency translation adjustments	7	(3)	4
Unrecognized pension and other postretirement benefit cost <sup>(1)</sup>	125	(136)	(11)
<b>Other comprehensive income (loss), after-tax</b>	<b>814</b>	<b>(139)</b>	<b>675</b>
<b>Comprehensive income</b>	<b>\$ 1,734</b>	<b>\$ (208)</b>	<b>\$ 1,526</b>
<b>Six months ended June 30, 2019</b>			
<b>Net income</b>	<b>\$ 2,207</b>	<b>\$ (64)</b>	<b>\$ 2,143</b>
<b>Other comprehensive income (loss), after-tax</b>			
Changes in:			
Unrealized net capital gains and losses	1,656	—	1,656
Unrealized foreign currency translation adjustments	14	(5)	9
Unrecognized pension and other postretirement benefit cost <sup>(1)</sup>	135	(158)	(23)
<b>Other comprehensive income (loss), after-tax</b>	<b>1,805</b>	<b>(163)</b>	<b>1,642</b>
<b>Comprehensive income</b>	<b>\$ 4,012</b>	<b>\$ (227)</b>	<b>\$ 3,785</b>

(1) Financial statement line item has been updated to "Unamortized pension and other postretirement prior service credit".

**Condensed Consolidated Statements of Comprehensive Income (unaudited)**

(\$ in millions)	Previously reported	Impact of change	As adjusted
	Three months ended June 30, 2018		
<b>Net income</b>	\$ 676	\$ 41	\$ 717
<b>Other comprehensive loss, after-tax</b>			
Changes in:			
Unrealized net capital gains and losses	(133)	—	(133)
Unrealized foreign currency translation adjustments	(7)	1	(6)
Unrecognized pension and other postretirement benefit cost	22	(38)	(16)
<b>Other comprehensive loss, after-tax</b>	<b>(118)</b>	<b>(37)</b>	<b>(155)</b>
<b>Comprehensive income</b>	<b>\$ 558</b>	<b>\$ 4</b>	<b>\$ 562</b>
	Six months ended June 30, 2018		
<b>Net income</b>	\$ 1,651	\$ 72	\$ 1,723
<b>Other comprehensive loss, after-tax</b>			
Changes in:			
Unrealized net capital gains and losses	(698)	—	(698)
Unrealized foreign currency translation adjustments	(11)	3	(8)
Unrecognized pension and other postretirement benefit cost	45	(75)	(30)
<b>Other comprehensive loss, after-tax</b>	<b>(664)</b>	<b>(72)</b>	<b>(736)</b>
<b>Comprehensive income</b>	<b>\$ 987</b>	<b>\$ —</b>	<b>\$ 987</b>

**Condensed Consolidated Statements of Financial Position (unaudited)**

(\$ in millions)	Previous accounting principle	Impact of change	As reported
	June 30, 2019		
Deferred income taxes	\$ 1,057	\$ (60)	\$ 997
Other liabilities and accrued expenses	8,855	287	9,142
<b>Total liabilities</b>	<b>93,671</b>	<b>227</b>	<b>93,898</b>
<b>Retained income</b>	<b>47,542</b>	<b>(1,739)</b>	<b>45,803</b>
Unrealized foreign currency translation adjustments	(50)	10	(40)
Unrecognized pension and other postretirement benefit cost	(1,356)	1,502	146
<b>Total AOCI</b>	<b>248</b>	<b>1,512</b>	<b>1,760</b>
<b>Total shareholders' equity</b>	<b>\$ 24,703</b>	<b>\$ (227)</b>	<b>\$ 24,476</b>

(\$ in millions)	Previously reported	Impact of change	As adjusted
	December 31, 2018		
<b>Retained income</b>	\$ 45,708	\$ (1,675)	\$ 44,033
Unrealized foreign currency translation adjustments	(64)	15	(49)
Unrecognized pension and other postretirement benefit cost	(1,491)	1,660	169
<b>Total AOCI</b>	<b>\$ (1,557)</b>	<b>\$ 1,675</b>	<b>\$ 118</b>

**Condensed Consolidated Statements of Shareholders' Equity (unaudited)**

(\$ in millions)	Previous accounting principle	Impact of change	As reported
	Three months ended June 30, 2019		
<b>Retained income</b>			
Balance, beginning of period	\$ 46,818	\$ (1,670)	\$ 45,148
Cumulative effect of change in accounting principle	—	—	—
Net income	920	(69)	851
Dividends on common stock	(166)	—	(166)
Dividends on preferred stock	(30)	—	(30)
<b>Balance, end of period</b>	<b>47,542</b>	<b>(1,739)</b>	<b>45,803</b>
<b>Accumulated other comprehensive income (loss)</b>			
Balance, beginning of period	(566)	1,651	1,085
Cumulative effect of change in accounting principle	—	—	—
Change in unrealized net capital gains and losses	682	—	682
Change in unrealized foreign currency translation adjustments	7	(3)	4
Change in unrecognized pension and other postretirement benefit cost <sup>(1)</sup>	125	(136)	(11)
<b>Balance, end of period</b>	<b>248</b>	<b>1,512</b>	<b>1,760</b>
<b>Total shareholders' equity</b>	<b>\$ 24,703</b>	<b>\$ (227)</b>	<b>\$ 24,476</b>
<b>Six months ended June 30, 2019</b>			
<b>Retained income</b>			
Balance, beginning of period	\$ 45,708	\$ (1,675)	\$ 44,033
Cumulative effect of change in accounting principle	21	—	21
Net income	2,207	(64)	2,143
Dividends on common stock	(333)	—	(333)
Dividends on preferred stock	(61)	—	(61)
<b>Balance, end of period</b>	<b>47,542</b>	<b>(1,739)</b>	<b>45,803</b>
<b>Accumulated other comprehensive income (loss)</b>			
Balance, beginning of period	(1,557)	1,675	118
Cumulative effect of change in accounting principle	—	—	—
Change in unrealized net capital gains and losses	1,656	—	1,656
Change in unrealized foreign currency translation adjustments	14	(5)	9
Change in unrecognized pension and other postretirement benefit cost <sup>(1)</sup>	135	(158)	(23)
<b>Balance, end of period</b>	<b>248</b>	<b>1,512</b>	<b>1,760</b>
<b>Total shareholders' equity</b>	<b>\$ 24,703</b>	<b>\$ (227)</b>	<b>\$ 24,476</b>

<sup>(1)</sup> Financial statement line item has been updated to "Change in unamortized pension and other postretirement prior service credit".

**Condensed Consolidated Statements of Shareholders' Equity (unaudited)**

(\$ in millions)	Previously reported	Impact of change	As adjusted
	Three months ended June 30, 2018		
<b>Retained income</b>			
Balance, beginning of period	\$ 45,031	\$ (1,552)	\$ 43,479
Net income	676	41	717
Dividends on common stock	(160)	—	(160)
Dividends on preferred stock	(39)	—	(39)
<b>Balance, end of period</b>	<b>45,508</b>	<b>(1,511)</b>	<b>43,997</b>
<b>Accumulated other comprehensive income (loss)</b>			
Balance, beginning of period	(1,150)	1,548	398
Change in unrealized net capital gains and losses	(133)	—	(133)
Change in unrealized foreign currency translation adjustments	(7)	1	(6)
Change in unrecognized pension and other postretirement benefit cost	22	(38)	(16)
<b>Balance, end of period</b>	<b>(1,268)</b>	<b>1,511</b>	<b>243</b>
<b>Total shareholders' equity</b>	<b>\$ 23,122</b>	<b>\$ —</b>	<b>\$ 23,122</b>
<b>Six months ended June 30, 2018</b>			
<b>Retained income</b>			
Balance, beginning of period	\$ 43,162	\$ (1,583)	\$ 41,579
Cumulative effect of change in accounting principle	1,088	—	1,088
Net income	1,651	72	1,723
Dividends on common stock	(325)	—	(325)
Dividends on preferred stock	(68)	—	(68)
<b>Balance, end of period</b>	<b>45,508</b>	<b>(1,511)</b>	<b>43,997</b>
<b>Accumulated other comprehensive income (loss)</b>			
Balance, beginning of period	306	1,583	1,889
Cumulative effect of change in accounting principle	(910)	—	(910)
Change in unrealized net capital gains and losses	(698)	—	(698)
Change in unrealized foreign currency translation adjustments	(11)	3	(8)
Change in unrecognized pension and other postretirement benefit cost	45	(75)	(30)
<b>Balance, end of period</b>	<b>(1,268)</b>	<b>1,511</b>	<b>243</b>
<b>Total shareholders' equity</b>	<b>\$ 23,122</b>	<b>\$ —</b>	<b>\$ 23,122</b>

**Condensed Consolidated Statements of Cash Flows (unaudited)**

(\$ in millions)	Previous accounting principle	Impact of change	As reported
	Six months ended June 30, 2019		
<b>Cash flows from operating activities</b>			
Net income	\$ 2,207	\$ (64)	\$ 2,143
Adjustments to reconcile net income to net cash provided by operating activities:			
Pension and other postretirement remeasurement gains and losses	—	140	140
Income taxes	177	(18)	159
Other operating assets and liabilities	(447)	(58)	(505)
<b>Net cash provided by operating activities</b>	<b>\$ 2,062</b>	<b>\$ —</b>	<b>\$ 2,062</b>

**Condensed Consolidated Statements of Cash Flows (unaudited)**

(\$ in millions)	Previously reported	Impact of change	As adjusted
	Six months ended June 30, 2018		
<b>Cash flows from operating activities</b>			
Net income	\$ 1,651	\$ 72	\$ 1,723
Adjustments to reconcile net income to net cash provided by operating activities:			
Pension and other postretirement remeasurement gains and losses	—	7	7
Income taxes	(257)	19	(238)
Other operating assets and liabilities	51	(98)	(47)



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**Net cash provided by operating activities**

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**\$ 2,090**

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**\$ —**

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**\$ 2,090**

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**Note 2 Earnings per Common Share**

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

For the Company, dilutive potential common shares consist of outstanding stock options and

unvested non-participating restricted stock units and contingently issuable performance stock awards. 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.

**Computation of basic and diluted earnings per common share**

(In millions, except per share data)	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Numerator:				
Net income	\$ 851	\$ 717	\$ 2,143	\$ 1,723
Less: Preferred stock dividends	30	39	61	68
<b>Net income applicable to common shareholders</b>	<b>\$ 821</b>	<b>\$ 678</b>	<b>\$ 2,082</b>	<b>\$ 1,655</b>
Denominator:				
Weighted average common shares outstanding	332.0	349.2	332.3	351.6
Effect of dilutive potential common shares:				
Stock options	3.3	3.8	3.2	3.9
Restricted stock units (non-participating) and performance stock awards	1.6	1.6	1.7	1.7
<b>Weighted average common and dilutive potential common shares outstanding</b>	<b>336.9</b>	<b>354.6</b>	<b>337.2</b>	<b>357.2</b>
Earnings per common share - Basic	\$ 2.47	\$ 1.94	\$ 6.27	\$ 4.71
Earnings per common share - Diluted	\$ 2.44	\$ 1.91	\$ 6.17	\$ 4.63
Anti-dilutive options excluded from diluted earnings per common share	4.1	2.3	4.5	1.7

**Note 3 Acquisitions**

**iCracked** On February 12, 2019, the Company acquired iCracked Inc. ("iCracked") which offers on-site, on-demand repair services for smartphones and tablets in North America, supporting SquareTrade's operations. In conjunction with the iCracked acquisition, the Company recorded goodwill of \$17 million.

**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.

**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.

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 acquired customer relationships and technology, respectively.

## Note 4 Reportable Segments

### Change in accounting principle

As discussed in Note 1, 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. Under the new principle, remeasurement of projected benefit obligation and plan assets are immediately recognized through earnings and are referred to as pension and other postretirement remeasurement gains and losses on the Condensed Consolidated Statements of Operations. This change has been applied on a retrospective basis. See Note 1 for further information regarding the impact of the change in accounting principle on the condensed consolidated financial statements.

### 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, amortization of purchased intangibles and restructuring and related charges as determined using GAAP.

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

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- 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
- 
- Pension and other postretirement remeasurement gains and losses, after-tax
- 
- 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 or impairment of purchased intangibles, 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
-

<b>Reportable segments revenue information</b>				
(\$ in millions)	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
<b>Property-Liability</b>				
Insurance premiums				
Auto	\$ 6,035	\$ 5,705	\$ 11,965	\$ 11,296
Homeowners	1,958	1,864	3,893	3,712
Other personal lines	462	455	921	899
Commercial lines	226	165	409	301
Allstate Protection	8,681	8,189	17,188	16,208
Discontinued Lines and Coverages	—	—	—	—
Total property-liability insurance premiums	8,681	8,189	17,188	16,208
Other revenue	190	184	366	358
Net investment income	471	353	762	690
Realized capital gains and losses	256	(15)	753	(110)
<b>Total Property-Liability</b>	<b>9,598</b>	<b>8,711</b>	<b>19,069</b>	<b>17,146</b>
<b>Service Businesses</b>				
Consumer product protection plans	153	121	298	244
Roadside assistance	63	68	126	132
Finance and insurance products	89	82	176	162
Intersegment premiums and service fees <sup>(1)</sup>	33	29	66	58
Other revenue	48	16	95	32
Net investment income	10	6	19	11
Realized capital gains and losses	9	(2)	17	(6)
<b>Total Service Businesses</b>	<b>405</b>	<b>320</b>	<b>797</b>	<b>633</b>
<b>Allstate Life</b>				
Traditional life insurance premiums	156	148	310	294
Accident and health insurance premiums	1	1	1	1
Interest-sensitive life insurance contract charges	176	177	359	358
Other revenue	33	28	60	54
Net investment income	125	130	252	252
Realized capital gains and losses	1	(3)	(4)	(6)
<b>Total Allstate Life</b>	<b>492</b>	<b>481</b>	<b>978</b>	<b>953</b>
<b>Allstate Benefits</b>				
Traditional life insurance premiums	10	10	19	19
Accident and health insurance premiums	246	245	496	493
Interest-sensitive life insurance contract charges	28	28	57	57
Net investment income	21	19	40	38
Realized capital gains and losses	2	—	6	(2)
<b>Total Allstate Benefits</b>	<b>307</b>	<b>302</b>	<b>618</b>	<b>605</b>
<b>Allstate Annuities</b>				
Fixed annuities contract charges	4	3	7	6
Net investment income	296	293	486	583
Realized capital gains and losses	48	6	204	(23)
<b>Total Allstate Annuities</b>	<b>348</b>	<b>302</b>	<b>697</b>	<b>566</b>
<b>Corporate and Other</b>				
Net investment income	19	23	31	36
Realized capital gains and losses	8	(11)	10	(12)
<b>Total Corporate and Other</b>	<b>27</b>	<b>12</b>	<b>41</b>	<b>24</b>
Intersegment eliminations <sup>(1)</sup>	(33)	(29)	(66)	(58)
<b>Consolidated revenues</b>	<b>\$ 11,144</b>	<b>\$ 10,099</b>	<b>\$ 22,134</b>	<b>\$ 19,869</b>

<sup>(1)</sup> Intersegment insurance premiums and service fees are primarily related to Arity and Allstate Roadside Services and are eliminated in the condensed consolidated financial statements.



## Reportable segments financial performance

(\$ in millions)	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
<b>Property-Liability</b>				
Allstate Protection	\$ 370	\$ 458	\$ 1,073	\$ 1,466
Discontinued Lines and Coverages	(3)	(3)	(6)	(6)
<b>Total underwriting income</b>	<b>367</b>	<b>455</b>	<b>1,067</b>	<b>1,460</b>
Net investment income	471	353	762	690
Income tax expense on operations	(179)	(166)	(381)	(443)
Realized capital gains and losses, after-tax	204	(12)	597	(87)
<b>Property-Liability net income applicable to common shareholders</b>	<b>863</b>	<b>630</b>	<b>2,045</b>	<b>1,620</b>
<b>Service Businesses</b>				
Adjusted net income (loss)	16	2	27	(1)
Realized capital gains and losses, after-tax	6	(1)	13	(4)
Amortization of purchased intangibles, after-tax	(25)	(16)	(49)	(32)
Impairment of purchased intangibles, after-tax	(43)	—	(43)	—
<b>Service Businesses net loss applicable to common shareholders</b>	<b>(46)</b>	<b>(15)</b>	<b>(52)</b>	<b>(37)</b>
<b>Allstate Life</b>				
Adjusted net income	68	80	141	151
Realized capital gains and losses, after-tax	—	(2)	(4)	(4)
DAC and DSI amortization related to realized capital gains and losses, after-tax	(1)	(3)	(3)	(5)
<b>Allstate Life net income applicable to common shareholders</b>	<b>67</b>	<b>75</b>	<b>134</b>	<b>142</b>
<b>Allstate Benefits</b>				
Adjusted net income	37	36	68	65
Realized capital gains and losses, after-tax	2	—	5	(2)
<b>Allstate Benefits net income applicable to common shareholders</b>	<b>39</b>	<b>36</b>	<b>73</b>	<b>63</b>
<b>Allstate Annuities</b>				
Adjusted net income	52	44	27	79
Realized capital gains and losses, after-tax	37	5	161	(18)
Valuation changes on embedded derivatives not hedged, after-tax	(2)	—	(5)	4
Gain on disposition of operations, after-tax	1	1	2	2
<b>Allstate Annuities net income applicable to common shareholders</b>	<b>88</b>	<b>50</b>	<b>185</b>	<b>67</b>
<b>Corporate and Other</b>				
Adjusted net loss	(98)	(95)	(201)	(185)
Realized capital gains and losses, after-tax	7	(9)	8	(10)
Pension and other postretirement remeasurement gains and losses, after-tax	(99)	6	(110)	(5)
<b>Corporate and Other net loss applicable to common shareholders</b>	<b>(190)</b>	<b>(98)</b>	<b>(303)</b>	<b>(200)</b>
<b>Consolidated net income applicable to common shareholders</b>	<b>\$ 821</b>	<b>\$ 678</b>	<b>\$ 2,082</b>	<b>\$ 1,655</b>

**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>June 30, 2019</b>				
U.S. government and agencies	\$ 3,980	\$ 180	\$ —	\$ 4,160
Municipal	8,378	516	(3)	8,891
Corporate	41,620	1,731	(78)	43,273
Foreign government	766	26	(1)	791
Asset-backed securities (“ABS”)	853	11	(5)	859
Residential mortgage-backed securities (“RMBS”)	325	94	(1)	418
Commercial mortgage-backed securities (“CMBS”)	65	8	(3)	70
Redeemable preferred stock	21	1	—	22
<b>Total fixed income securities</b>	<b>\$ 56,008</b>	<b>\$ 2,567</b>	<b>\$ (91)</b>	<b>\$ 58,484</b>
<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>

**Scheduled maturities for fixed income securities**

(\$ in millions)	As of June 30, 2019	
	Amortized cost	Fair value
Due in one year or less	\$ 2,827	\$ 2,849
Due after one year through five years	25,060	25,659
Due after five years through ten years	17,602	18,394
Due after ten years	9,276	10,235
	<b>54,765</b>	<b>57,137</b>
ABS, RMBS and CMBS	1,243	1,347
<b>Total</b>	<b>\$ 56,008</b>	<b>\$ 58,484</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)	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Fixed income securities	\$ 543	\$ 509	\$ 1,081	\$ 1,017
Equity securities	68	61	98	95
Mortgage loans	54	60	107	111
Limited partnership interests	254	173	263	353
Short-term investments	26	19	52	31
Other	67	68	130	134
<b>Investment income, before expense</b>	<b>1,012</b>	<b>890</b>	<b>1,731</b>	<b>1,741</b>
Investment expense	(70)	(66)	(141)	(131)
<b>Net investment income</b>	<b>\$ 942</b>	<b>\$ 824</b>	<b>\$ 1,590</b>	<b>\$ 1,610</b>

**Realized capital gains (losses) by asset type**

(\$ in millions)	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Fixed income securities	\$ 79	\$ (80)	\$ 143	\$ (123)
Equity securities	178	74	731	(19)
Mortgage loans	—	2	—	2
Limited partnership interests	21	(43)	93	(33)
Derivatives	22	23	(24)	15
Other	24	(1)	43	(1)
<b>Realized capital gains and losses</b>	<b>\$ 324</b>	<b>\$ (25)</b>	<b>\$ 986</b>	<b>\$ (159)</b>

**Realized capital gains (losses) by transaction type**

(\$ in millions)	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Impairment write-downs	\$ (15)	\$ (4)	\$ (29)	\$ (5)
Sales	117	(75)	212	(117)
Valuation of equity investments <sup>(1)</sup>	200	34	827	(49)
Valuation and settlements of derivative instruments	22	20	(24)	12
<b>Realized capital gains and losses</b>	<b>\$ 324</b>	<b>\$ (25)</b>	<b>\$ 986</b>	<b>\$ (159)</b>

<sup>(1)</sup> Includes valuation of equity securities and certain limited partnership interests where the underlying assets are predominately public equity securities.

Sales of fixed income securities resulted in gross gains of \$115 million and \$29 million and gross losses of \$27 million and \$107 million during the three months ended June 30, 2019 and 2018, respectively.

Sales of fixed income securities resulted in gross gains of \$241 million and \$74 million and gross losses of \$87 million and \$194 million during the six months ended June 30, 2019 and 2018, respectively.

The following table presents the net pre-tax appreciation (decline) during 2019 and 2018 of equity securities and limited partnership interests carried at fair value still held as of June 30, 2019 and June 30, 2018 recognized in net income.

**Net appreciation (decline) recognized in net income**

(\$ in millions)	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Equity securities	\$ 207	\$ 94	\$ 688	\$ 71
Limited partnership interests carried at fair value	95	28	59	106
<b>Total</b>	<b>\$ 302</b>	<b>\$ 122</b>	<b>\$ 747</b>	<b>\$ 177</b>



**OTTI losses by asset type**

(\$ in millions)	Three months ended June 30, 2019			Three months ended June 30, 2018		
	Gross	Included in OCI	Net	Gross	Included in OCI	Net
	Fixed income securities:					
Corporate	\$ (3)	\$ (4)	\$ (7)	\$ —	\$ —	\$ —
ABS	(1)	(1)	(2)	(1)	—	(1)
RMBS	—	—	—	(1)	—	(1)
CMBS	(2)	2	—	—	—	—
<b>Total fixed income securities</b>	<b>(6)</b>	<b>(3)</b>	<b>(9)</b>	<b>(2)</b>	<b>—</b>	<b>(2)</b>
Limited partnership interests	(2)	—	(2)	(1)	—	(1)
Other	(4)	—	(4)	(1)	—	(1)
<b>OTTI losses</b>	<b>\$ (12)</b>	<b>\$ (3)</b>	<b>\$ (15)</b>	<b>\$ (4)</b>	<b>\$ —</b>	<b>\$ (4)</b>

(\$ in millions)	Six months ended June 30, 2019			Six months ended June 30, 2018		
	Gross	Included in OCI	Net	Gross	Included in OCI	Net
	Fixed income securities:					
Corporate	\$ (5)	\$ (2)	\$ (7)	\$ —	\$ —	\$ —
ABS	(3)	—	(3)	(1)	—	(1)
RMBS	—	(1)	(1)	(1)	—	(1)
CMBS	(2)	2	—	—	(1)	(1)
<b>Total fixed income securities</b>	<b>(10)</b>	<b>(1)</b>	<b>(11)</b>	<b>(2)</b>	<b>(1)</b>	<b>(3)</b>
Limited partnership interests	(3)	—	(3)	(1)	—	(1)
Other	(15)	—	(15)	(1)	—	(1)
<b>OTTI losses</b>	<b>\$ (28)</b>	<b>\$ (1)</b>	<b>\$ (29)</b>	<b>\$ (4)</b>	<b>\$ (1)</b>	<b>\$ (5)</b>

**OTTI losses included in AOCI at the time of impairment for fixed income securities which were not included in earnings**

(\$ in millions)	June 30, 2019	December 31, 2018
Municipal	\$ (5)	\$ (5)
Corporate	—	(2)
ABS	(10)	(10)
RMBS	(61)	(67)
CMBS	(4)	(2)
<b>Total</b>	<b>\$ (80)</b>	<b>\$ (86)</b>

The amounts exclude \$185 million and \$180 million as of June 30, 2019 and December 31, 2018, 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 as of June 30,**

(\$ in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
	Beginning balance	\$ (202)	\$ (212)	\$ (204)
Additional credit loss for securities previously other-than-temporarily impaired	(6)	(1)	(8)	(2)
Additional credit loss for securities not previously other-than-temporarily impaired	(3)	(1)	(3)	(1)
Reduction in credit loss for securities disposed or collected	3	7	7	22
Change in credit loss due to accretion of increase in cash flows	—	1	—	1
<b>Ending balance</b>	<b>\$ (208)</b>	<b>\$ (206)</b>	<b>\$ (208)</b>	<b>\$ (206)</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)	June 30, 2019	Fair value	Gross unrealized		Unrealized net gains (losses)
			Gains	Losses	
Fixed income securities		\$ 58,484	\$ 2,567	\$ (91)	\$ 2,476
Short-term investments		3,740	—	—	—
Derivative instruments		—	—	(3)	(3)
Equity method of accounting (“EMA”) limited partnerships <sup>(1)</sup>					(1)
<b>Unrealized net capital gains and losses, pre-tax</b>					<b>2,472</b>
Amounts recognized for:					
Insurance reserves <sup>(2)</sup>					(178)
DAC and DSI <sup>(3)</sup>					(194)
<b>Amounts recognized</b>					<b>(372)</b>
Deferred income taxes					(446)
<b>Unrealized net capital gains and losses, after-tax</b>					<b>\$ 1,654</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, 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					—
<b>Unrealized net capital gains and losses, pre-tax</b>					<b>33</b>
Amounts recognized for:					
Insurance reserves					—
DAC and DSI					(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>

**Change in unrealized net capital gains (losses)**

(\$ in millions)	Six months ended June 30, 2019	
Fixed income securities	\$	2,440
Derivative instruments		—
EMA limited partnerships		(1)
<b>Total</b>		<b>2,439</b>
Amounts recognized for:		
Insurance reserves		(178)
DAC and DSI		(161)
<b>Amounts recognized</b>		<b>(339)</b>
Deferred income taxes		(444)
<b>Increase in unrealized net capital gains and losses, after-tax</b>	<b>\$</b>	<b>1,656</b>

**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>June 30, 2019</b>							
Fixed income securities							
U.S. government and agencies	—	\$ —	\$ —	21	\$ 63	\$ —	\$ —
Municipal	85	133	—	103	98	(3)	(3)
Corporate	129	1,120	(19)	271	3,054	(59)	(78)
Foreign government	2	46	—	6	141	(1)	(1)
ABS	18	121	(2)	18	97	(3)	(5)
RMBS	52	8	—	165	39	(1)	(1)
CMBS	2	8	(3)	1	—	—	(3)
Redeemable preferred stock	1	—	—	—	—	—	—
<b>Total fixed income securities</b>	<b>289</b>	<b>\$ 1,436</b>	<b>\$ (24)</b>	<b>585</b>	<b>\$ 3,492</b>	<b>\$ (67)</b>	<b>\$ (91)</b>
Investment grade fixed income securities	201	\$ 801	\$ (3)	514	\$ 3,068	\$ (44)	\$ (47)
Below investment grade fixed income securities	88	635	(21)	71	424	(23)	(44)
<b>Total fixed income securities</b>	<b>289</b>	<b>\$ 1,436</b>	<b>\$ (24)</b>	<b>585</b>	<b>\$ 3,492</b>	<b>\$ (67)</b>	<b>\$ (91)</b>
<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>

**Gross unrealized losses by unrealized loss position and credit quality as of June 30, 2019**

(\$ in millions)	Investment grade	Below investment grade	Total
Fixed income securities with unrealized loss position less than 20% of amortized cost <sup>(1)</sup> <sup>(2)</sup>	\$ (35)	\$ (38)	\$ (73)
Fixed income securities with unrealized loss position greater than or equal to 20% of amortized cost <sup>(3)</sup> <sup>(4)</sup>	(12)	(6)	(18)
<b>Total unrealized losses</b>	<b>\$ (47)</b>	<b>\$ (44)</b>	<b>\$ (91)</b>

<sup>(1)</sup> Includes \$18 million of below investment grade fixed income securities that have been in an unrealized loss position for less than twelve months.

<sup>(2)</sup> 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.

<sup>(3)</sup> Includes \$2 million of below investment grade fixed income securities that have been in unrealized loss position for a period of twelve or more consecutive months.

<sup>(4)</sup> 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.

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.

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 June 30, 2019, the Company has not made the decision to sell and it is not more likely than not the Company will be required to sell fixed income securities with unrealized losses before recovery of the amortized cost basis.

#### Limited partnerships

Investments in limited partnership interests include interests in private equity funds, real estate funds and other funds. As of June 30, 2019 and December 31, 2018, the carrying value of EMA limited partnerships totaled \$6.03 billion and \$5.73 billion, respectively, and limited partnerships carried at fair value totaled \$1.79 billion and \$1.78 billion, respectively.

#### Mortgage loans

Mortgage loans are evaluated for impairment on a specific loan basis through a quarterly credit

monitoring process and review of key credit quality indicators. Mortgage loans are considered impaired when it is probable that the Company will not collect the contractual principal and interest. Valuation allowances are established for impaired loans to reduce the carrying value to the fair value of the collateral less costs to sell or the present value of the loan's expected future repayment cash flows discounted at the loan's original effective interest rate. Impaired mortgage loans may not have a valuation allowance when the fair value of the collateral less costs to sell is higher than the carrying value. Valuation allowances are adjusted for subsequent changes in the fair value of the collateral less costs to sell or present value of the loan's expected future repayment cash flows. Mortgage loans are charged off against their corresponding valuation allowances when there is no reasonable expectation of recovery. The impairment evaluation is non-statistical in respect to the aggregate portfolio but considers facts and circumstances attributable to each loan. It is not considered probable that additional impairment losses, beyond those identified on a specific loan basis, have been incurred as of June 30, 2019.

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 non-accrual status are generally recorded as a reduction of carrying value.

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

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

(\$ in millions)	June 30, 2019			December 31, 2018		
	Fixed rate mortgage loans	Variable rate mortgage loans	Total	Fixed rate mortgage loans	Variable rate mortgage loans	Total
<b>Debt service coverage ratio distribution</b>						
Below 1.0	\$ 2	\$ 31	\$ 33	\$ 6	\$ 31	\$ 37
1.0 - 1.25	222	—	222	273	—	273
1.26 - 1.50	1,329	—	1,329	1,192	—	1,192
Above 1.50	2,996	103	3,099	3,063	101	3,164
<b>Total non-impaired mortgage loans</b>	<b>\$ 4,549</b>	<b>\$ 134</b>	<b>\$ 4,683</b>	<b>\$ 4,534</b>	<b>\$ 132</b>	<b>\$ 4,666</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)	June 30, 2019	December 31, 2018
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 valuation allowance on impaired loans had no activity for the three months and six months ended June 30, 2019 and 2018. The average balance of impaired loans was \$4 million for both the six months ended June 30, 2019 and 2018.

Payments on all mortgage loans were current as of June 30, 2019 and December 31, 2018.

#### 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 June 30, 2019 and December 31, 2018, the fair value of short-term investments totaled \$3.74 billion and \$3.03 billion, respectively.

#### Other investments

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

#### Other investments by asset type

(\$ in millions)	June 30, 2019	December 31, 2018
Bank loans	\$ 1,259	\$ 1,350
Policy loans	880	891
Real estate	872	791
Agent loans	654	620
Derivatives and other	191	200
<b>Total</b>	<b>\$ 3,856</b>	<b>\$ 3,852</b>

## Note 6 Fair Value of Assets and Liabilities

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

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

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

- (a) Quoted prices for similar assets or liabilities in active markets;
- (b) Quoted prices for identical or similar assets or liabilities in markets that are not active; or
- (c) Valuation models whose inputs are observable, directly or indirectly, for substantially the full term of the asset or liability.

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

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

The Company is responsible for the determination of fair value and the supporting assumptions and methodologies. The Company gains assurance that assets and liabilities are appropriately valued through the execution of various processes and controls designed to ensure the overall reasonableness and consistent application of valuation methodologies, including inputs and assumptions, and compliance

with accounting standards. For fair values received from third parties or internally estimated, the Company's processes and controls are designed to ensure that the valuation methodologies are appropriate and consistently applied, the inputs and assumptions are reasonable and consistent with the objective of determining fair value, and the fair values are accurately recorded. For example, on a continuing basis, the Company assesses the reasonableness of individual fair values that have stale security prices or that exceed certain thresholds as compared to previous fair values received from valuation service providers or brokers or derived from internal models. The Company performs procedures to understand and assess the methodologies, processes and controls of valuation service providers. In addition, the Company may validate the reasonableness of fair values by comparing information obtained from valuation service providers or brokers to other third-party valuation sources for selected securities. The Company performs ongoing price validation procedures such as back-testing of actual sales, which corroborate the various inputs used in internal models to market observable data. When fair value determinations are expected to be more variable, the Company validates them through reviews by members of management who have relevant expertise and who are independent of those charged with executing investment transactions.

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

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

remeasurement is reflected in the condensed consolidated financial statements.

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

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

#### Level 1 measurements

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

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

- Equity securities: The primary inputs to the valuation include quoted prices or quoted net asset values for identical or similar assets in markets that exhibit less liquidity relative to those markets supporting Level 2 fair value measurements.
- 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. Bank loans written-down to fair value are valued based on broker quotes from brokers familiar with the loans and current market conditions or based on internal valuation models.

#### **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 June 30, 2019, the Company has commitments to invest \$592 million in these limited partnership interests.

## Assets and liabilities measured at fair value

(\$ in millions)	As of June 30, 2019				
	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	\$ 3,757	\$ 403	\$ —		\$ 4,160
Municipal	—	8,828	63		8,891
Corporate - public	—	30,733	46		30,779
Corporate - privately placed	—	12,405	89		12,494
Foreign government	—	791	—		791
ABS - CDO	—	344	10		354
ABS - consumer and other	—	462	43		505
RMBS	—	417	1		418
CMBS	—	36	34		70
Redeemable preferred stock	—	22	—		22
<b>Total fixed income securities</b>	<b>3,757</b>	<b>54,441</b>	<b>286</b>		<b>58,484</b>
Equity securities	7,235	352	319		7,906
Short-term investments	1,821	1,914	5		3,740
Other investments: Free-standing derivatives	—	161	—	\$ (35)	126
Separate account assets	3,058	—	—		3,058
Other assets	2	—	—		2
<b>Total recurring basis assets</b>	<b>15,873</b>	<b>56,868</b>	<b>610</b>	<b>(35)</b>	<b>73,316</b>
Non-recurring basis (1)	—	—	11		11
<b>Total assets at fair value</b>	<b>\$ 15,873</b>	<b>\$ 56,868</b>	<b>\$ 621</b>	<b>\$ (35)</b>	<b>\$ 73,327</b>
% of total assets at fair value	21.6%	77.6%	0.8%	— %	100.0%
Investments reported at NAV					1,785
<b>Total</b>					<b>\$ 75,112</b>
<b>Liabilities</b>					
Contractholder funds: Derivatives embedded in life and annuity contracts	\$ —	\$ —	\$ (437)		\$ (437)
Other liabilities: Free-standing derivatives	(1)	(54)	—	\$ 5	(50)
<b>Total recurring basis liabilities</b>	<b>\$ (1)</b>	<b>\$ (54)</b>	<b>\$ (437)</b>	<b>\$ 5</b>	<b>\$ (487)</b>
% of total liabilities at fair value	0.2%	11.1%	89.7%	(1.0)%	100.0%

(1) Includes \$11 million of bank loans written-down to fair value in connection with recognizing OTTI impairments.

**Assets and liabilities measured at fair value**

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)	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%

**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>June 30, 2019</b>					
Derivatives embedded in life and annuity contracts – Equity-indexed and forward starting options	\$ (401)	Stochastic cash flow model	Projected option cost	1.0 - 4.2%	2.61%
<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%

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

As of June 30, 2019 and December 31, 2018, Level 3 fair value measurements of fixed income securities total \$286 million and \$325 million, respectively, and include \$68 million and \$105 million, respectively, of securities valued based on non-binding broker quotes where the inputs have not been corroborated to be

market observable and \$37 million and \$44 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 at fair value during the three months period ended June 30, 2019

(\$ in millions)	Balance as of March 31, 2019	Total gains (losses) included in:		Transfers into Level 3	Transfers out of Level 3
		Net income <sup>(1)</sup>	OCI		
<b>Assets</b>					
Fixed income securities:					
Municipal	\$ 68	\$ —	\$ 1	\$ —	\$ (5)
Corporate - public	90	—	1	—	(40)
Corporate - privately placed	90	1	—	—	(2)
ABS - CDO	6	—	—	1	—
ABS - consumer and other	81	—	—	—	(68)
RMBS	—	—	—	1	—
CMBS	35	—	—	—	—
<b>Total fixed income securities</b>	<b>370</b>	<b>1</b>	<b>2</b>	<b>2</b>	<b>(115)</b>
Equity securities	303	10	—	—	—
Short-term investments	40	—	—	—	—
Free-standing derivatives, net	1	(1)	—	—	—
<b>Total recurring Level 3 assets</b>	<b>\$ 714</b>	<b>\$ 10</b>	<b>\$ 2</b>	<b>\$ 2</b>	<b>\$ (115)</b>
<b>Liabilities</b>					
Contractholder funds: Derivatives embedded in life and annuity contracts	\$ (251)	\$ (12)	\$ —	\$ (175)	\$ —
<b>Total recurring Level 3 liabilities</b>	<b>\$ (251)</b>	<b>\$ (12)</b>	<b>\$ —</b>	<b>\$ (175)</b>	<b>\$ —</b>
	<b>Purchases</b>	<b>Sales</b>	<b>Issues</b>	<b>Settlements</b>	<b>Balance as of June 30, 2019</b>
<b>Assets</b>					
Fixed income securities:					
Municipal	\$ —	\$ (1)	\$ —	\$ —	\$ 63
Corporate - public	—	(5)	—	—	46
Corporate - privately placed	1	—	—	(1)	89
ABS - CDO	3	—	—	—	10
ABS - consumer and other	43	(12)	—	(1)	43
RMBS	—	—	—	—	1
CMBS	—	—	—	(1)	34
<b>Total fixed income securities</b>	<b>47</b>	<b>(18)</b>	<b>—</b>	<b>(3)</b>	<b>286</b>
Equity securities	20	(14)	—	—	319
Short-term investments	5	(40)	—	—	5
Free-standing derivatives, net	—	—	—	—	—
<b>Total recurring Level 3 assets</b>	<b>\$ 72</b>	<b>\$ (72)</b>	<b>\$ —</b>	<b>\$ (3)</b>	<b>\$ 610</b>
<b>Liabilities</b>					
Contractholder funds: Derivatives embedded in life and annuity contracts	\$ —	\$ —	\$ —	\$ 1	\$ (437)
<b>Total recurring Level 3 liabilities</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 1</b>	<b>\$ (437)</b>

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

## Rollforward of Level 3 assets and liabilities held at fair value during the six months period ended June 30, 2019

(\$ in millions)	Balance as of December 31, 2018	Total gains (losses) included in:		Transfers into Level 3	Transfers out of Level 3
		Net income (1)	OCI		
<b>Assets</b>					
Fixed income securities:					
Municipal	\$ 70	\$ —	\$ 2	\$ —	\$ (5)
Corporate - public	70	—	2	—	(40)
Corporate - privately placed	90	(1)	2	15	(2)
ABS - CDO	6	—	—	1	—
ABS - consumer and other	63	—	—	—	(115)
RMBS	—	—	—	1	—
CMBS	26	—	—	3	—
<b>Total fixed income securities</b>	<b>325</b>	<b>(1)</b>	<b>6</b>	<b>20</b>	<b>(162)</b>
Equity securities	341	38	—	—	—
Short-term investments	30	—	—	—	—
Free-standing derivatives, net	1	(1)	—	—	—
<b>Total recurring Level 3 assets</b>	<b>\$ 697</b>	<b>\$ 36</b>	<b>\$ 6</b>	<b>\$ 20</b>	<b>\$ (162)</b>
<b>Liabilities</b>					
Contractholder funds: Derivatives embedded in life and annuity contracts	\$ (224)	\$ (40)	\$ —	\$ (175)	\$ —
<b>Total recurring Level 3 liabilities</b>	<b>\$ (224)</b>	<b>\$ (40)</b>	<b>\$ —</b>	<b>\$ (175)</b>	<b>\$ —</b>

	Purchases	Sales	Issues	Settlements	Balance as of June 30, 2019
<b>Assets</b>					
Fixed income securities:					
Municipal	\$ —	\$ (3)	\$ —	\$ (1)	\$ 63
Corporate - public	20	(5)	—	(1)	46
Corporate - privately placed	1	(13)	—	(3)	89
ABS - CDO	3	—	—	—	10
ABS - consumer and other	121	(22)	—	(4)	43
RMBS	—	—	—	—	1
CMBS	6	—	—	(1)	34
<b>Total fixed income securities</b>	<b>151</b>	<b>(43)</b>	<b>—</b>	<b>(10)</b>	<b>286</b>
Equity securities	22	(82)	—	—	319
Short-term investments	15	(40)	—	—	5
Free-standing derivatives, net	—	—	—	—	—
<b>Total recurring Level 3 assets</b>	<b>\$ 188</b>	<b>\$ (165)</b>	<b>\$ —</b>	<b>\$ (10)</b>	<b>\$ 610</b>
<b>Liabilities</b>					
Contractholder funds: Derivatives embedded in life and annuity contracts	\$ —	\$ —	\$ —	\$ 2	\$ (437)
<b>Total recurring Level 3 liabilities</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 2</b>	<b>\$ (437)</b>

(1) The effect to net income totals \$(4) million and is reported in the Condensed Consolidated Statements of Operations as follows: \$31 million in realized capital gains and losses, \$5 million in net investment income, \$(43) million in interest credited to contractholder funds and \$3 million in life contract benefits.

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

(\$ in millions)	Balance as of March 31, 2018	Total gains (losses) included in:		Transfers into Level 3	Transfers out of Level 3
		Net income <sup>(1)</sup>	OCI		
<b>Assets</b>					
Fixed income securities:					
Municipal	\$ 96	\$ —	\$ —	\$ —	\$ —
Corporate - public	77	—	(1)	—	—
Corporate - privately placed	215	(2)	—	20	(10)
ABS - CDO	10	—	—	—	—
ABS - consumer and other	62	—	—	5	(16)
CMBS	27	—	—	—	—
<b>Total fixed income securities</b>	<b>487</b>	<b>(2)</b>	<b>(1)</b>	<b>25</b>	<b>(26)</b>
Equity securities	242	13	—	—	—
Short-term investments	—	—	—	—	—
Free-standing derivatives, net	1	—	—	—	—
<b>Total recurring Level 3 assets</b>	<b>\$ 730</b>	<b>\$ 11</b>	<b>\$ (1)</b>	<b>\$ 25</b>	<b>\$ (26)</b>
<b>Liabilities</b>					
Contractholder funds: Derivatives embedded in life and annuity contracts					
	\$ (262)	\$ 1	\$ —	\$ —	\$ —
<b>Total recurring Level 3 liabilities</b>	<b>\$ (262)</b>	<b>\$ 1</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>
					<b>Balance as of June 30, 2018</b>
	<b>Purchases</b>	<b>Sales</b>	<b>Issues</b>	<b>Settlements</b>	
<b>Assets</b>					
Fixed income securities:					
Municipal	\$ 10	\$ —	\$ —	\$ —	\$ 106
Corporate - public	—	—	—	—	76
Corporate - privately placed	2	(3)	—	(27)	195
ABS - CDO	—	—	—	(1)	9
ABS - consumer and other	30	(7)	—	(1)	73
CMBS	—	—	—	(1)	26
<b>Total fixed income securities</b>	<b>42</b>	<b>(10)</b>	<b>—</b>	<b>(30)</b>	<b>485</b>
Equity securities	49	(13)	—	—	291
Short-term investments	—	—	—	—	—
Free-standing derivatives, net	—	—	—	—	1 <sup>(2)</sup>
<b>Total recurring Level 3 assets</b>	<b>\$ 91</b>	<b>\$ (23)</b>	<b>\$ —</b>	<b>\$ (30)</b>	<b>\$ 777</b>
<b>Liabilities</b>					
Contractholder funds: Derivatives embedded in life and annuity contracts					
	\$ —	\$ —	\$ —	\$ 1	\$ (260)
<b>Total recurring Level 3 liabilities</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 1</b>	<b>\$ (260)</b>

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

<sup>(2)</sup> Comprises \$1 million of assets.

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

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

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

<sup>(1)</sup> The effect to net income totals \$39 million and is reported in the Condensed Consolidated Statements of Operations as follows: \$15 million in realized capital gains and losses, \$19 million in interest credited to contractholder funds and \$5 million in life contract benefits.

<sup>(2)</sup> Comprises \$1 million of assets.

Transfers between level categorizations may occur due to changes in the availability of market observable inputs, which generally are caused by changes in market conditions such as liquidity, trading volume or bid-ask spreads. Transfers between level categorizations may also occur due to changes in the valuation source, 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 the three months and six months ended June 30, 2019 or 2018.

Transfers into Level 3 during the three months and six months ended June 30, 2019 and 2018 included situations where a 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 into Level 3 during 2019 also included derivatives embedded in equity-indexed universal life contracts due to refinements in the valuation modeling resulting in an increase in significance of non-market observable inputs.

Transfers out of Level 3 during the three months and six months ended June 30, 2019 and 2018 included situations where a broker quote was used in the prior period and a 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 June 30,

(\$ in millions)	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
<b>Assets</b>				
Equity securities	\$ 10	\$ 13	\$ 14	\$ 15
Free-standing derivatives, net	(1)	—	(1)	—
<b>Total recurring Level 3 assets</b>	<b>\$ 9</b>	<b>\$ 13</b>	<b>\$ 13</b>	<b>\$ 15</b>
<b>Liabilities</b>				
Contractholder funds: Derivatives embedded in life and annuity contracts	\$ (12)	\$ 1	\$ (40)	\$ 24
<b>Total recurring Level 3 liabilities</b>	<b>\$ (12)</b>	<b>\$ 1</b>	<b>\$ (40)</b>	<b>\$ 24</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 result in \$(3) million of net income for the three months ended June 30, 2019 and are reported as follows: \$4 million in realized capital gains and losses, \$5 million in net investment income, \$(5) million in life contract benefits and \$(7) million in interest credited to contractholder funds. These gains and losses result in \$14 million of net income for the three months ended June 30, 2018 and are reported as follows: \$13 million in realized capital gains and losses and \$1 million in life

contract benefits. These gains and losses result in \$(27) million of net income for the six months ended June 30, 2019 and are reported as follows: \$8 million in realized capital gains and losses, \$5 million in net investment income, \$(43) million in interest credited to contractholder funds and \$3 million in life contract benefits. These gains and losses result in \$39 million of net income for the six months ended June 30, 2018 and are reported as follows: \$15 million in realized capital gains and losses, \$19 million in interest credited to contractholder funds and \$5 million in life contract benefits.

#### Financial assets

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

(\$ in millions)	Fair value level	June 30, 2019		December 31, 2018	
		Carrying value	Fair value	Carrying value	Fair value
Mortgage loans	Level 3	\$ 4,687	\$ 4,833	\$ 4,670	\$ 4,703
Bank loans	Level 3	1,259	1,237	1,350	1,298
Agent loans	Level 3	654	656	620	617

#### Financial liabilities

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

(\$ in millions)	Fair value level	June 30, 2019		December 31, 2018	
		Carrying value	Fair value	Carrying value	Fair value
Contractholder funds on investment contracts	Level 3	\$ 8,820	\$ 9,566	\$ 9,250	\$ 9,665
Long-term debt	Level 2	6,628	7,468	6,451	6,708
Liability for collateral	Level 2	1,871	1,871	1,458	1,458



## Note 7 Derivative Financial Instruments

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

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

Property-Liability may use interest rate swaps, swaptions, futures and options to manage the interest rate risks of existing investments. These instruments are utilized to change the duration of the portfolio in order to offset the economic effect that interest rates would otherwise have on the fair value of its fixed income securities. Fixed income index total return swaps are used to offset valuation losses in the fixed income portfolio during periods of declining 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 fair value of hedged liability is reported in contractholder funds in the Condensed Consolidated Statements of Financial Position. The impact from results of the fair value hedge is reported in interest credited to contractholder funds in the Condensed Consolidated Statements of Operations.

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

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

For those derivatives which qualify for fair value hedge accounting, net income includes the changes in the fair value of both the derivative instrument and the hedged risk, and therefore reflects any hedging ineffectiveness. Non-hedge accounting is generally used for "portfolio" level hedging strategies where the terms of the individual hedged items do not meet the strict homogeneity requirements to permit the application of hedge accounting. For non-hedge derivatives, net income includes changes in fair value and accrued periodic settlements, when applicable. With the exception of non-hedge derivatives used for asset replication and non-hedge embedded derivatives, all of the Company's derivatives are evaluated for their ongoing effectiveness as either

accounting hedge or non-hedge derivative financial instruments on at least a quarterly basis.

The Company had one derivative used in fair value hedging relationships for the three and six months ended June 30, 2019 and 2018. The Company had no

derivatives used in cash flow hedging relationships for the three and six months ended June 30, 2019 and had one foreign currency contract designated as a cash flow hedge during the three and six months ended June 30, 2018.

### Summary of the volume and fair value positions of derivative instruments as of June 30, 2019

(\$ 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 designated as fair value accounting hedging instruments</b>						
Other	Other assets	\$ 2	n/a	\$ —	\$ —	\$ —
<b>Derivatives not designated as accounting hedging instruments</b>						
<b>Interest rate contracts</b>						
Interest rate swap agreements	Other investments	1	n/a	—	—	—
Futures	Other assets	—	561	—	—	—
<b>Equity and index contracts</b>						
Options	Other investments	—	9,362	122	122	—
Futures	Other assets	—	1,710	2	2	—
<b>Total return index contracts</b>						
Total return swap agreements – fixed income	Other investments	235	n/a	8	8	—
Total return swap agreements – equity index	Other investments	172	n/a	6	6	—
<b>Foreign currency contracts</b>						
Foreign currency forwards	Other investments	257	n/a	14	14	—
<b>Credit default contracts</b>						
Credit default swaps – buying protection	Other investments	138	n/a	(4)	—	(4)
<b>Total asset derivatives</b>		<b>\$ 805</b>	<b>11,633</b>	<b>\$ 148</b>	<b>\$ 152</b>	<b>\$ (4)</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	\$ 35	n/a	\$ —	\$ —	\$ —
Futures	Other liabilities & accrued expenses	—	3,050	—	—	—
<b>Equity and index contracts</b>						
Options	Other liabilities & accrued expenses	—	9,214	(47)	—	(47)
Futures	Other liabilities & accrued expenses	—	1,001	(1)	—	(1)
<b>Total return index contracts</b>						
Total return swap agreements – fixed income	Other liabilities & accrued expenses	95	n/a	2	2	—
<b>Foreign currency contracts</b>						
Foreign currency forwards	Other liabilities & accrued expenses	279	n/a	7	8	(1)
<b>Embedded derivative financial instruments</b>						
Guaranteed accumulation benefits	Contractholder funds	172	n/a	(22)	—	(22)
Guaranteed withdrawal benefits	Contractholder funds	209	n/a	(14)	—	(14)
Equity-indexed and forward starting options in life and annuity product contracts	Contractholder funds	1,782	n/a	(401)	—	(401)
<b>Credit default contracts</b>						
Credit default swaps – buying protection	Other liabilities & accrued expenses	49	n/a	(1)	1	(2)
Credit default swaps – selling protection	Other liabilities & accrued expenses	9	n/a	—	—	—
<b>Total liability derivatives</b>		<b>2,630</b>	<b>13,265</b>	<b>(477)</b>	<b>\$ 11</b>	<b>\$ (488)</b>
<b>Total derivatives</b>		<b>\$ 3,435</b>	<b>24,898</b>	<b>\$ (329)</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, 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	n/a	—	—	—
Total return swap agreements – equity index	Other investments	61	n/a	(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 assets	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	n/a	(1)	—	(1)
Total return swap agreements – equity index	Other liabilities & accrued expenses	71	n/a	(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)

**Gross and net amounts for OTC derivatives (1)**

(\$ in millions)	Gross amount	Offsets		Net amount on balance sheet	Securities collateral (received) pledged	Net amount
		Counter-party netting	Cash collateral (received) pledged			
<b>June 30, 2019</b>						
Asset derivatives	\$ 39	\$ (15)	\$ (20)	\$ 4	\$ —	\$ 4
Liability derivatives	(7)	15	(10)	(2)	—	(2)
<b>December 31, 2018</b>						
Asset derivatives	\$ 25	\$ (18)	\$ (5)	\$ 2	\$ —	\$ 2
Liability derivatives	(12)	18	(12)	(6)	—	(6)

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

**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>Three months ended June 30, 2019</b>					
Interest rate contracts	\$ 19	\$ —	\$ —	\$ —	\$ 19
Equity and index contracts	(17)	—	11	5	(1)
Embedded derivative financial instruments	—	(5)	(6)	—	(11)
Foreign currency contracts	5	—	—	—	5
Credit default contracts	(1)	—	—	—	(1)
Total return swaps - fixed income	8	—	—	—	8
Total return swaps - equity index	8	—	—	—	8
<b>Total</b>	<b>\$ 22</b>	<b>\$ (5)</b>	<b>\$ 5</b>	<b>\$ 5</b>	<b>\$ 27</b>
<b>Six months ended June 30, 2019</b>					
Interest rate contracts	\$ 26	\$ —	\$ —	\$ —	\$ 26
Equity and index contracts	(88)	—	42	26	(20)
Embedded derivative financial instruments	—	3	(41)	—	(38)
Foreign currency contracts	10	—	—	—	10
Credit default contracts	(5)	—	—	—	(5)
Total return swaps - fixed income	10	—	—	—	10
Total return swaps - equity index	23	—	—	—	23
<b>Total</b>	<b>\$ (24)</b>	<b>\$ 3</b>	<b>\$ 1</b>	<b>\$ 26</b>	<b>\$ 6</b>
<b>Three months ended June 30, 2018</b>					
Interest rate contracts	\$ 1	\$ —	\$ —	\$ —	\$ 1
Equity and index contracts	(1)	—	10	6	15
Embedded derivative financial instruments	—	1	1	—	2
Foreign currency contracts	19	—	—	(2)	17
Total return swaps	1	—	—	—	1
<b>Total</b>	<b>\$ 20</b>	<b>\$ 1</b>	<b>\$ 11</b>	<b>\$ 4</b>	<b>\$ 36</b>
<b>Six months ended June 30, 2018</b>					
Interest rate contracts	\$ 1	\$ —	\$ —	\$ —	\$ 1
Equity and index contracts	(3)	—	6	3	6
Embedded derivative financial instruments	—	5	21	—	26
Foreign currency contracts	12	—	—	(1)	11
Total return swaps	1	—	—	—	1
Credit default contracts	1	—	—	—	1
<b>Total</b>	<b>\$ 12</b>	<b>\$ 5</b>	<b>\$ 27</b>	<b>\$ 2</b>	<b>\$ 46</b>

The Company manages its exposure to credit risk by utilizing highly rated counterparties, establishing risk control limits, executing legally enforceable master netting agreements ("MNAs") and obtaining collateral where appropriate. The Company uses MNAs for OTC derivative transactions that permit either party to net payments due for transactions and collateral is either pledged or obtained when certain predetermined exposure limits are exceeded. As of June 30, 2019, counterparties pledged \$32 million in collateral to the Company, and the Company pledged \$2 million in collateral to counterparties under MNAs for contracts containing credit-risk-contingent provisions that are in a liability position. The Company has not incurred any losses on derivative financial instruments due to counterparty nonperformance. Other derivatives, including futures and certain option contracts, are traded on organized exchanges which require margin

deposits and guarantee the execution of trades, thereby mitigating any potential credit risk.

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

For certain exchange traded and cleared derivatives, margin deposits are required as well as daily cash settlements of margin accounts. As of June 30, 2019, the Company pledged \$46 million in the form of margin deposits.

#### OTC derivatives counterparty credit exposure by counterparty credit rating

(\$ in millions)	June 30, 2019				December 31, 2018			
	Number of counterparties	Notional amount (2)	Credit exposure (2)	Exposure, net of collateral (2)	Number of counterparties	Notional amount (2)	Credit exposure (2)	Exposure, net of collateral (2)
Rating (1)								
A+	6	\$ 1,121	\$ 32	\$ 4	3	\$ 643	\$ 19	\$ 1
A	1	81	2	—	2	121	1	—
<b>Total</b>	<b>7</b>	<b>\$ 1,202</b>	<b>\$ 34</b>	<b>\$ 4</b>	<b>5</b>	<b>\$ 764</b>	<b>\$ 20</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 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)	As of June 30, 2019		As of December 31, 2018	
Gross liability fair value of contracts containing credit-risk-contingent features	\$	6	\$	11
Gross asset fair value of contracts containing credit-risk-contingent features and subject to MNAs		(6)		(5)
Collateral posted under MNAs for contracts containing credit-risk-contingent features		—		(2)
<b>Maximum amount of additional exposure for contracts with credit-risk-contingent features if all features were triggered concurrently</b>	<b>\$</b>	<b>—</b>	<b>\$</b>	<b>4</b>

**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, Discontinued Lines and Coverages and 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 Condensed Consolidated Statements of Operations in the period such changes are determined.

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

Allstate's reserves for asbestos claims were \$826 million and \$866 million, net of recoverables of \$381 million and \$400 million, as of June 30, 2019 and December 31, 2018, respectively. Reserves for environmental claims were \$155 million and \$170 million, net of recoverables of \$36 million and \$39 million, as of June 30, 2019 and December 31, 2018, respectively.

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

(\$ in millions)	Six months ended June 30,	
	2019	2018
Balance as of January 1	\$ 27,423	\$ 26,325
Less recoverables <sup>(1)</sup>	(7,155)	(6,471)
<b>Net balance as of January 1</b>	<b>20,268</b>	<b>19,854</b>
Incurred claims and claims expense related to:		
Current year	12,250	11,054
Prior years	(74)	(148)
<b>Total incurred</b>	<b>12,176</b>	<b>10,906</b>
Claims and claims expense paid related to:		
Current year	(6,125)	(5,835)
Prior years	(5,237)	(4,809)
<b>Total paid</b>	<b>(11,362)</b>	<b>(10,644)</b>
Net balance as of June 30	21,082	20,116
Plus recoverables	7,023	6,507
<b>Balance as of June 30</b>	<b>\$ 28,105</b>	<b>\$ 26,623</b>

<sup>(1)</sup> Recoverables comprises reinsurance and indemnification recoverables.

Incurred claims and claims expense represents the sum of paid losses and reserve changes in the period. This expense included losses from catastrophes of \$1.75 billion and \$1.27 billion in the six months ended June 30, 2019 and 2018, 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.

During the six months ended June 30, 2019, incurred claims and claims expense included \$74 million of favorable prior year reserve reestimates, increasing net income. This \$74 million favorable prior year reserve reestimates included favorable prior year reserve reestimates excluding catastrophes of \$130 million, partially offset by \$56 million of unfavorable prior year reserve reestimates related to catastrophes.

Favorable prior year reserve reestimates excluding catastrophes is comprised of net decreases in reserves of \$154 million, primarily due to continued favorable personal lines auto injury coverage development, offset by net increases of \$24 million, related to commercial lines, Discontinued Lines and Coverages and other personal lines of \$17 million, \$5 million and \$2 million, respectively. Unfavorable catastrophe loss reestimates of \$56 million, net of recoverables, included \$57 million of unfavorable reestimates related

to homeowners and \$6 million of unfavorable reestimates related to other personal lines, partially offset by \$7 million of favorable reestimates, primarily related to auto. The unfavorable catastrophe reestimates included \$20 million of reinstatement reinsurance premiums incurred during the period related to the 2018 Camp Fire, which primarily impacted homeowners reestimates.

## Note 9 Reinsurance

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

(\$ in millions)	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Property and casualty insurance premiums earned	\$ (287)	\$ (257)	\$ (547)	\$ (496)
Life premiums and contract charges	(69)	(73)	(132)	(145)

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

(\$ in millions)	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Property and casualty insurance claims and claims expense	\$ (158)	\$ (138)	\$ (249)	\$ (325)
Life contract benefits	5	(66)	(18)	(115)
Interest credited to contractholder funds	(5)	(7)	(8)	(11)

**Reinsurance Recoverables** As of June 30, 2019, the Company had \$9.29 billion of reinsurance and indemnification recoverables, including \$796 million of reinsurance recoverables for its life insurance business. Of the \$796 million, the Company had \$64 million of reinsurance recoverables, net of an allowance for estimated uncollectible amounts, related to Scottish Re (U.S.), Inc. On December 14, 2018, the Delaware Insurance Commissioner placed Scottish Re (U.S.), Inc. under regulatory supervision. On March 6, 2019, the Chancery Court of the State of Delaware entered a Rehabilitation and Injunction Order (the "Rehabilitation Order") in response to a petition filed by the Insurance Commissioner (the "Petition"). Pursuant to the Petition, it is expected that Scottish Re (U.S.), Inc. will

submit a Plan of Rehabilitation and will not make payments relating to the claims or losses of ceding insurers. Allstate joined in a joint motion filed on behalf of several affected parties asking the court to allow a specified amount of offsetting claim payments and losses against premiums remitted to Scottish Re (U.S.), Inc. Allstate also filed a separate motion related to the reimbursement of claim payments where Scottish Re (U.S.), Inc. is also acting as administrator. The Court has not yet ruled on either of these motions.

The Company continues to monitor Scottish Re (U.S.), Inc. for future developments and will reevaluate its allowance for uncollectible amounts as new information becomes available.

## Note 10 Capital Structure

**Issuance of debt** On June 10, 2019, the Company issued \$500 million of 3.850% Senior Notes due 2049. Interest on the Senior Notes is payable semi-annually in arrears on February 10 and August 10 of each year, beginning on February 10, 2020. The Senior Notes are redeemable at any time at the applicable redemption price prior to the maturity date. The proceeds of this issuance will be used for general corporate purposes.

**Repayment of debt** On May 16, 2019, the Company repaid \$317 million of 7.450% Senior Notes, Series B, at maturity.

## Note 11 Company Restructuring

The Company undertakes various programs to reduce expenses. These programs generally involve a reduction in staffing levels, and in certain cases, office closures. Restructuring and related charges primarily include the following costs related to these programs:

- *Employee* - severance and relocation benefits
- *Exit* - contract termination penalties

The expenses related to these activities are included in the Condensed Consolidated Statements of Operations as restructuring and related charges, and totaled \$9 million and \$23 million during the three months ended June 30, 2019 and 2018, respectively, and \$27 million and \$42 million during the six months ended June 30, 2019 and 2018, respectively. Restructuring expenses in 2019 primarily related to realignment of certain employees to centralized talent centers.

### Restructuring activity during the period

(\$ in millions)	Employee costs	Exit costs	Total liability
Restructuring liability as of December 31, 2018	\$ 29	\$ 15	\$ 44
Expense incurred	29	2	31
Adjustments to liability	(4)	—	(4)
Payments	(24)	(6)	(30)
<b>Restructuring liability as of June 30, 2019</b>	<b>\$ 30</b>	<b>\$ 11</b>	<b>\$ 41</b>

As of June 30, 2019, the cumulative amount incurred to date for active programs related to employee severance, relocation benefits and exit expenses totaled \$106 million for employee costs and \$9 million for exit costs.

## Note 12 Guarantees and Contingent Liabilities

### Shared markets and state facility assessments

The Company is required to participate in assigned risk plans, reinsurance facilities and joint underwriting associations in various states that provide insurance coverage to individuals or entities that otherwise are unable to purchase such coverage from private insurers.

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.

### Guarantees

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

Related to the disposal through reinsurance of substantially all of its variable annuity business to Prudential in 2006, the Company and its consolidated subsidiaries, ALIC and ALNY, have agreed to indemnify Prudential for certain pre-closing contingent liabilities (including extra-contractual liabilities of ALIC and ALNY and liabilities specifically excluded from the transaction) that ALIC and ALNY have agreed to retain.

In addition, the Company, ALIC and ALNY will each indemnify Prudential for certain post-closing liabilities that may arise from the acts of ALIC, ALNY and their agents, including certain liabilities arising from ALIC's and ALNY's provision of transition services. The reinsurance agreements contain no limitations or indemnifications with regard to insurance risk transfer and transferred all of the future risks and responsibilities for performance on the underlying variable annuity contracts to Prudential, including those related to benefit guarantees. Management does not believe this agreement will have a material effect on results of operations, cash flows or financial position of the Company.

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



The aggregate liability balance related to all guarantees was not material as of June 30, 2019.

### 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 Securities and Exchange Commission ("SEC"), the Financial Industry Regulatory Authority, the U.S. Equal Employment Opportunity Commission, and the U.S. Department of Justice. The Company has established procedures and policies to facilitate compliance with laws and regulations, to foster prudent business operations, and to support financial reporting. The Company routinely reviews its practices to validate compliance with laws and regulations and with internal procedures and policies. As a result of these reviews, from time to time the Company may decide to modify some of its procedures and policies. Such modifications, and the reviews that led to them, may be accompanied by payments being made and costs being incurred. The ultimate changes and eventual effects of these actions on the Company's business, if any, are uncertain.

### Legal and regulatory proceedings and inquiries

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

**Background** These matters raise difficult and complicated factual and legal issues and are subject to many uncertainties and complexities, including the underlying facts of each matter; novel legal issues; variations between jurisdictions in which matters are being litigated, heard, or investigated; changes in assigned judges; differences or developments in applicable laws and judicial interpretations; judges reconsidering prior rulings; the length of time before many of these matters might be resolved by settlement, through litigation, or otherwise; adjustments with respect to anticipated trial schedules and other proceedings; developments in similar actions against other companies; the fact that some of

the lawsuits are putative class actions in which a class has not been certified and in which the purported class may not be clearly defined; the fact that some of the lawsuits involve multi-state class actions in which the applicable law(s) for the claims at issue is in dispute and therefore unclear; and the challenging legal environment faced by corporations and insurance companies.

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

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

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

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

The Company continues to monitor its lawsuits, regulatory inquiries, and other legal proceedings for

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

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

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

These developments may include information learned through the discovery process, rulings on dispositive motions, settlement discussions, information obtained from other sources, experience from managing these and other matters, and other rulings by courts, arbitrators or others. When the Company possesses sufficient appropriate information to develop an estimate of the reasonably possible loss or range of loss above the amount accrued, if any, that estimate is aggregated and disclosed below. There may be other disclosed matters for which a loss is probable or reasonably possible, but such an estimate is not possible. Disclosure of the estimate of the reasonably possible loss or range of loss above the amount accrued, if any, for any individual matter would only be considered when there have been sufficient legal and factual developments such that the Company's ability to resolve the matter would not be impaired by the disclosure of the individual estimate.

The Company currently estimates that the aggregate range of reasonably possible loss in excess of the amount accrued, if any, for the disclosed matters where such an estimate is possible is zero to \$115 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 in Florida that raise challenges to the Company's practices, processes, and procedures relating to claims for personal injury protection benefits under Florida auto policies. Medical providers continue to pursue litigation under various theories that challenge the amounts that the Company pays under the personal injury protection benefits. There are pending putative class actions and litigation involving individual plaintiffs. The Company is vigorously asserting both procedural and substantive defenses to these lawsuits.

**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. The putative class action alleging violations of the federal securities laws is disclosed because it involves similar allegations to those made in the stockholder derivative actions.

**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. On May 14, 2019, the court granted the defendants' motion to dismiss the complaint, but allowed the plaintiffs leave to file a second consolidated amended complaint by June 11, 2019. On June 3, 2019, the plaintiffs filed a motion to stay the action, or in the alternative defer the filing of the second consolidated amended complaint, to allow the plaintiffs to conduct an inspection of the Company's books and records.

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. 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. On March 26, 2019, the court granted plaintiffs' motion for class certification and certified a class consisting of all persons who purchased Allstate common stock between October 29, 2014 and August 3, 2015. On April 9, 2019, defendants filed with the Seventh Circuit Court of Appeals a petition for permission to appeal this ruling pursuant to Federal Rule of Civil Procedure 23 (f) and the Court of Appeals granted that petition on April 25, 2019. On June 10, 2019, defendants filed their appellate brief in support of their appeal of the district court order granting class certification.

**Note 13 Benefit Plans****Change in accounting principle**

As discussed in Note 1, 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. Under the new principle, remeasurement of projected benefit obligation and plan assets are immediately recognized through earnings and are referred to as pension and

other postretirement remeasurement gains and losses on the Condensed Consolidated Statements of Operations. This change has been applied on a retrospective basis. See Note 1 for further information regarding the impact of the change in accounting principle on the condensed consolidated financial statements.

**Components of net cost (benefit) for pension and other postretirement plans**

(\$ in millions)	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
<b>Pension benefits</b>				
Service cost	\$ 28	\$ 28	\$ 56	\$ 56
Interest cost	62	63	127	124
Expected return on plan assets	(101)	(107)	(194)	(220)
Amortization of prior service credit	(14)	(14)	(28)	(28)
<b>Costs and expenses</b>	<b>(25)</b>	<b>(30)</b>	<b>(39)</b>	<b>(68)</b>
Remeasurement of projected benefit obligation	344	(86)	731	(276)
Remeasurement of plan assets	(225)	85	(616)	297
<b>Remeasurement gains and losses</b>	<b>119</b>	<b>(1)</b>	<b>115</b>	<b>21</b>
<b>Total net cost (benefit)</b>	<b>\$ 94</b>	<b>\$ (31)</b>	<b>\$ 76</b>	<b>\$ (47)</b>
<b>Postretirement benefits</b>				
Service cost	\$ 2	\$ 2	\$ 4	\$ 4
Interest cost	3	3	7	7
Amortization of prior service credit	(1)	(6)	(2)	(11)
<b>Costs and expenses</b>	<b>4</b>	<b>(1)</b>	<b>9</b>	<b>—</b>
Remeasurement of projected benefit obligation	6	(6)	25	(14)
Remeasurement of plan assets	—	—	—	—
<b>Remeasurement gains and losses</b>	<b>6</b>	<b>(6)</b>	<b>25</b>	<b>(14)</b>
<b>Total net cost (benefit)</b>	<b>\$ 10</b>	<b>\$ (7)</b>	<b>\$ 34</b>	<b>\$ (14)</b>

Differences between expected and actual returns and changes in assumptions affect our pension and other postretirement obligations, plan assets and expenses. Pension and other postretirement remeasurement losses were \$125 million and \$140 million for the second quarter and first six months of 2019, respectively, compared to remeasurement gains of \$7 million and remeasurement losses of \$7 million for the same periods of 2018.

The increased loss in both periods was primarily due to a decrease in the discount rate used to value the liabilities, partially offset by favorable asset performance compared to the expected return on plan assets.

The weighted average discount rate used to measure the benefit obligation decreased to 3.53% at June 30, 2019 compared to 3.87% at March 31, 2019 and 4.30% at December 31, 2018. Pension and other postretirement remeasurement losses due to declines in the weighted average discount rate were \$308 million and \$714 million for the second quarter and first six months of 2019, respectively.

During the second quarter of 2019, we recognized participant experience different from our demographic assumptions for mortality, terminations and retirements and the percentage of employees taking lump sum distributions which resulted in remeasurement losses of \$42 million in the second quarter and first six months of 2019 compared to \$75 million for the same periods of 2018.

For the second quarter and first six months of 2019, the actual return on plan assets was higher than our expected return by \$225 million and \$616 million, respectively, due to strong equity market performance and declines in interest rates which increased the fair value of our fixed income investments.

**Note 14 Supplemental Cash Flow Information**

Non-cash investing activities include \$179 million and \$41 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 for the six months ended June 30, 2019 and 2018, respectively.

Non-cash financing activities include \$48 million and \$30 million related to the issuance of Allstate common shares for vested equity awards for the six months ended June 30, 2019 and 2018, respectively.

Cash flows used in operating activities in the Condensed Consolidated Statements of Cash Flows include cash paid for operating leases related to amounts included in the measurement of lease liabilities of \$76 million for the six months ended

June 30, 2019. Non-cash operating activities include \$521 million related to ROU assets obtained in exchange for lease obligations, including \$488 million related to the adoption of new guidance related to accounting for leases, for the six months ended June 30, 2019.

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

(\$ in millions)	Six months ended June 30,	
	2019	2018
<b>Net change in proceeds managed</b>		
Net change in fixed income securities	\$ 80	\$ 122
Net change in short-term investments	(493)	(663)
<b>Operating cash flow used</b>	<b>\$ (413)</b>	<b>\$ (541)</b>
<b>Net change in liabilities</b>		
Liabilities for collateral, beginning of period	\$ (1,458)	\$ (1,124)
Liabilities for collateral, end of period	(1,871)	(1,665)
<b>Operating cash flow provided</b>	<b>\$ 413</b>	<b>\$ 541</b>

**Note 15 Other Comprehensive Income****Components of other comprehensive income (loss) on a pre-tax and after-tax basis**

(\$ in millions)	Three months ended June 30,					
	2019			2018		
	Pre-tax	Tax	After-tax	Pre-tax	Tax	After-tax
Unrealized net holding gains and losses arising during the period, net of related offsets	\$ 921	\$ (194)	\$ 727	\$ (249)	\$ 53	\$ (196)
Less: reclassification adjustment of realized capital gains and losses	57	(12)	45	(80)	17	(63)
<b>Unrealized net capital gains and losses</b>	<b>864</b>	<b>(182)</b>	<b>682</b>	<b>(169)</b>	<b>36</b>	<b>(133)</b>
<b>Unrealized foreign currency translation adjustments</b>	<b>5</b>	<b>(1)</b>	<b>4</b>	<b>(7)</b>	<b>1</b>	<b>(6)</b>
<b>Unamortized pension and other postretirement prior service credit <sup>(1)</sup></b>	<b>(14)</b>	<b>3</b>	<b>(11)</b>	<b>(20)</b>	<b>4</b>	<b>(16)</b>
<b>Other comprehensive income (loss)</b>	<b>\$ 855</b>	<b>\$ (180)</b>	<b>\$ 675</b>	<b>\$ (196)</b>	<b>\$ 41</b>	<b>\$ (155)</b>
(\$ in millions)	Six months ended June 30,					
	2019			2018		
	Pre-tax	Tax	After-tax	Pre-tax	Tax	After-tax
Unrealized net holding gains and losses arising during the period, net of related offsets	\$ 2,208	\$ (467)	\$ 1,741	\$ (990)	\$ 208	\$ (782)
Less: reclassification adjustment of realized capital gains and losses	108	(23)	85	(106)	22	(84)
<b>Unrealized net capital gains and losses</b>	<b>2,100</b>	<b>(444)</b>	<b>1,656</b>	<b>(884)</b>	<b>186</b>	<b>(698)</b>
<b>Unrealized foreign currency translation adjustments</b>	<b>11</b>	<b>(2)</b>	<b>9</b>	<b>(10)</b>	<b>2</b>	<b>(8)</b>
<b>Unamortized pension and other postretirement prior service credit <sup>(1)</sup></b>	<b>(29)</b>	<b>6</b>	<b>(23)</b>	<b>(39)</b>	<b>9</b>	<b>(30)</b>
<b>Other comprehensive income (loss)</b>	<b>\$ 2,082</b>	<b>\$ (440)</b>	<b>\$ 1,642</b>	<b>\$ (933)</b>	<b>\$ 197</b>	<b>\$ (736)</b>

<sup>(1)</sup> Represents prior service credits reclassified out of other comprehensive income and amortized into operating costs and expenses.

## Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of  
The Allstate Corporation  
Northbrook, Illinois 60062

### Results of Review of Interim Financial Information

We have reviewed the accompanying condensed consolidated statement of financial position of The Allstate Corporation and subsidiaries (the "Company") as of June 30, 2019, the related condensed consolidated statements of operations, comprehensive income and shareholders' equity for the three and six month periods ended June 30, 2019 and 2018, and cash flows for the six month periods ended June 30, 2019 and 2018, and the related notes (collectively referred to as the "condensed consolidated financial statements"). Based on our reviews, we are not aware of any material modifications that should be made to the accompanying condensed consolidated financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the consolidated statement of financial position of The Allstate Corporation and subsidiaries as of December 31, 2018, and the related consolidated statements of operations, comprehensive income, shareholders' equity, and cash flows for the year then ended (not presented herein); and in our report dated February 15, 2019 (May 16, 2019, as to the effects of the retrospective adoption of the change in principles of accounting for recognizing pension and other postretirement benefit plan costs), we expressed an unqualified opinion on those consolidated financial statements (which report expresses an unmodified opinion and includes an emphasis of a matter paragraph relating to a change in accounting principle for the recognition and measurement of financial assets and financial liabilities). In our opinion, the information set forth in the accompanying condensed consolidated statement of financial position as of December 31, 2018 is fairly stated, in all material respects, in relation to the consolidated statement of financial position from which it has been derived.

### Basis for Review Results

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

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

### Emphasis of a Matter

As discussed in Note 1 to the condensed consolidated financial statements, the Company elected to change its principles of accounting for recognizing pension and other postretirement benefit plan costs.

/s/ DELOITTE & TOUCHE LLP  
Chicago, Illinois  
July 30, 2019

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations for the Three and Six Month Periods Ended June 30, 2019 and 2018

### Overview

To achieve its goals in 2019, Allstate is focused on the following priorities:

- 
- *Better serve customers*

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  - *Achieve target economic returns on capital*

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  - *Grow customer base*

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  - *Proactively manage investments*

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  - *Build long-term growth platforms*

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The following discussion highlights significant factors influencing the consolidated financial position and results of operations of The Allstate Corporation (referred to in this document as "we," "our," "us," the "Company" or "Allstate"). It should be read in conjunction with the condensed consolidated financial statements and notes thereto found under Part I. Item 1. contained herein, and with the discussion, analysis, consolidated financial statements and notes thereto in Part I. Item 1. and Part II. Item 7. and Item 8. of The Allstate Corporation annual report on Form 10-K for 2018, filed February 15, 2019, and the Company's Current Report on Form 8-K filed on May 16, 2019, Exhibit 99.1, reflecting the Company's 2018 Form 10-K with adjustments to Part II. Item 6., Item 7. and Item 8. for the Company's change in accounting principle for pension and other postretirement benefit plans.

Further analysis of our insurance segments is provided in the Property-Liability Operations and Segment Results sections, including Allstate Protection, Discontinued Lines and Coverages, Service Businesses, Allstate Life, Allstate Benefits, and Allstate Annuities, of Management's Discussion and Analysis ("MD&A"). The segments are consistent with the way in which the chief operating decision maker reviews financial performance and makes decisions about the allocation of resources.

### Measuring segment profit or loss

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

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

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

- 
- Realized capital gains and losses, after-tax, except for periodic settlements and accruals on non-hedge derivative instruments, which are reported with realized capital gains and losses but included in adjusted net income

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  - Pension and other postretirement rereasurement gains and losses, after-tax

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  - Valuation changes on embedded derivatives not hedged, after-tax

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  - 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

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  - Business combination expenses and the amortization or impairment of purchased intangibles, after-tax

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  - Gain (loss) on disposition of operations, after-tax

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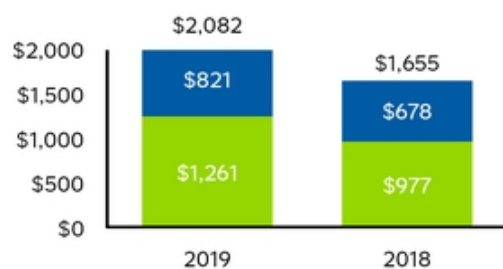
  - Adjustments for other significant non-recurring, infrequent or unusual items, when (a) the nature of the charge or gain is such that it is reasonably unlikely to recur within two years, or (b) there has been no similar charge or gain within the prior two years
- 

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

## Highlights

### Consolidated net income

(\$ in millions)



*Consolidated net income applicable to common shareholders* increased 21.1% and 25.8% in the second quarter and first six months of 2019, respectively, compared to the prior year periods, primarily driven by net realized capital gains in 2019 compared to net realized capital losses in 2018 and higher premiums earned, partially offset by higher catastrophe losses.

The Property-Liability combined ratios were 95.8 and 93.8 in the second quarter and first six months of 2019, respectively, compared to 94.4 and 91.0 in the second quarter and first six months of 2018, respectively.

### Total revenue

(\$ in millions)



*Total revenue* increased 10.3% and 11.4% in the second quarter and first six months of 2019, respectively, compared to the prior year periods, driven by net realized capital gains in 2019 compared to net realized capital losses in 2018 and a 5.9% increase in insurance premiums and contract charges in both the second quarter and first six months of 2019. Insurance premiums increased in the following segments: Allstate Protection (Allstate and Esurance brands), Service Businesses (SquareTrade and Allstate Dealer Services), Allstate Life and Allstate Benefits.

### Net investment income

(\$ in millions)



*Net investment income* increased 14.3% or \$118 million in the second quarter of 2019 compared to the second quarter of 2018, primarily due to higher performance-based investment results, mainly from limited partnerships, and higher income from market-based portfolios.

Net investment income decreased 1.2% or \$20 million in the first six months of 2019 compared to the first six months of 2018, primarily due to lower performance-based investment results, mainly from limited partnerships, partially offset by higher income from market-based portfolios.

 Q1  Q2





## Summarized financial results

(\$ in millions)	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
<b>Revenues</b>				
Property and casualty insurance premiums	\$ 8,986	\$ 8,460	\$ 17,788	\$ 16,746
Life premiums and contract charges	621	612	1,249	1,228
Other revenue	271	228	521	444
Net investment income	942	824	1,590	1,610
Realized capital gains and losses	324	(25)	986	(159)
<b>Total revenues</b>	<b>11,144</b>	<b>10,099</b>	<b>22,134</b>	<b>19,869</b>
<b>Costs and expenses</b>				
Property and casualty insurance claims and claims expense	(6,356)	(5,777)	(12,176)	(10,906)
Life contract benefits and interest credited to contractholder funds	(667)	(648)	(1,326)	(1,313)
Amortization of deferred policy acquisition costs	(1,362)	(1,296)	(2,726)	(2,569)
Other expenses	(1,471)	(1,467)	(2,952)	(2,872)
Pension and other postretirement remeasurement gains and losses	(125)	7	(140)	(7)
Amortization of purchased intangibles	(32)	(23)	(64)	(45)
Impairment of purchased intangibles	(55)	—	(55)	—
<b>Total costs and expenses</b>	<b>(10,068)</b>	<b>(9,204)</b>	<b>(19,439)</b>	<b>(17,712)</b>
Gain on disposition of operations	2	2	3	3
Income tax expense	(227)	(180)	(555)	(437)
<b>Net income</b>	<b>851</b>	<b>717</b>	<b>2,143</b>	<b>1,723</b>
Preferred stock dividends	(30)	(39)	(61)	(68)
<b>Net income applicable to common shareholders</b>	<b>\$ 821</b>	<b>\$ 678</b>	<b>\$ 2,082</b>	<b>\$ 1,655</b>

### Segment highlights

**Allstate Protection** underwriting income totaled \$370 million in the second quarter of 2019, a 19.2% decrease from \$458 million in the second quarter of 2018. Underwriting income totaled \$1.07 billion in the first six months of 2019, a 26.8% decrease from \$1.47 billion in the first six months of 2018. The decrease in both periods was primarily due to higher catastrophe losses, claim severity and policy acquisition costs, partially offset by increased premiums earned, improved auto claim frequency and lower other costs and expenses.

Catastrophe losses were \$1.07 billion and \$1.75 billion in the second quarter and first six months of 2019, respectively, compared to \$906 million and \$1.27 billion in the second quarter and first six months of 2018, respectively.

Premiums written increased 5.9% to \$9.04 billion in the second quarter of 2019 and 6.0% to \$17.37 billion in the first six months of 2019, compared to the same periods of 2018.

**Service Businesses** adjusted net income was \$16 million in the second quarter of 2019 compared to \$2 million in the second quarter of 2018. Adjusted net income was \$27 million in the first six months of 2019 compared to an adjusted net loss of \$1 million in the first six months of 2018. The improvements in both periods were primarily due to growth and improved loss experience at SquareTrade and favorable loss experience at Allstate Dealer Services, partially offset by higher operating expenses related to investing in

growth at SquareTrade and InfoArmor and integrating the InfoArmor business.

Total revenues increased 26.6% to \$405 million in the second quarter of 2019 and 25.9% to \$797 million in the first six months of 2019, compared to the same periods of 2018, primarily due to SquareTrade's growth through its U.S. retail and international distribution partners and the acquisitions of InfoArmor, PlumChoice and iCracked.

**Allstate Life** adjusted net income was \$68 million in the second quarter of 2019 compared to \$80 million in the second quarter of 2018. Adjusted net income was \$141 million in the first six months of 2019 compared to \$151 million in the first six months of 2018. The decrease in both periods was primarily due to higher contract benefits and operating costs and expenses, partially offset by higher premiums, lower amortization of DAC and increased other revenue.

Premiums and contract charges increased 2.1% to \$333 million in the second quarter of 2019 and 2.6% to \$670 million in the first six months of 2019, compared to the same periods of 2018.

**Allstate Benefits** adjusted net income was \$37 million in the second quarter of 2019 compared to \$36 million in the second quarter of 2018. Adjusted net income was \$68 million in the first six months of 2019 compared to \$65 million in the first six months of 2018, primarily due to lower contract benefits and higher premiums, partially offset by higher operating costs and expenses.

Premiums and contract charges increased 0.4% to \$284 million in the second quarter of 2019 and 0.5% to \$572 million in the first six months of 2019, compared to the same periods of 2018.

*Allstate Annuities* adjusted net income was \$52 million in the second quarter of 2019 compared to \$44 million in the second quarter of 2018, primarily due to lower interest credited to contractholder funds and higher net investment income, partially offset by higher contract benefits. Adjusted net income was \$27 million in the first six months of 2019 compared to \$79 million in the first six months of 2018, primarily due to lower net investment income, partially offset by lower interest credited to contractholder funds.

Net investment income increased 1.0% to \$296 million in the second quarter of 2019 compared to the same period of 2018, due to higher performance-based investment results, mainly from limited partnership interests, partially offset by lower average investment balances. Net investment income decreased 16.6% to \$486 million in the first six months of 2019 compared to the same period of 2018, due to lower performance-based investment results, mainly from limited partnership interests, and lower average investment balances.

#### Financial highlights

*Investments* totaled \$86.49 billion as of June 30, 2019, increasing from \$81.26 billion as of December 31, 2018. Unrealized net capital gains totaled \$2.47 billion as of June 30, 2019 compared to \$33 million as of December 31, 2018.

*Shareholders' equity* As of June 30, 2019, shareholders' equity was \$24.48 billion. This total included \$2.82 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 \$67.28, an increase of 13.7% from \$59.16 as of June 30, 2018, and an increase of 16.9% from \$57.56 as of December 31, 2018.

*Return on average common shareholders' equity* For the twelve months ended June 30, 2019, net

income applicable to common shareholders' return on the average of beginning and ending period common shareholders' equity of 11.2% decreased by 7.3 points from 18.5% for the twelve months ended June 30, 2018, primarily due to lower net income applicable to common shareholders for the trailing twelve-month period ended June 30, 2019, and an increase in average common shareholders' equity. The June 30, 2018 trailing twelve-month calculation includes a one-time \$509 million Tax Cuts and Jobs Act of 2017 benefit, which contributed 2.5 points to the June 30, 2018 return on average common shareholders' equity.

#### Change in accounting principle

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. Under the new principle, remeasurement of projected benefit obligation and plan assets are immediately recognized through earnings and are referred to as pension and other postretirement remeasurement gains and losses on the Condensed Consolidated Statements of Operations. This change has been applied on a retrospective basis. The following table provides a summary of the impacts of this change. See Note 1 of the condensed consolidated financial statements for further information regarding the impact of the change in accounting principle on our condensed consolidated financial statements.

*Pension and other postretirement measurement gains and losses* In the second quarter of 2019, pension and other postretirement measurement losses increased to \$125 million compared to a gain of \$7 million in the same period of 2018. Pension and other postretirement measurement losses increased to \$140 million in the first six months of 2019 compared to \$7 million in the same period of 2018. The increase in losses in both periods was primarily due to a decrease in the discount rate used to value the liabilities, partially offset by favorable asset performance compared to the expected return on plan assets. See Note 13 of the condensed consolidated financial statements for further information.

#### Impact of pension and postretirement accounting change on selected financial data

(\$ in millions, except per share data and ratios)	Three months ended June 30, 2018		Six months ended June 30, 2018	
	As adjusted	Previously reported	As adjusted	Previously reported
	Net income	\$ 717	\$ 676	\$ 1,723
Net income applicable to common shareholders	678	637	1,655	1,583
Net income applicable to common shareholders per common share - Basic	1.94	1.82	4.71	4.50
Net income applicable to common shareholders per common share - Diluted	1.91	1.80	4.63	4.43
Return on common shareholders' equity <sup>(1)</sup>			18.5%	17.0%
Property-Liability combined ratio	94.4	94.9	91.0	91.5

<sup>(1)</sup> Trailing twelve months

## 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, amortization of purchased intangibles 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, amortization of purchased intangibles 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 intangibles on combined ratio:** the ratio of amortization of purchased intangibles to premiums earned.
- **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)	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
<b>Premiums written</b>	\$ 9,043	\$ 8,541	\$ 17,370	\$ 16,385
<b>Revenues</b>				
Premiums earned	\$ 8,681	\$ 8,189	\$ 17,188	\$ 16,208
Other revenue	190	184	366	358
Net investment income	471	353	762	690
Realized capital gains and losses	256	(15)	753	(110)
<b>Total revenues</b>	<b>9,598</b>	<b>8,711</b>	<b>19,069</b>	<b>17,146</b>
<b>Costs and expenses</b>				
Claims and claims expense	(6,272)	(5,689)	(12,002)	(10,727)
Amortization of DAC	(1,163)	(1,110)	(2,327)	(2,198)
Operating costs and expenses	(1,060)	(1,098)	(2,131)	(2,142)
Restructuring and related charges	(9)	(21)	(27)	(39)
<b>Total costs and expenses</b>	<b>(8,504)</b>	<b>(7,918)</b>	<b>(16,487)</b>	<b>(15,106)</b>
Income tax expense	(231)	(163)	(537)	(420)
<b>Net income applicable to common shareholders</b>	<b>\$ 863</b>	<b>\$ 630</b>	<b>\$ 2,045</b>	<b>\$ 1,620</b>
<b>Underwriting income</b>	\$ 367	\$ 455	\$ 1,067	\$ 1,460
Net investment income	471	353	762	690
Income tax expense on operations	(179)	(166)	(381)	(443)
Realized capital gains and losses, after-tax	204	(12)	597	(87)
<b>Net income applicable to common shareholders</b>	<b>\$ 863</b>	<b>\$ 630</b>	<b>\$ 2,045</b>	<b>\$ 1,620</b>
Catastrophe losses <sup>(1)</sup>	\$ 1,072	\$ 906	\$ 1,752	\$ 1,267
<b>GAAP operating ratios</b>				
Claims and claims expense ratio	72.3	69.4	69.8	66.2
Expense ratio <sup>(2)</sup>	23.5	25.0	24.0	24.8
Combined ratio	95.8	94.4	93.8	91.0
Effect of catastrophe losses on combined ratio	12.3	11.1	10.2	7.8
Effect of prior year reserve reestimates on combined ratio <sup>(3)</sup>	(0.9)	(1.2)	(0.4)	(0.9)
Effect of catastrophe losses included in prior year reserve reestimates on combined ratio	—	0.5	0.3	0.2
Effect of restructuring and related charges on combined ratio	0.1	0.3	0.2	0.2
Effect of Discontinued Lines and Coverages on combined ratio	0.1	—	—	—

<sup>(1)</sup> Prior year reserve reestimates included in catastrophe losses totaled \$3 million and \$56 million unfavorable in the three and six months ended June 30, 2019, respectively, including \$20 million of reinstatement reinsurance premiums incurred during the first six months of 2019 related to the 2018 Camp Fire. Prior year reserve reestimates included in catastrophe losses totaled \$40 million and \$44 million unfavorable in the three and six months ended June 30, 2018, respectively.

<sup>(2)</sup> Other revenue is deducted from operating costs and expenses in the expense ratio calculation.

<sup>(3)</sup> Prior year reserve reestimates totaled \$83 million and \$71 million favorable in the three and six months ended June 30, 2019, respectively, compared to \$95 million and \$146 million favorable in the same periods of 2018, respectively.

**Net investment income** increased 33.4% or \$118 million to \$471 million in the second quarter of 2019 from \$353 million in the second quarter of 2018, due to higher performance-based investment results, mainly from limited partnerships, and higher income from market-based portfolios. Performance-based investment results in the second quarter of 2019 reflect higher asset appreciation and gains on sales of underlying investments. Net investment income increased 10.4% or \$72 million to \$762 million in the first six months of 2019 compared to \$690 million in the first six months of 2018, due to higher income from market-based portfolios.

### Net investment income

(\$ in millions)	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Fixed income securities	\$ 265	\$ 223	\$ 524	\$ 450
Equity securities	49	43	72	69
Mortgage loans	4	4	8	8
Limited partnership interests	152	81	158	165
Short-term investments	16	9	31	15
Other	27	31	53	60
Investment income, before expense	513	391	846	767
Investment expense <sup>(1) (2)</sup>	(42)	(38)	(84)	(77)
<b>Net investment income</b>	<b>\$ 471</b>	<b>\$ 353</b>	<b>\$ 762</b>	<b>\$ 690</b>

<sup>(1)</sup> Investment expense includes \$14 million and \$11 million of investee level expenses in the second quarter of 2019 and 2018, respectively, and \$27 million and \$24 million in the first six months of 2019 and 2018, respectively. Investee level expenses include depreciation and asset level operating expenses on directly held real estate and other consolidated investments.

<sup>(2)</sup> Investment expense includes \$8 million and \$4 million related to the portion of reinvestment income on securities lending collateral paid to the counterparties in the second quarter of 2019 and 2018, respectively, and \$15 million and \$6 million in the first six months of 2019 and 2018, respectively.

**Realized capital gains and losses** Net realized capital gains in the second quarter and first six months of 2019 related primarily to increased valuation of equity investments and gains on sales of fixed income securities and investments in directly held real estate. Valuation of equity investments for the three months ended June 30, 2019 includes \$121 million of appreciation in the valuation of equity securities and \$20 million of appreciation primarily related to certain limited partnerships where the underlying assets are predominately public equity securities. Valuation of equity investments for the six months ended June 30, 2019 includes \$511 million of appreciation in the valuation of equity securities and \$83 million of appreciation primarily related to certain limited partnerships where the underlying assets are predominately public equity securities. Realized capital gains on sales of investments in directly held real estate includes the recovery of accumulated depreciation recorded in investee level expenses over the investing period.

### Realized capital gains and losses

(\$ in millions)	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Impairment write-downs	\$ (10)	\$ (2)	\$ (17)	\$ (2)
Sales	107	(53)	208	(88)
Valuation of equity investments	141	27	594	(28)
Valuation and settlements of derivative instruments	18	13	(32)	8
Realized capital gains and losses, pre-tax	256	(15)	753	(110)
Income tax expense	(52)	3	(156)	23
<b>Realized capital gains and losses, after-tax</b>	<b>\$ 204</b>	<b>\$ (12)</b>	<b>\$ 597</b>	<b>\$ (87)</b>

## Allstate Protection Segment

## Underwriting results

(\$ in millions)	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Premiums written	\$ 9,043	\$ 8,541	\$ 17,370	\$ 16,385
Premiums earned	\$ 8,681	\$ 8,189	\$ 17,188	\$ 16,208
Other revenue	190	184	366	358
Claims and claims expense	(6,269)	(5,687)	(11,997)	(10,722)
Amortization of DAC	(1,163)	(1,110)	(2,327)	(2,198)
Other costs and expenses	(1,060)	(1,097)	(2,130)	(2,141)
Restructuring and related charges	(9)	(21)	(27)	(39)
<b>Underwriting income</b>	<b>\$ 370</b>	<b>\$ 458</b>	<b>\$ 1,073</b>	<b>\$ 1,466</b>
Catastrophe losses	\$ 1,072	\$ 906	\$ 1,752	\$ 1,267

## Underwriting income (loss) by line of business

Auto	\$ 401	\$ 399	\$ 911	\$ 1,016
Homeowners	(88)	15	54	356
Other personal lines <sup>(1)</sup>	47	65	80	115
Commercial lines	(7)	(36)	—	(42)
Other business lines <sup>(2)</sup>	18	16	29	24
Answer Financial	(1)	(1)	(1)	(3)
<b>Underwriting income</b>	<b>\$ 370</b>	<b>\$ 458</b>	<b>\$ 1,073</b>	<b>\$ 1,466</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.





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

### Premiums written and earned by line of business

(\$ in millions)	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
<b>Premiums written</b>				
Auto	\$ 6,087	\$ 5,787	\$ 12,134	\$ 11,526
Homeowners	2,219	2,084	3,895	3,656
Other personal lines	501	498	920	894
Subtotal – Personal lines	8,807	8,369	16,949	16,076
Commercial lines	236	172	421	309
<b>Total premiums written</b>	<b>\$ 9,043</b>	<b>\$ 8,541</b>	<b>\$ 17,370</b>	<b>\$ 16,385</b>
<i>Reconciliation of premiums written to premiums earned:</i>				
Increase in unearned premiums	(384)	(347)	(205)	(138)
Other	22	(5)	23	(39)
<b>Total premiums earned</b>	<b>\$ 8,681</b>	<b>\$ 8,189</b>	<b>\$ 17,188</b>	<b>\$ 16,208</b>
Auto	\$ 6,035	\$ 5,705	\$ 11,965	\$ 11,296
Homeowners	1,958	1,864	3,893	3,712
Other personal lines	462	455	921	899
Subtotal – Personal lines	8,455	8,024	16,779	15,907
Commercial lines	226	165	409	301
<b>Total premiums earned</b>	<b>\$ 8,681</b>	<b>\$ 8,189</b>	<b>\$ 17,188</b>	<b>\$ 16,208</b>

### Combined ratios by line of business

	Loss ratio		Expense ratio <sup>(1)</sup>		Combined ratio	
	2019	2018	2019	2018	2019	2018
<b>Three months ended June 30,</b>						
Auto	69.2	67.3	24.2	25.7	93.4	93.0
Homeowners	82.0	75.7	22.5	23.5	104.5	99.2
Other personal lines	64.1	59.3	25.7	26.4	89.8	85.7
Commercial lines	86.7	100.6	16.4	21.2	103.1	121.8
<b>Total</b>	<b>72.2</b>	<b>69.4</b>	<b>23.5</b>	<b>25.0</b>	<b>95.7</b>	<b>94.4</b>
<b>Six months ended June 30,</b>						
Auto	67.8	65.7	24.6	25.3	92.4	91.0
Homeowners	75.7	66.9	22.9	23.5	98.6	90.4
Other personal lines	65.2	60.5	26.1	26.7	91.3	87.2
Commercial lines	81.9	90.7	18.1	23.3	100.0	114.0
<b>Total</b>	<b>69.8</b>	<b>66.2</b>	<b>24.0</b>	<b>24.8</b>	<b>93.8</b>	<b>91.0</b>

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

## Loss ratios by line of business

	Loss ratio		Effect of catastrophe losses		Effect of prior year reserve reestimates		Effect of catastrophe losses included in prior year reserve reestimates	
	2019	2018	2019	2018	2019	2018	2019	2018
<b>Three months ended June 30,</b>								
Auto	69.2	67.3	3.2	3.1	(1.7)	(2.7)	(0.1)	(0.1)
Homeowners	82.0	75.7	41.8	36.2	0.2	1.4	0.6	2.3
Other personal lines	64.1	59.3	12.6	10.5	0.2	(2.6)	(0.6)	—
Commercial lines	86.7	100.6	1.8	2.4	5.7	27.3	0.4	0.6
<b>Total</b>	<b>72.2</b>	<b>69.4</b>	<b>12.3</b>	<b>11.1</b>	<b>(1.0)</b>	<b>(1.2)</b>	<b>—</b>	<b>0.5</b>
<b>Six months ended June 30,</b>								
Auto	67.8	65.7	2.2	1.6	(1.3)	(2.3)	(0.1)	(0.3)
Homeowners	75.7	66.9	34.8	27.0	1.5	1.6	1.5	2.1
Other personal lines	65.2	60.5	13.5	8.6	0.9	(2.0)	0.7	(0.2)
Commercial lines	81.9	90.7	1.2	2.3	4.2	21.5	—	—
<b>Total</b>	<b>69.8</b>	<b>66.2</b>	<b>10.2</b>	<b>7.8</b>	<b>(0.4)</b>	<b>(0.9)</b>	<b>0.3</b>	<b>0.2</b>

Catastrophe losses were \$1.07 billion and \$1.75 billion in the second quarter and first six months of 2019, respectively, compared to \$906 million and \$1.27 billion in the second quarter and first six months of 2018, respectively.

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

accidents. The nature and level of catastrophes in any period cannot be reliably predicted.

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

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

## Catastrophe losses by the size of event

(\$ in millions)	Number of events	Three months ended June 30, 2019				
			Claims and claims expense	Combined ratio impact	Average catastrophe loss per event	
<b>Size of catastrophe loss</b>						
Greater than \$250 million	1	2.7%	\$ 289	27.0 %	3.3	\$ 289
\$101 million to \$250 million	—	—	—	—	—	—
\$50 million to \$100 million	3	8.1	249	23.2	2.9	83
Less than \$50 million	33	89.2	543	50.6	6.2	16
<b>Total</b>	<b>37</b>	<b>100.0%</b>	<b>1,081</b>	<b>100.8</b>	<b>12.4</b>	<b>29</b>
Prior year reserve reestimates			3	0.3	—	
Prior quarter reserve reestimates			(12)	(1.1)	(0.1)	
<b>Total catastrophe losses</b>			<b>\$ 1,072</b>	<b>100.0 %</b>	<b>12.3</b>	

(\$ in millions)	Number of events	Six months ended June 30, 2019				
			Claims and claims expense	Combined ratio impact	Average catastrophe loss per event	
<b>Size of catastrophe loss</b>						
Greater than \$250 million	1	1.7%	\$ 289	16.5 %	1.7	\$ 289
\$101 million to \$250 million	1	1.7	223	12.7	1.3	223
\$50 million to \$100 million	6	10.2	470	26.8	2.7	78
Less than \$50 million	51	86.4	714	40.8	4.2	14
<b>Total</b>	<b>59</b>	<b>100.0%</b>	<b>1,696</b>	<b>96.8</b>	<b>9.9</b>	<b>29</b>
Prior year reserve reestimates			56	3.2	0.3	
<b>Total catastrophe losses</b>			<b>\$ 1,752</b>	<b>100.0 %</b>	<b>10.2</b>	

## Catastrophe losses by the type of event

(\$ in millions)	Three months ended June 30,				Six months ended June 30,			
	Number of events	2019	Number of events	2018	Number of events	2019	Number of events	2018
Hurricanes/Tropical storms	—	\$ —	1	\$ 3	—	\$ —	1	\$ 3
Tornadoes	3	305	—	—	4	320	—	—
Wind/Hail	34	776	34	813	49	1,256	43	1,095
Wildfires	—	—	2	13	—	—	2	13
Other events	—	—	—	—	6	120	2	112
Prior year reserve reestimates		3		40		56		44
Prior quarter reserve reestimates		(12)		37		—		—
<b>Total catastrophe losses</b>	<b>37</b>	<b>\$ 1,072</b>	<b>37</b>	<b>\$ 906</b>	<b>59</b>	<b>\$ 1,752</b>	<b>48</b>	<b>\$ 1,267</b>

**Catastrophe reinsurance** 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. Our program provides 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.

During the second quarter of 2019, we completed the Florida component of the program that is designed to address the distinct needs of our separately

capitalized companies in that state. Our 2019 Florida program provides coverage for losses up to \$639 million, subject to a \$20 million retention. The Florida program includes reinsurance agreements placed with the traditional market, the Florida Hurricane Catastrophe Fund ("FHCF"), and the Insurance Linked Securities ("ILS") market as follows:

- The traditional market placement comprises \$283 million of reinsurance limits for losses to personal lines property in Florida arising out of multiple perils. The Excess contract, which forms a part of the traditional market placement, with \$249 million of limits, subject to a \$20 million retention, provides coverage for perils not covered by the FHCF contracts, which only cover hurricanes.
- The FHCF contracts provide 90% of \$151 million of reinsurance limits or approximately \$136 million of limits for qualifying losses to personal lines

property in Florida caused by storms the National Hurricane Center declares to be hurricanes.

- The ILS placement provides \$200 million of reinsurance limits for qualifying losses to personal lines property in Florida caused by a named storm event, a severe thunderstorm event, an earthquake event, a wildfire event, a volcanic eruption event, or a meteorite impact event.

In addition, a Florida and Southeast Auto Aggregate Excess Catastrophe Contract was placed. This contract provides a single reinsurance limit at 80% of \$250 million subject to a \$250 million aggregate retention for catastrophe losses to personal lines and commercial lines automobile business (physical damage only) with a qualifying loss in the state of Florida. For these qualifying catastrophe events, coverage is also provided for losses to personal lines and commercial lines automobile business (physical damage only) occurring in Alabama, Georgia, Louisiana, Mississippi, North Carolina, and/or South Carolina. The contract is a one-year term, effective June 1, 2019, covering all qualifying catastrophe events commencing before the May 31, 2020 expiration.

For a complete summary of the 2019 reinsurance placement, please read this in conjunction with the discussion and analysis in Part I. Item 2. Management Discussion Analysis of Financial Condition and Results of Operations - Allstate Protection Segment Results, Catastrophe Reinsurance of The Allstate Corporation Form 10-Q for the quarterly period ended March 31, 2019.

The total cost of our catastrophe reinsurance programs during the second quarter and first six months of 2019 was \$100 million and \$188 million, respectively, compared to \$91 million and \$176 million in the second quarter and first six months of 2018, respectively. The increases were due to increases in Nationwide Program costs due to growth in policies, modest rate increases and program expansion for aggregate losses.

**Expense ratio** decreased 1.5 points and 0.8 points in the second quarter and first six months of 2019, respectively, compared to the same periods of 2018.

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

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Amortization of DAC	13.4	13.6	13.6	13.6
Advertising expense	2.2	2.3	2.2	2.1
Other costs and expenses <sup>(1)</sup>	7.8	8.8	8.0	8.9
Restructuring and related charges	0.1	0.3	0.2	0.2
<b>Total expense ratio</b>	<b>23.5</b>	<b>25.0</b>	<b>24.0</b>	<b>24.8</b>

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

Reserve reestimates were favorable in the second quarter and first six months of 2019 and primarily related to favorable personal lines auto injury coverage development, partially offset by strengthening in our homeowners, commercial lines and other personal lines businesses.

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

(\$ in millions)	2019	2018
Auto	\$ 14,378	\$ 14,051
Homeowners	2,157	2,205
Other personal lines	1,489	1,489
Commercial lines	801	616
<b>Total Allstate Protection</b>	<b>\$ 18,825</b>	<b>\$ 18,361</b>

**Reserve reestimates**

(\$ in millions, except ratios)	Three months ended June 30,				Six months ended June 30,			
	Reserve reestimate (1)		Effect on combined ratio (2)		Reserve reestimate (1)		Effect on combined ratio (2)	
	2019	2018	2019	2018	2019	2018	2019	2018
Auto	\$ (104)	\$ (157)	(1.2)	(1.9)	\$ (158)	\$ (257)	(0.9)	(1.6)
Homeowners	4	27	—	0.3	57	59	0.4	0.4
Other personal lines	1	(12)	—	(0.1)	8	(18)	—	(0.1)
Commercial lines	13	45	0.2	0.5	17	65	0.1	0.4
<b>Total Allstate Protection (3)</b>	<b>\$ (86)</b>	<b>\$ (97)</b>	<b>(1.0)</b>	<b>(1.2)</b>	<b>\$ (76)</b>	<b>\$ (151)</b>	<b>(0.4)</b>	<b>(0.9)</b>
Allstate brand	\$ (83)	\$ (92)	(1.0)	(1.1)	\$ (81)	\$ (152)	(0.4)	(0.9)
Esurance brand	—	—	—	—	3	—	—	—
Encompass brand	(3)	(5)	—	(0.1)	2	1	—	—
<b>Total Allstate Protection</b>	<b>\$ (86)</b>	<b>\$ (97)</b>	<b>(1.0)</b>	<b>(1.2)</b>	<b>\$ (76)</b>	<b>\$ (151)</b>	<b>(0.4)</b>	<b>(0.9)</b>

(1) Favorable reserve reestimates are shown in parentheses.

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

(3) Prior year reserve reestimates included in catastrophe losses totaled \$3 million and \$56 million unfavorable in the three and six months ended June 30, 2019, respectively, and \$40 million and \$44 million unfavorable in the three and six months ended June 30, 2018, respectively.

The following table presents premiums written, policies in force ("PIF") and underwriting income (loss) by line of business for Allstate brand, Esurance brand, Encompass brand and Allstate Protection as of or for the six months ended June 30, 2019. 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	\$ 10,867	68.8%	\$ 1,001	94.2%	\$ 266	53.0 %	\$ 12,134	69.9 %
Homeowners	3,641	23.0	57	5.4	197	39.2	3,895	22.4
Other personal lines	877	5.5	4	0.4	39	7.8	920	5.3
Commercial lines	421	2.7	—	—	—	—	421	2.4
<b>Total</b>	<b>\$ 15,806</b>	<b>100.0%</b>	<b>\$ 1,062</b>	<b>100.0%</b>	<b>\$ 502</b>	<b>100.0 %</b>	<b>\$ 17,370</b>	<b>100.0 %</b>
<b>Percent to total Allstate Protection</b>		<b>91.0%</b>		<b>6.1%</b>		<b>2.9 %</b>		<b>100.0 %</b>
<b>PIF (thousands)</b>								
Auto	20,301	65.3%	1,548	91.2%	497	61.4 %	22,346	66.5 %
Homeowners	6,221	20.0	101	6.0	236	29.1	6,558	19.5
Other personal lines	4,327	13.9	48	2.8	77	9.5	4,452	13.3
Commercial lines	229	0.8	—	—	—	—	229	0.7
<b>Total</b>	<b>31,078</b>	<b>100.0%</b>	<b>1,697</b>	<b>100.0%</b>	<b>810</b>	<b>100.0 %</b>	<b>33,585</b>	<b>100.0 %</b>
<b>Percent to total Allstate Protection</b>		<b>92.5%</b>		<b>5.1%</b>		<b>2.4 %</b>		<b>100.0 %</b>
<b>Underwriting income (loss)</b>								
Auto	\$ 899	84.1%	\$ 7	—%	\$ 5	100.0 %	\$ 911	84.9 %
Homeowners	63	5.9	(7)	—	(2)	(40.0)	54	5.0
Other personal lines	78	7.3	—	—	2	40.0	80	7.5
Commercial lines	—	—	—	—	—	—	—	—
Other business lines	29	2.7	—	—	—	—	29	2.7
Answer Financial	—	—	—	—	—	—	(1)	(0.1)
<b>Total</b>	<b>\$ 1,069</b>	<b>100.0%</b>	<b>\$ —</b>	<b>—%</b>	<b>\$ 5</b>	<b>100.0 %</b>	<b>\$ 1,073</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.



## Underwriting results

(\$ in millions)	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Premiums written	\$ 8,262	\$ 7,807	\$ 15,806	\$ 14,935
Premiums earned	\$ 7,902	\$ 7,470	\$ 15,654	\$ 14,799
Other revenue	151	143	286	279
Claims and claims expense	(5,683)	(5,158)	(10,853)	(9,706)
Amortization of DAC	(1,103)	(1,052)	(2,208)	(2,081)
Other costs and expenses	(891)	(923)	(1,785)	(1,795)
Restructuring and related charges	(9)	(17)	(25)	(32)
<b>Underwriting income</b>	<b>\$ 367</b>	<b>\$ 463</b>	<b>\$ 1,069</b>	<b>\$ 1,464</b>
Catastrophe losses	\$ 1,021	\$ 837	\$ 1,665	\$ 1,166

## Underwriting income (loss) by line of business

Auto	\$ 387	\$ 385	\$ 899	\$ 996
Homeowners	(79)	37	63	374
Other personal lines <sup>(1)</sup>	48	61	78	112
Commercial lines	(7)	(36)	—	(42)
Other business lines <sup>(2)</sup>	18	16	29	24
<b>Underwriting income</b>	<b>\$ 367</b>	<b>\$ 463</b>	<b>\$ 1,069</b>	<b>\$ 1,464</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)	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Underwriting income (loss) - prior period	\$ 463	\$ 355	\$ 1,464	\$ 991
Changes in underwriting income (loss) from:				
Increase (decrease) premiums earned	432	366	855	638
Increase (decrease) other revenue	8	(2)	7	3
(Increase) decrease losses:				
Incurred losses, excluding catastrophe losses and reserve reestimates	(292)	(249)	(590)	(361)
Catastrophe losses, excluding reserve reestimates	(224)	121	(486)	492
Catastrophe reserve reestimates	40	(41)	(13)	(35)
Non-catastrophe reserve reestimates	(49)	50	(58)	(1)
Losses subtotal	(525)	(119)	(1,147)	95
(Increase) decrease expenses	(11)	(137)	(110)	(263)
<b>Underwriting income</b>	<b>\$ 367</b>	<b>\$ 463</b>	<b>\$ 1,069</b>	<b>\$ 1,464</b>

<sup>(1)</sup> The 2019 column presents changes in 2019 compared to 2018. The 2018 column presents changes in 2018 compared to 2017.

*Underwriting income* totaled \$367 million and \$1.07 billion in the second quarter and first six months of 2019, respectively, decreasing from \$463 million and \$1.46 billion in the second quarter and first six months of 2018, respectively. The decrease in both periods was primarily due to higher catastrophe losses, claim severity and policy acquisition and renewal costs, partially offset by increased premiums earned, improved auto claim frequency and lower other costs and expenses.

### Premiums written and earned by line of business

(\$ in millions)	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
<b>Premiums written</b>				
Auto	\$ 5,472	\$ 5,211	\$ 10,867	\$ 10,362
Homeowners	2,076	1,949	3,641	3,414
Other personal lines	478	475	877	850
Subtotal – Personal lines	8,026	7,635	15,385	14,626
Commercial lines	236	172	421	309
<b>Total</b>	<b>\$ 8,262</b>	<b>\$ 7,807</b>	<b>\$ 15,806</b>	<b>\$ 14,935</b>
<b>Premiums earned</b>				
Auto	\$ 5,404	\$ 5,131	\$ 10,725	\$ 10,177
Homeowners	1,832	1,742	3,643	3,469
Other personal lines	440	432	877	852
Subtotal – Personal lines	7,676	7,305	15,245	14,498
Commercial lines	226	165	409	301
<b>Total</b>	<b>\$ 7,902</b>	<b>\$ 7,470</b>	<b>\$ 15,654</b>	<b>\$ 14,799</b>

### Auto premium measures and statistics

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
PIF (thousands)	20,301	19,810	20,301	19,810
New issued applications (thousands)	755	754	1,495	1,468
Average premium (6-month policy)	\$ 581	\$ 566	\$ 579	\$ 565
Renewal ratio (%)	88.8	88.5	88.8	88.4
Approved rate changes (1):				
Number of locations (2)	20	21	29	35
Total brand (%) (3)	0.8	0.5	1.4	0.8
Location specific (%) (4) (5)	3.4	2.5	3.9	3.0

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

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

(3) Represents the impact in the states, the District of Columbia and Canadian provinces where rate changes were approved during the period as a percentage of total brand 2018 and 2017 premiums written, respectively.

(4) Represents the impact in the states, the District of Columbia and Canadian provinces where rate changes were approved during the period as a percentage of their respective total 2018 and 2017 premiums written in those same locations.

(5) Based on historical premiums written in the locations noted above, the annual impact of rate changes approved for auto totaled \$177 million and \$297 million in the three and six months ended June 30, 2019, respectively, compared to \$93 million and \$153 million in the three and six months ended June 30, 2018, respectively.

Auto insurance premiums written totaled \$5.47 billion in the second quarter of 2019, a 5.0% increase from \$5.21 billion in the second quarter of 2018 and \$10.87 billion in the first six months of 2019, a 4.9% increase from \$10.36 billion in the first six months of 2018. Factors impacting premiums written were:

- 2.5% or 491 thousand increase in PIF as of June 30, 2019 compared to June 30, 2018. Auto PIF increased in 36 states, including 6 of our largest 10 states, as of June 30, 2019 compared to June 30, 2018.
- 0.3 point and 0.4 point increase in the renewal ratio in the second quarter and first six months of 2019, respectively, compared to the same periods of 2018. 35 states, including 6 of our 10 largest states, and 40 states, including 6 of our 10 largest states, experienced increases in the renewal ratio in the second quarter and first six months of 2019,

respectively, compared to the same periods of 2018.

- 0.1% and 1.8% increase in new issued applications in the second quarter and first six months of 2019, respectively, compared to the same periods of 2018. 22 states, including 4 of our 10 largest states, experienced increases in new issued applications in the second quarter of 2019 compared to the second quarter of 2018, with 10 states experiencing double digit increases. 26 states, including 4 of our 10 largest states, experienced increases in new issued applications in the first six months of 2019 compared to the same period of 2018, with 13 states experiencing double digit increases.
- 2.7% and 2.5% increase in average premium in the second quarter and first six months of 2019, respectively, compared to the same periods of 2018, primarily due to rate increases.



## Homeowners premium measures and statistics

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
PIF (thousands)	6,221	6,121	6,221	6,121
New issued applications (thousands)	229	223	426	410
Average premium (12-month policy)	\$ 1,295	\$ 1,226	\$ 1,283	\$ 1,220
Renewal ratio (%)	88.2	87.7	88.3	87.6
Approved rate changes <sup>(1)</sup> :				
Number of locations <sup>(2)</sup>	4	5	24	19
Total brand (%)	0.1	0.1	2.2	1.2
Location specific (%) <sup>(3)</sup>	5.1	1.8	5.4	4.4

<sup>(1)</sup> Includes rate changes approved based on our net cost of reinsurance.

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

<sup>(3)</sup> Based on historical premiums written in the locations noted above, the annual impact of rate changes approved for homeowners totaled \$8 million and \$163 million in the three and six months ended June 30, 2019, respectively, compared to \$6 million and \$85 million in the three and six months ended June 30, 2018, respectively.

*Homeowners insurance premiums written* totaled \$2.08 billion in the second quarter of 2019, a 6.5% increase from \$1.95 billion in the second quarter of 2018 and \$3.64 billion in the first six months of 2019, a 6.6% increase from \$3.41 billion in the first six months of 2018. Factors impacting premiums written were:

- 1.6% or 100 thousand increase in PIF as of June 30, 2019 compared to June 30, 2018. Homeowners PIF increased in 33 states, including 6 of our largest 10 states, as of June 30, 2019 compared to June 30, 2018.
- 0.5 point and 0.7 point increase in the renewal ratio in the second quarter and first six months of 2019, respectively, compared to the same periods of 2018. All of our largest 10 states experienced an increase in the renewal ratio in the first six months of 2019, compared to the same period of 2018.
- 2.7% and 3.9% increase in new issued applications in the second quarter and first six months of 2019, respectively, compared to the same periods of 2018. 5 of our largest 10 states experienced increases in the first six months of 2019, compared to the same period of 2018.
- 5.6% and 5.2% increase in average premium in the second quarter and first six months of 2019, respectively, compared to the same periods of 2018, primarily due to rate increases and inflationary increases in insured home valuations.
- \$4 million increase in the cost of our catastrophe reinsurance program to \$73 million in the second

quarter of 2019 from \$69 million in the second quarter of 2018, and \$2 million increase to \$136 million in the first six months of 2019 from \$134 million in the first six months of 2018. Catastrophe placement premiums are recorded primarily in the Allstate brand and are a reduction of premium.

*Other personal lines* premiums written totaled \$478 million in the second quarter of 2019, a 0.6% increase from \$475 million in the second quarter of 2018 and \$877 million in the first six months of 2019, a 3.2% increase from \$850 million in the first six months of 2018. The increase in both periods was primarily due to increases in personal umbrella, condominium and landlord insurance premiums.

*Commercial lines* premiums written totaled \$236 million in the second quarter of 2019, a 37.2% increase from \$172 million in the second quarter of 2018 and \$421 million in the six months of 2019, a 36.2% increase from \$309 million in the first six months of 2018. The increase in both periods was primarily due to an agreement with a transportation network company to provide commercial auto insurance coverage. Effective March 1, 2019, we expanded this coverage to 15 states from 4 states in 2018. Growth in premiums written is not reflected in growth in policies in force as the agreement with a transportation network company reflect contracts as opposed to individual driver counts.

## Combined ratios by line of business

	Loss ratio		Expense ratio <sup>(1)</sup>		Combined ratio	
	2019	2018	2019	2018	2019	2018
<b>Three months ended June 30,</b>						
Auto	68.4	66.7	24.4	25.8	92.8	92.5
Homeowners	82.3	75.1	22.0	22.8	104.3	97.9
Other personal lines	63.9	60.2	25.2	25.7	89.1	85.9
Commercial lines	86.7	100.6	16.4	21.2	103.1	121.8
<b>Total</b>	<b>71.9</b>	<b>69.0</b>	<b>23.5</b>	<b>24.8</b>	<b>95.4</b>	<b>93.8</b>
<b>Six months ended June 30,</b>						
Auto	67.0	65.0	24.6	25.2	91.6	90.2
Homeowners	75.8	66.4	22.5	22.8	98.3	89.2
Other personal lines	65.3	60.7	25.8	26.2	91.1	86.9
Commercial lines	81.9	90.7	18.1	23.3	100.0	114.0
<b>Total</b>	<b>69.3</b>	<b>65.6</b>	<b>23.9</b>	<b>24.5</b>	<b>93.2</b>	<b>90.1</b>

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

## Loss ratios by line of business

	Loss ratio		Effect of catastrophe losses		Effect of prior year reserve reestimates		Effect of catastrophe losses included in prior year reserve reestimates	
	2019	2018	2019	2018	2019	2018	2019	2018
<b>Three months ended June 30,</b>								
Auto	68.4	66.7	3.3	3.1	(1.7)	(3.0)	(0.1)	(0.1)
Homeowners	82.3	75.1	42.6	36.0	(0.1)	1.4	0.3	2.4
Other personal lines	63.9	60.2	13.0	10.7	(0.2)	(1.4)	(0.6)	—
Commercial lines	86.7	100.6	1.8	2.4	5.7	27.3	0.4	0.6
<b>Total</b>	<b>71.9</b>	<b>69.0</b>	<b>13.0</b>	<b>11.2</b>	<b>(1.0)</b>	<b>(1.2)</b>	<b>—</b>	<b>0.5</b>
<b>Six months ended June 30,</b>								
Auto	67.0	65.0	2.3	1.5	(1.4)	(2.5)	—	(0.3)
Homeowners	75.8	66.4	35.5	26.7	1.2	1.5	1.3	2.0
Other personal lines	65.3	60.7	13.8	8.6	1.0	(1.4)	0.7	(0.4)
Commercial lines	81.9	90.7	1.2	2.3	4.2	21.5	—	—
<b>Total</b>	<b>69.3</b>	<b>65.6</b>	<b>10.7</b>	<b>7.9</b>	<b>(0.5)</b>	<b>(1.0)</b>	<b>0.3</b>	<b>0.3</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 statistic* 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 improvements that 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® and Virtual Assist®. 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* increased 1.7 points and 2.0 points in the second quarter and first six months of 2019, respectively, compared to the same periods of 2018, primarily due to higher claim severity, lower favorable non-catastrophe prior year reserve estimates and higher catastrophe losses, partially offset by increased premiums earned and improved claim frequency.

*Property damage* paid claim frequency decreased 1.5% and 2.5% in the second quarter and first six months of 2019, respectively, compared to the same periods of 2018. 38 states experienced a year over year decrease in property damage paid claim frequency in the first six months of 2019 when compared to the same period of 2018. Property damage paid claim severities increased 8.8% and 7.4% in the second quarter and first six months of 2019, respectively, compared to the same periods of 2018 due to the impact of higher costs to repair more sophisticated newer model vehicles, higher third-party subrogation demands and increased number of total losses.

*Bodily injury* gross claim frequency decreased 2.1% and 1.6% in the second quarter and first six months of 2019, respectively, compared to the same periods of 2018. Bodily injury severity trends have been increasing generally less than medical care inflation indices.

*Homeowners loss ratio* increased 7.2 points and 9.4 points in the second quarter and first six months of 2019, respectively, compared to the same periods of 2018, primarily due to higher catastrophe losses, partially offset by increased premiums earned. Paid claim frequency excluding catastrophe losses decreased 6.7% and 3.1% in the second quarter and first six months of 2019, respectively, compared to the same periods of 2018. Paid claim severity excluding catastrophe losses increased 11.7% and 6.2% in the second quarter and first six months of 2019, respectively, compared to the same periods of 2018, as we experienced elevated results in fire, water and wind/hail perils. Homeowner paid claim severity can be impacted by both the mix of perils and the magnitude of specific losses paid during the quarter.

*Other personal lines loss ratio* increased 3.7 points and 4.6 points in the second quarter and first six months of 2019, respectively, compared to the same periods of 2018, primarily due to higher catastrophe losses, partially offset by increased premiums earned.

*Commercial lines loss ratio* decreased 13.9 points and 8.8 points in the second quarter and first six months of 2019, respectively, compared to the same periods of 2018, primarily due to increased premiums earned and lower unfavorable non-catastrophe prior year reserve reestimates, partially offset by higher severity. Commercial lines recorded losses related to an agreement with a transportation network company are primarily based on original pricing expectations given limited loss experience.

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

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Amortization of DAC	14.1	14.1	14.1	14.1
Advertising expense	1.9	2.0	1.9	1.8
Other costs and expenses <sup>(1)</sup>	7.4	8.5	7.7	8.4
Restructuring and related charges	0.1	0.2	0.2	0.2
<b>Total expense ratio</b>	<b>23.5</b>	<b>24.8</b>	<b>23.9</b>	<b>24.5</b>

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

*Expense ratio* decreased 1.3 points and 0.6 points in the second quarter and first six months of 2019, respectively, compared to the same periods of 2018, primarily related to lower incentive compensation and agency sales costs.

Amortization of DAC primarily includes agent remuneration and premium taxes. Allstate agency total incurred base commissions, variable compensation and bonuses in total in the second quarter and first six months of 2019 were comparable to the same periods of 2018.



## Underwriting results

(\$ in millions)	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Premiums written	\$ 503	\$ 459	\$ 1,062	\$ 952
Premiums earned	\$ 525	\$ 463	\$ 1,027	\$ 896
Other revenue	20	20	40	40
Claims and claims expense	(419)	(364)	(803)	(685)
Amortization of DAC	(12)	(11)	(23)	(21)
Other costs and expenses	(117)	(115)	(241)	(234)
Restructuring and related charges	—	(2)	—	(2)
<b>Underwriting (loss) income</b>	<b>\$ (3)</b>	<b>\$ (9)</b>	<b>\$ —</b>	<b>\$ (6)</b>
Catastrophe losses	\$ 25	\$ 29	\$ 31	\$ 32

## Underwriting income (loss) by line of business

Auto	\$ 8	\$ 5	\$ 7	\$ 6
Homeowners	(11)	(14)	(7)	(12)
Other personal lines	—	—	—	—
<b>Underwriting (loss) income</b>	<b>\$ (3)</b>	<b>\$ (9)</b>	<b>\$ —</b>	<b>\$ (6)</b>

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

(\$ in millions)	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Underwriting income (loss) - prior period	\$ (9)	\$ (26)	\$ (6)	\$ (36)
Changes in underwriting income (loss) from:				
Increase (decrease) premiums earned	62	34	131	48
Increase (decrease) other revenue	—	3	—	7
(Increase) decrease incurred claims and claims expense ("losses"):				
Incurred losses, excluding catastrophe losses and reserve reestimates	(60)	(14)	(117)	(26)
Catastrophe losses, excluding reserve reestimates	5	(3)	2	2
Catastrophe reserve reestimates	(1)	(2)	(1)	(2)
Non-catastrophe reserve reestimates	1	1	(2)	1
Losses subtotal	(55)	(18)	(118)	(25)
(Increase) decrease expenses	(1)	(2)	(7)	—
<b>Underwriting (loss) income</b>	<b>\$ (3)</b>	<b>\$ (9)</b>	<b>\$ —</b>	<b>\$ (6)</b>

<sup>(1)</sup> The 2019 column presents changes in 2019 compared to 2018. The 2018 column presents changes in 2018 compared to 2017.

*Underwriting loss* totaled \$3 million in the second quarter of 2019 compared to \$9 million in the second quarter of 2018 and underwriting results were zero in the first six months of 2019 compared to an underwriting loss of \$6 million in the first six months of 2018.

## Premiums written and earned by line of business

(\$ in millions)	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
<b>Premiums written</b>				
Auto	\$ 469	\$ 430	\$ 1,001	\$ 900
Homeowners	32	27	57	48
Other personal lines	2	2	4	4
<b>Total</b>	<b>\$ 503</b>	<b>\$ 459</b>	<b>\$ 1,062</b>	<b>\$ 952</b>
<b>Premiums earned</b>				
Auto	\$ 496	\$ 439	\$ 971	\$ 850
Homeowners	27	22	52	42
Other personal lines	2	2	4	4
<b>Total</b>	<b>\$ 525</b>	<b>\$ 463</b>	<b>\$ 1,027</b>	<b>\$ 896</b>

**Auto premium measures and statistics**

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
PIF (thousands)	1,548	1,432	1,548	1,432
New issued applications (thousands)	145	156	325	314
Average premium (6-month policy)	\$ 611	\$ 602	\$ 619	\$ 604
Renewal ratio (%)	84.0	84.3	84.0	83.9
Approved rate changes (1):				
Number of locations (2)	6	8	15	11
Total brand (%) (3)	2.4	0.5	3.0	0.7
Location specific (%) (4) (5)	5.3	2.9	5.0	3.3

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

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

(3) Represents the impact in the states where rate changes were approved during the period as a percentage of total brand 2018 and 2017 premiums written, respectively.

(4) Represents the impact in the states where rate changes were approved during the period as a percentage of their respective total 2018 and 2017 premiums written in those same locations.

(5) Based on historical premiums written in the locations noted above, the annual impact of rate changes approved for auto totaled \$42 million and \$54 million in the three and six months ended June 30, 2019, respectively, compared to \$9 million and \$12 million in the three and six months ended June 30, 2018, respectively.

*Auto insurance premiums written* totaled \$469 million in the second quarter of 2019, a 9.1% increase from \$430 million in the second quarter of 2018 and \$1.00 billion in the first six months of 2019, an 11.2% increase from \$900 million in the first six months of 2018. Factors impacting premiums written were:

- 8.1% or 116 thousand increase in PIF as of June 30, 2019 compared to June 30, 2018.
- 7.1% decrease in new issued applications in the second quarter of 2019 compared to the same period of 2018, primarily due to lower advertising spend on less favorable economics. 3.5% increase

in new issued applications in the first six months of 2019 compared to the same period of 2018.

- 0.3 point decrease in the renewal ratio in the second quarter of 2019 compared to the same period of 2018. 0.1 point increase in the renewal ratio in the first six months of 2019 compared to the same period of 2018.
- 1.5% and 2.5% increase in average premium in the second quarter and first six months of 2019, respectively, compared to the same periods of 2018, primarily due to rate changes approved and changes in business mix.

**Homeowners premium measures and statistics**

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
PIF (thousands)	101	88	101	88
New issued applications (thousands)	7	9	14	17
Average premium (12-month policy)	\$ 1,063	\$ 977	\$ 1,045	\$ 978
Renewal ratio (%) (1)	85.5	86.2	85.2	85.4
Approved rate changes (2):				
Number of locations (3)	2	—	4	5
Total brand (%)	2.7	—	4.7	1.7
Location specific (%) (4)	19.9	—	19.1	6.4

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

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

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

(4) Based on historical premiums written in the locations noted above, the annual impact of rate changes approved for homeowners totaled \$3 million and \$5 million in the three and six months ended June 30, 2019, respectively, compared to zero and \$1 million in the three and six months ended June 30, 2018, respectively.

*Homeowners insurance premiums written* totaled \$32 million in the second quarter of 2019, an 18.5% increase from \$27 million in the second quarter of 2018, and \$57 million in the first six months of 2019, an 18.8% increase from \$48 million in the first six months of 2018. Factors impacting premiums written were:

- 14.8% or 13 thousand increase in PIF as of June 30, 2019 compared to June 30, 2018.
- 8.8% and 6.9% increase in average premium in the second quarter and first six months of 2019, respectively, compared to the same periods of 2018, primarily due to approved rate changes. As of June 30, 2019, Esurance continues to write

homeowners insurance in 31 states with lower hurricane risk, contributing to lower average premium compared to the industry.

- 0.7 point and 0.2 point decrease in the renewal ratio in the second quarter and first six months of 2019, respectively, compared to the same periods of 2018.
- 22.2% and 17.6% decrease in new issued applications in the second quarter and the first six months of 2019, respectively, compared to the same periods of 2018.

#### Combined ratios by line of business

	Loss ratio		Expense ratio <sup>(1)</sup>		Combined ratio	
	2019	2018	2019	2018	2019	2018
<b>Three months ended June 30,</b>						
Auto	78.0	76.1	20.4	22.8	98.4	98.9
Homeowners	114.8	127.3	25.9	36.3	140.7	163.6
<b>Total</b>	<b>79.8</b>	<b>78.6</b>	<b>20.8</b>	<b>23.3</b>	<b>100.6</b>	<b>101.9</b>
<b>Six months ended June 30,</b>						
Auto	77.7	75.7	21.6	23.6	99.3	99.3
Homeowners	88.5	92.9	25.0	35.7	113.5	128.6
<b>Total</b>	<b>78.2</b>	<b>76.5</b>	<b>21.8</b>	<b>24.2</b>	<b>100.0</b>	<b>100.7</b>

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

#### Loss ratios by line of business

	Loss ratio		Effect of catastrophe losses		Effect of prior year reserve reestimates		Effect of catastrophe losses included in prior year reserve reestimates	
	2019	2018	2019	2018	2019	2018	2019	2018
<b>Three months ended June 30,</b>								
Auto	78.0	76.1	2.0	3.4	(0.2)	(0.2)	0.2	—
Homeowners	114.8	127.3	55.5	63.6	3.7	4.5	3.7	4.5
<b>Total</b>	<b>79.8</b>	<b>78.6</b>	<b>4.8</b>	<b>6.2</b>	<b>—</b>	<b>—</b>	<b>0.4</b>	<b>0.2</b>
<b>Six months ended June 30,</b>								
Auto	77.7	75.7	1.3	2.0	0.4	—	0.1	—
Homeowners	88.5	92.9	34.6	35.7	—	—	1.9	2.3
<b>Total</b>	<b>78.2</b>	<b>76.5</b>	<b>3.0</b>	<b>3.6</b>	<b>0.3</b>	<b>—</b>	<b>0.2</b>	<b>0.1</b>

*Auto loss ratio* increased 1.9 points and 2.0 points in the second quarter and first six months of 2019, respectively, compared to the same periods of 2018, primarily due to higher severity, partially offset by higher premiums earned and lower catastrophe losses.

*Homeowners loss ratio* decreased 12.5 points and 4.4 points in the second quarter and first six months of 2019, respectively, compared to the same periods of 2018, primarily due to lower catastrophe losses, lower frequency and higher premiums earned, partially offset by higher claim severity.

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

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Amortization of DAC	2.4	2.4	2.2	2.3
Advertising expense	7.4	8.6	7.8	8.4
Amortization of purchased intangibles	—	—	0.1	0.1
Other costs and expenses <sup>(1)</sup>	11.0	11.9	11.7	13.2
Restructuring and related charges	—	0.4	—	0.2
<b>Total expense ratio</b>	<b>20.8</b>	<b>23.3</b>	<b>21.8</b>	<b>24.2</b>

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

*Expense ratio* decreased 2.5 points and 2.4 points in the second quarter and first six months of 2019, respectively, compared to the same periods of 2018. Other costs and expenses, including sales personnel and other underwriting costs related to customer acquisition, were 0.9 points and 1.5 points lower in the second quarter and first six months of 2019, respectively, compared to the same periods of 2018 reflecting continued implementation of digital self-service capabilities and premium growth.

Esurance uses a direct distribution model, therefore its primary acquisition-related costs are advertising as opposed to commissions. Esurance advertising expense ratio decreased 1.2 points and 0.6 points in the second quarter and first six months of 2019, respectively, compared to the same periods of 2018.



## Underwriting results

(\$ in millions)	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Premiums written	\$ 278	\$ 275	\$ 502	\$ 498
Premiums earned	\$ 254	\$ 256	\$ 507	\$ 513
Other revenue	1	2	2	3
Claims and claims expense	(167)	(165)	(341)	(331)
Amortization of DAC	(48)	(47)	(96)	(96)
Other costs and expenses	(33)	(39)	(65)	(73)
Restructuring and related charges	—	(2)	(2)	(5)
<b>Underwriting income</b>	<b>\$ 7</b>	<b>\$ 5</b>	<b>\$ 5</b>	<b>\$ 11</b>
Catastrophe losses	\$ 26	\$ 40	\$ 56	\$ 69

## Underwriting income (loss) by line of business

Auto	\$ 6	\$ 9	\$ 5	\$ 14
Homeowners	2	(8)	(2)	(6)
Other personal lines	(1)	4	2	3
<b>Underwriting income</b>	<b>\$ 7</b>	<b>\$ 5</b>	<b>\$ 5</b>	<b>\$ 11</b>

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

(\$ in millions)	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Underwriting income (loss) - prior period	\$ 5	\$ (11)	\$ 11	\$ (42)
Changes in underwriting loss from:				
Increase (decrease) premiums earned	(2)	(18)	(6)	(44)
Increase (decrease) other revenue	(1)	1	(1)	—
(Increase) decrease incurred claims and claims expense ("losses"):				
Incurred losses, excluding catastrophe losses and reserve reestimates	(16)	21	(20)	43
Catastrophe losses, excluding reserve reestimates	16	16	11	60
Catastrophe reserve reestimates	(2)	(4)	2	(10)
Non-catastrophe reserve reestimates	—	1	(3)	7
Losses subtotal	(2)	34	(10)	100
(Increase) decrease expenses	7	(1)	11	(3)
<b>Underwriting income</b>	<b>\$ 7</b>	<b>\$ 5</b>	<b>\$ 5</b>	<b>\$ 11</b>

<sup>(1)</sup> The 2019 column presents changes in 2019 compared to 2018. The 2018 column presents changes in 2018 compared to 2017.

*Underwriting income* was \$7 million in the second quarter of 2019 compared to \$5 million in the second quarter of 2018, primarily due to lower catastrophe losses and operating costs and expenses, partially offset by higher auto claim severity and lower premiums earned. Underwriting income was \$5 million in the first six months of 2019, compared to \$11 million in the first six months of 2018, primarily due to higher auto claim severity and lower premiums earned, partially offset by lower operating costs and expenses and catastrophe losses.



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

(\$ in millions)	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
<b>Premiums written</b>				
Auto	\$ 146	\$ 146	\$ 266	\$ 264
Homeowners	111	108	197	194
Other personal lines	21	21	39	40
<b>Total</b>	<b>\$ 278</b>	<b>\$ 275</b>	<b>\$ 502</b>	<b>\$ 498</b>
<b>Premiums earned</b>				
Auto	\$ 135	\$ 135	\$ 269	\$ 269
Homeowners	99	100	198	201
Other personal lines	20	21	40	43
<b>Total</b>	<b>\$ 254</b>	<b>\$ 256</b>	<b>\$ 507</b>	<b>\$ 513</b>

**Auto premium measures and statistics**

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
PIF (thousands)	497	507	497	507
New issued applications (thousands)	22	19	42	36
Average premium (12-month policy)	\$ 1,130	\$ 1,104	\$ 1,132	\$ 1,110
Renewal ratio (%)	78.1	73.3	77.9	73.0
Approved rate changes <sup>(1)</sup> :				
Number of locations <sup>(2)</sup>	1	5	4	8
Total brand (%) <sup>(3)</sup>	—	1.0	0.5	1.3
Location specific (%) <sup>(4) (5)</sup>	3.6	7.9	4.5	6.3

<sup>(1)</sup> 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.

<sup>(2)</sup> Encompass brand operates in 40 states and the District of Columbia.

<sup>(3)</sup> Represents the impact in the states and the District of Columbia where rate changes were approved during the period as a percentage of total brand 2018 and 2017 premiums written, respectively.

<sup>(4)</sup> Represents the impact in the states and the District of Columbia where rate changes were approved during the period as a percentage of their respective total 2018 and 2017 premiums written in those same locations.

<sup>(5)</sup> Based on historical premiums written in the locations noted above, the annual impact of rate changes approved for auto totaled zero and \$2 million in the three and six months ended June 30, 2019, respectively, compared to \$5 million and \$7 million in the three and six months ended June 30, 2018, respectively.

*Auto insurance premiums written* totaled \$146 million in both the second quarter of 2019 and 2018, and \$266 million in the first six months of 2019, a 0.8% increase from \$264 million in the first six months of 2018. Factors impacting premiums written were:

- 2.0% or 10 thousand decrease in PIF as of June 30, 2019 compared to June 30, 2018.
- 4.8 point and 4.9 point increase in the renewal ratio in the second quarter and first six months of 2019, respectively, compared to the same periods of 2018, as profit improvement actions have moderated.

- 15.8% and 16.7% increase in new issued applications in the second quarter and first six months of 2019, respectively, compared to the same periods of 2018.
- 2.4% and 2.0% increase in average premium in the second quarter and first six months of 2019, respectively, compared to the same periods of 2018, primarily due to rate changes over the past 12 months.

## Homeowners premium measure and statistics

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
PIF (thousands)	236	243	236	243
New issued applications (thousands)	12	10	21	18
Average premium (12-month policy)	\$ 1,782	\$ 1,701	\$ 1,775	\$ 1,700
Renewal ratio (%)	82.5	78.9	82.3	78.7
Approved rate changes <sup>(1)</sup> :				
Number of locations <sup>(2)</sup>	8	7	11	10
Total brand (%)	1.4	0.7	2.8	0.8
Location specific (%) <sup>(3)</sup>	6.5	6.1	8.1	4.3

<sup>(1)</sup> Includes rate changes approved based on our net cost of reinsurance.

<sup>(2)</sup> Encompass brand operates in 40 states and the District of Columbia.

<sup>(3)</sup> Based on historical premiums written in the locations noted above, the annual impact of rate changes approved for homeowners totaled \$6 million and \$12 million in the three and six months ended June 30, 2019, respectively, compared to \$2 million and \$3 million in the three and six months ended June 30, 2018, respectively.

*Homeowners insurance premiums written* totaled \$111 million in the second quarter of 2019, a 2.8% increase from \$108 million in the second quarter of 2018, and \$197 million in the first six months of 2019, a 1.5% increase from \$194 million in the first six months of 2018. Factors impacting premiums written were:

- 2.9% or 7 thousand decrease in PIF as of June 30, 2019 compared to June 30, 2018.
- 3.6 point increase in the renewal ratio in both the second quarter and first six months of 2019, respectively, compared to the same periods of

2018, as profit improvement actions have moderated.

- 20.0% and 16.7% increase in new issued applications in the second quarter and first six months of 2019, respectively, compared to the same periods of 2018.
- 4.8% and 4.4% increase in average premium in the second quarter and first six months of 2019, respectively, compared to the same periods of 2018, primarily due to rate changes over the past 12 months.

## Combined ratios by line of business

	Loss ratio		Expense ratio <sup>(1)</sup>		Combined ratio	
	2019	2018	2019	2018	2019	2018
<b>Three months ended June 30,</b>						
Auto	64.5	60.7	31.1	32.6	95.6	93.3
Homeowners	66.7	75.0	31.3	33.0	98.0	108.0
Other personal lines	70.0	38.1	35.0	42.9	105.0	81.0
<b>Total</b>	<b>65.7</b>	<b>64.4</b>	<b>31.5</b>	<b>33.6</b>	<b>97.2</b>	<b>98.0</b>
<b>Six months ended June 30,</b>						
Auto	66.2	62.1	31.9	32.7	98.1	94.8
Homeowners	69.7	69.7	31.3	33.3	101.0	103.0
Other personal lines	62.5	55.8	32.5	37.2	95.0	93.0
<b>Total</b>	<b>67.3</b>	<b>64.5</b>	<b>31.7</b>	<b>33.4</b>	<b>99.0</b>	<b>97.9</b>

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

**Loss ratios by line of business**

	Loss ratio		Effect of catastrophe losses		Effect of prior year reserve reestimates		Effect of catastrophe losses included in prior year reserve reestimates	
	2019	2018	2019	2018	2019	2018	2019	2018
<b>Three months ended June 30,</b>								
Auto	64.5	60.7	2.2	3.0	(6.6)	(0.8)	—	—
Homeowners	66.7	75.0	22.2	34.0	4.0	2.0	4.0	2.0
Other personal lines	70.0	38.1	5.0	9.5	10.0	(28.5)	—	—
<b>Total</b>	<b>65.7</b>	<b>64.4</b>	<b>10.2</b>	<b>15.6</b>	<b>(1.2)</b>	<b>(2.0)</b>	<b>1.6</b>	<b>0.8</b>
<b>Six months ended June 30,</b>								
Auto	66.2	62.1	2.2	1.9	(3.4)	(0.4)	—	—
Homeowners	69.7	69.7	23.7	29.9	6.0	4.0	4.0	4.5
Other personal lines	62.5	55.8	7.5	9.3	(2.5)	(14.0)	—	2.3
<b>Total</b>	<b>67.3</b>	<b>64.5</b>	<b>11.0</b>	<b>13.5</b>	<b>0.4</b>	<b>0.2</b>	<b>1.6</b>	<b>2.0</b>

*Auto loss ratio* increased 3.8 points and 4.1 points in the second quarter and first six months of 2019, respectively, compared to the same periods of 2018, primarily due to increased claim severity, partially offset by higher favorable prior year reestimates.

*Homeowners loss ratio* decreased 8.3 points in the second quarter of 2019 compared to the same period of 2018, primarily due to lower catastrophe losses and lower claim severities, partially offset by higher unfavorable prior year reserve reestimates. The homeowners loss ratio was comparable for the first six months of 2019 and 2018.

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

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Amortization of DAC	18.9	18.4	18.9	18.7
Advertising expense	0.4	0.4	0.2	0.2
Other costs and expenses <sup>(1)</sup>	12.2	14.0	12.2	13.5
Restructuring and related charges	—	0.8	0.4	1.0
<b>Total expense ratio</b>	<b>31.5</b>	<b>33.6</b>	<b>31.7</b>	<b>33.4</b>

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

*Expense ratio* decreased 2.1 points and 1.7 points in the second quarter and first six months of 2019, respectively, compared to the same periods of 2018, primarily due to lower technology costs, professional services and employee-related compensation costs.

## Discontinued Lines and Coverages Segment

## Underwriting results

(\$ in millions)	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Claims and claims expense	\$ (3)	\$ (2)	\$ (5)	\$ (5)
Operating costs and expenses	—	(1)	(1)	(1)
<b>Underwriting loss</b>	<b>\$ (3)</b>	<b>\$ (3)</b>	<b>\$ (6)</b>	<b>\$ (6)</b>

*Underwriting loss* totaled \$3 million and \$6 million in the second quarter and first six months of both 2019 and 2018, respectively.

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

(\$ in millions)	June 30, 2019	December 31, 2018
<b>Asbestos claims</b>		
Gross reserves	\$ 1,207	\$ 1,266
Reinsurance	(381)	(400)
Net reserves	826	866
<b>Environmental claims</b>		
Gross reserves	191	209
Reinsurance	(36)	(39)
Net reserves	155	170
<b>Other discontinued lines</b>		
Gross reserves	385	389
Reinsurance	(35)	(34)
Net reserves	350	355
<b>Total</b>		
Gross reserves	1,783	1,864
Reinsurance	(452)	(473)
<b>Net reserves</b>	<b>\$ 1,331</b>	<b>\$ 1,391</b>

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

(\$ in millions)	June 30, 2019	December 31, 2018
<b>Direct excess commercial insurance</b>		
Gross reserves <sup>(1)</sup>	\$ 919	\$ 973
Reinsurance <sup>(2)</sup>	(335)	(355)
Net reserves	584	618
<b>Assumed reinsurance coverage</b>		
Gross reserves <sup>(3)</sup>	607	625
Reinsurance <sup>(4)</sup>	(52)	(53)
Net reserves	555	572
<b>Direct primary commercial insurance</b>		
Gross reserves <sup>(5)</sup>	163	171
Reinsurance <sup>(6)</sup>	(48)	(48)
Net reserves	115	123
<b>Other run-off business</b>		
Gross reserves	18	19
Reinsurance	(16)	(16)
Net reserves	2	3
<b>Unallocated loss adjustment expenses</b>		
Gross reserves	76	76
Reinsurance	(1)	(1)
Net reserves	75	75
<b>Total</b>		
Gross reserves	1,783	1,864
Reinsurance	(452)	(473)
<b>Net reserves</b>	<b>\$ 1,331</b>	<b>\$ 1,391</b>

(1) Gross reserves as of June 30, 2019, comprised 74% case reserves and 26% incurred but not reported ("IBNR") reserves. Approximately 71% of the total gross case reserves are subject to settlement agreements. In the first six months of 2019, total gross payments from case reserves were \$54 million with approximately 82% attributable to settlement agreements. Reserves as of December 31, 2018, comprised 67% case reserves and 33% IBNR reserves.

(2) Ceded reserves as of June 30, 2019, comprised 82% case reserves and 18% IBNR reserves. Approximately 78% of the total ceded case reserves are subject to settlement agreements. In the first six months of 2019, reinsurance billings of ceded case reserves were \$21 million with approximately 89% attributable to settlement agreements. Reserves as of December 31, 2018, comprised 78% case reserves and 22% IBNR reserves.

(3) Gross reserves as of June 30, 2019, comprised 34% case reserves and 66% IBNR reserves. In the first six months of 2019, total gross payments from case reserves were \$18 million. Reserves as of December 31, 2018, comprised 34% case reserves and 66% IBNR reserves.

(4) Ceded reserves as of June 30, 2019, comprised 38% case reserves and 62% IBNR reserves. In the first six months of 2019, reinsurance billings of ceded case reserves were \$1 million. Reserves as of December 31, 2018, comprised 37% case reserves and 63% IBNR reserves.

(5) Gross reserves as of June 30, 2019, comprised 57% case reserves and 43% IBNR reserves. In the first six months of 2019, total gross payments from case reserves were \$10 million. Reserves as of December 31, 2018, comprised 58% case reserves and 42% IBNR reserves.

(6) Ceded reserves as of June 30, 2019, comprised 78% case reserves and 22% IBNR reserves. In the first six months of 2019, reinsurance billings of ceded case reserves were \$1 million. Reserves as of December 31, 2018, comprised 78% case reserves and 22% IBNR reserves.

Total net reserves were \$1.33 billion, including \$613 million or 46% of estimated IBNR reserves as of June 30, 2019 compared to total net reserves of \$1.39 billion, including \$693 million or 50% of estimated IBNR reserves as of December 31, 2018.

Total gross payments were \$46 million and \$85 million for the second quarter and first six months of 2019, 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 \$11 million and \$26 million for the second quarter and first six months of 2019, respectively.

## Service Businesses Segment

## Summarized financial information

(\$ in millions)	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
<b>Premiums written</b>	\$ 350	\$ 297	\$ 718	\$ 584
<b>Revenues</b>				
Premiums	\$ 305	\$ 271	\$ 600	\$ 538
Other revenue	48	16	95	32
Intersegment insurance premiums and service fees <sup>(1)</sup>	33	29	66	58
Net investment income	10	6	19	11
Realized capital gains and losses	9	(2)	17	(6)
<b>Total revenues</b>	<b>405</b>	<b>320</b>	<b>797</b>	<b>633</b>
<b>Costs and expenses</b>				
Claims and claims expense	(86)	(89)	(178)	(182)
Amortization of DAC	(134)	(113)	(261)	(223)
Operating costs and expenses	(158)	(116)	(309)	(233)
Restructuring and related charges	1	—	1	(1)
Amortization of purchased intangibles	(31)	(20)	(62)	(41)
Impairment of purchased intangibles	(55)	—	(55)	—
<b>Total costs and expenses</b>	<b>(463)</b>	<b>(338)</b>	<b>(864)</b>	<b>(680)</b>
Income tax benefit	12	3	15	10
<b>Net loss applicable to common shareholders</b>	<b>\$ (46)</b>	<b>\$ (15)</b>	<b>\$ (52)</b>	<b>\$ (37)</b>
<b>Adjusted net income (loss)</b>	<b>\$ 16</b>	<b>\$ 2</b>	<b>\$ 27</b>	<b>\$ (1)</b>
Realized capital gains and losses, after-tax	6	(1)	13	(4)
Amortization of purchased intangibles, after-tax	(25)	(16)	(49)	(32)
Impairment of purchased intangibles, after-tax	(43)	—	(43)	—
<b>Net loss applicable to common shareholders</b>	<b>(46)</b>	<b>(15)</b>	<b>(52)</b>	<b>(37)</b>
SquareTrade <sup>(2)</sup>	\$ 19	\$ 5	\$ 33	\$ 7
Allstate Dealer Services	7	4	13	7
Arity	(1)	(3)	(3)	(6)
InfoArmor <sup>(3)</sup>	(6)	—	(7)	—
Allstate Roadside Services	(3)	(4)	(9)	(9)
<b>Adjusted net income (loss)</b>	<b>\$ 16</b>	<b>\$ 2</b>	<b>\$ 27</b>	<b>\$ (1)</b>
SquareTrade <sup>(2)</sup>			83,968	44,459
Allstate Dealer Services			3,873	3,959
InfoArmor <sup>(3)</sup>			1,260	—
Allstate Roadside Services			635	681
<b>Policies in force as of June 30 (in thousands)</b>			<b>89,736</b>	<b>49,099</b>

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

<sup>(2)</sup> SquareTrade acquired PlumChoice on November 30, 2018 and iCracked on February 12, 2019.

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

*Net loss applicable to common shareholders* was \$46 million in the second quarter of 2019 compared to \$15 million in the second quarter of 2018 and \$52 million in the first six months of 2019 compared to \$37 million in the first six months of 2018, including a \$55 million intangible asset impairment related to the SquareTrade trade name in the second quarter of 2019.

*Adjusted net income* was \$16 million in the second quarter of 2019 compared to \$2 million in the second quarter of 2018. Adjusted net income was \$27 million in the first six months of 2019 compared to an adjusted

net loss of \$1 million in the first six months of 2018. The improvement in both periods was primarily due to growth and improved loss experience at SquareTrade and favorable loss experience at Allstate Dealer Services, partially offset by higher operating expenses related to investing in growth at SquareTrade and InfoArmor and integrating the InfoArmor business.

*Total revenues* increased 26.6% to \$405 million in the second quarter of 2019 from \$320 million in the second quarter of 2018 and 25.9% to \$797 million in the first six months of 2019 from \$633 million in the first six

months of 2018. The increase in both periods was primarily due to SquareTrade's growth through its U.S. retail and international distribution partners and the acquisitions of InfoArmor, PlumChoice and iCracked.

*Premiums written* increased 17.8% or \$53 million to \$350 million in the second quarter of 2019 from \$297 million in the second quarter of 2018 and 22.9% or \$134 million to \$718 million in the first six months of 2019 from \$584 million in the first six months of 2018. The increase in both periods was primarily due to continued growth at SquareTrade and increased premiums written by Allstate Dealer Services.

*PIF* of 89.7 million as of June 30, 2019, increased by 82.8% compared to 49.1 million as of June 30, 2018, due to continued growth at SquareTrade.

*Intersegment premiums and service fees* increased by 13.8% or \$4 million to \$33 million in second quarter 2019 from \$29 million in second quarter 2018 and 13.8% or \$8 million to \$66 million in the first six months of 2019 from \$58 million in the first six months of 2018. The increase in both periods was primarily due to increased auto connections through Arity's device and mobile data collection services and analytic solutions.

*Other revenue* increased by \$32 million to \$48 million in second quarter 2019 from \$16 million in second quarter 2018 and \$63 million to \$95 million in the first six months of 2019 from \$32 million in the first six months of 2018, due to the acquisition of InfoArmor and SquareTrade's acquisitions of PlumChoice and iCracked. All of the revenue from these acquired businesses is reported as other revenue. See Note 3 of the condensed consolidated financial statements for further details.

*Claims and claims expense* decreased 3.4% to \$86 million in second quarter 2019 compared to \$89 million in second quarter 2018 and 2.2% to \$178 million in the first six months of 2019 compared to \$182 million in the first six months of 2018. The decrease in both periods was primarily due to improved loss experience at SquareTrade and Allstate Dealer Services.

*Amortization of DAC* increased 18.6% or \$21 million to \$134 million in the second quarter of 2019 from \$113 million in the second quarter of 2018 and 17.0% or \$38 million to \$261 million in the first six months of 2019 compared to \$223 million in the first six months of 2018. The increase in both periods is in line with the growth experienced at SquareTrade and Allstate Dealer Services.

*Operating costs and expenses* increased 36.2% or \$42 million to \$158 million in the second quarter of 2019 from \$116 million in the second quarter of 2018 and 32.6% or \$76 million to \$309 million in the first six months of 2019 compared to \$233 million in the first six months of 2018. The increase in both periods was primarily due to the acquisitions of InfoArmor, PlumChoice and iCracked, product development costs, investments in growing the business at SquareTrade and InfoArmor and integrating the InfoArmor business.

*Amortization and impairment of purchased intangibles* relates to the acquisitions of SquareTrade in 2017 and InfoArmor in 2018. We recognized \$486 million and \$257 million of intangible assets subject to amortization for SquareTrade and InfoArmor, respectively. We recorded amortization expense of \$31 million and \$62 million in the second quarter and first six months of 2019, respectively, compared to \$20 million and \$41 million in the second quarter and first six months of 2018, respectively.

During the second quarter of 2019, we made the decision to phase-out the use of the SquareTrade trade name in the United States and sell consumer protection plans under the Allstate Protection Plan name. The SquareTrade trade name will continue to be used outside of the United States. This change in the second quarter of 2019 required an impairment evaluation of the intangible asset recognized for SquareTrade's trade name that was recorded when SquareTrade was acquired in 2017. As a result, the Company recognized impairment of \$55 million during the second quarter of 2019.

## Allstate Life Segment

## Summarized financial information

(\$ in millions)	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
<b>Revenues</b>				
Premiums and contract charges	\$ 333	\$ 326	\$ 670	\$ 653
Other revenue	33	28	60	54
Net investment income	125	130	252	252
Realized capital gains and losses	1	(3)	(4)	(6)
<b>Total revenues</b>	<b>492</b>	<b>481</b>	<b>978</b>	<b>953</b>
<b>Costs and expenses</b>				
Contract benefits	(216)	(195)	(430)	(400)
Interest credited to contractholder funds	(70)	(71)	(142)	(141)
Amortization of DAC	(29)	(35)	(57)	(68)
Operating costs and expenses	(91)	(86)	(182)	(169)
Restructuring and related charges	(1)	(2)	(1)	(2)
<b>Total costs and expenses</b>	<b>(407)</b>	<b>(389)</b>	<b>(812)</b>	<b>(780)</b>
Income tax expense	(18)	(17)	(32)	(31)
<b>Net income applicable to common shareholders</b>	<b>\$ 67</b>	<b>\$ 75</b>	<b>\$ 134</b>	<b>\$ 142</b>
<b>Adjusted net income</b>	<b>\$ 68</b>	<b>\$ 80</b>	<b>\$ 141</b>	<b>\$ 151</b>
Realized capital gains and losses, after-tax	—	(2)	(4)	(4)
DAC and DSI amortization related to realized capital gains and losses, after-tax	(1)	(3)	(3)	(5)
<b>Net income applicable to common shareholders</b>	<b>\$ 67</b>	<b>\$ 75</b>	<b>\$ 134</b>	<b>\$ 142</b>
Reserve for life-contingent contract benefits as of June 30			\$ 2,720	\$ 2,651
Contractholder funds as of June 30			\$ 7,711	\$ 7,630
Policies in force as of June 30 by distribution channel (in thousands)				
Allstate agencies			1,822	1,819
Closed channels			187	200
Total			2,009	2,019

*Net income applicable to common shareholders* was \$67 million in the second quarter of 2019 compared to \$75 million in the second quarter of 2018 and was \$134 million in the first six months of 2019 compared to \$142 million in the first six months of 2018.

*Adjusted net income* was \$68 million in the second quarter of 2019 compared to \$80 million in the second quarter of 2018. Adjusted net income was \$141 million in the first six months of 2019 compared to \$151 million

in the first six months of 2018. The decrease in both periods was primarily due to higher contract benefits and operating costs and expenses, partially offset by higher premiums, lower amortization of DAC and increased other revenue.

*Premiums and contract charges* increased 2.1% or \$7 million in the second quarter of 2019 and 2.6% or \$17 million in the first six months of 2019 compared to the same periods of 2018. The increase in both periods primarily relates to growth in traditional life insurance.

## Premiums and contract charges by product

(\$ in millions)	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Traditional life insurance premiums	\$ 156	\$ 148	\$ 310	\$ 294
Accident and health insurance premiums	1	1	1	1
Interest-sensitive life insurance contract charges	176	177	359	358
<b>Premiums and contract charges <sup>(1)</sup></b>	<b>\$ 333</b>	<b>\$ 326</b>	<b>\$ 670</b>	<b>\$ 653</b>

<sup>(1)</sup> Contract charges related to the cost of insurance totaled \$123 million and \$121 million for the second quarter of 2019 and 2018, respectively, and \$252 million and \$247 million for the first six months of 2019 and 2018, respectively.

*Other revenue* increased 17.9% or \$5 million in the second quarter of 2019 and 11.1% or \$6 million in the first six months of 2019 compared to the same periods

of 2018, primarily due to higher gross dealer concessions earned on Allstate agencies' sales of non-proprietary fixed and variable annuities.



*Contract benefits* increased 10.8% or \$21 million in the second quarter of 2019 and 7.5% or \$30 million in the first six months of 2019 compared to the same periods of 2018, primarily due to higher claim experience on both traditional and interest-sensitive life insurance.

*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 14.7% to \$64 million in the second quarter of 2019 compared to \$75 million in the second quarter of 2018 and 6.3% to \$133 million in the first six months of 2019 compared to \$142 million in the first six months of 2018, primarily due to higher claim experience on both traditional and interest-sensitive life insurance, partially offset by growth in traditional life premiums.

*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 contractholder funds on net income. Investment spread decreased 6.8% to \$55 million in the second quarter of 2019 compared to \$59 million in the second quarter of 2018, primarily due to lower net investment income. Investment spread decreased 0.9% to \$110 million in the first six months of 2019 compared to \$111 million in the first six months of 2018.

*Amortization of DAC* decreased 17.1% or \$6 million in the second quarter of 2019 and 16.2% or \$11 million in the first six months of 2019 compared to the same periods of 2018, primarily due to lower gross profits on interest-sensitive life insurance.

#### Components of amortization of DAC

(\$ in millions)	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Amortization of DAC before amortization relating to realized capital gains and losses and changes in assumptions	\$ 27	\$ 31	\$ 53	\$ 62
Amortization relating to realized capital gains and losses <sup>(1)</sup>	2	4	4	6
Amortization acceleration for changes in assumptions ("DAC unlocking")	—	—	—	—
<b>Total amortization of DAC</b>	<b>\$ 29</b>	<b>\$ 35</b>	<b>\$ 57</b>	<b>\$ 68</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.

*Operating costs and expenses* increased 5.8% or \$5 million in the second quarter of 2019 and 7.7% or \$13 million in the first six months of 2019 compared to the same periods of 2018, primarily due to loss contingency expense related to reinsurance as well as higher commissions on non-proprietary product sales.

#### Analysis of reserves and contractholder funds

##### Reserve for life-contingent contract benefits

(\$ in millions)	June 30, 2019	December 31, 2018
Traditional life insurance	\$ 2,589	\$ 2,539
Accident and health insurance	131	138
<b>Reserve for life-contingent contract benefits</b>	<b>\$ 2,720</b>	<b>\$ 2,677</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)	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
<b>Contractholder funds, beginning balance</b>	\$ 7,686	\$ 7,603	\$ 7,656	\$ 7,608
<b>Deposits</b>	242	238	476	478
<b>Interest credited</b>	70	71	142	141
<b>Benefits, withdrawals and other adjustments</b>				
Benefits	(63)	(56)	(124)	(115)
Surrenders and partial withdrawals	(63)	(65)	(133)	(132)
Contract charges	(174)	(175)	(350)	(351)
Net transfers from separate accounts	4	2	6	4
Other adjustments <sup>(1)</sup>	9	12	38	(3)
Total benefits, withdrawals and other adjustments	(287)	(282)	(563)	(597)
<b>Contractholder funds, ending balance</b>	\$ 7,711	\$ 7,630	\$ 7,711	\$ 7,630

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

## Allstate Benefits Segment



## Summarized financial information

(\$ in millions)	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
<b>Revenues</b>				
Premiums and contract charges	\$ 284	\$ 283	\$ 572	\$ 569
Net investment income	21	19	40	38
Realized capital gains and losses	2	—	6	(2)
<b>Total revenues</b>	<b>307</b>	<b>302</b>	<b>618</b>	<b>605</b>
<b>Costs and expenses</b>				
Contract benefits	(143)	(143)	(288)	(292)
Interest credited to contractholder funds	(8)	(9)	(17)	(17)
Amortization of DAC	(35)	(36)	(78)	(77)
Operating costs and expenses	(71)	(69)	(142)	(139)
<b>Total costs and expenses</b>	<b>(257)</b>	<b>(257)</b>	<b>(525)</b>	<b>(525)</b>
Income tax expense	(11)	(9)	(20)	(17)
<b>Net income applicable to common shareholders</b>	<b>\$ 39</b>	<b>\$ 36</b>	<b>\$ 73</b>	<b>\$ 63</b>
<b>Adjusted net income</b>	<b>\$ 37</b>	<b>\$ 36</b>	<b>\$ 68</b>	<b>\$ 65</b>
Realized capital gains and losses, after-tax	2	—	5	(2)
<b>Net income applicable to common shareholders</b>	<b>\$ 39</b>	<b>\$ 36</b>	<b>\$ 73</b>	<b>\$ 63</b>
Benefit ratio <sup>(1)</sup>	50.4	50.5	50.3	51.3
Operating expense ratio <sup>(2)</sup>	25.0	24.4	24.8	24.4
Reserve for life-contingent contract benefits as of June 30			\$ 1,010	\$ 995
Contractholder funds as of June 30			\$ 906	\$ 899
Policies in force as of June 30 (in thousands)			4,296	4,283

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

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

*Net income applicable to common shareholders* was \$39 million in the second quarter of 2019 compared to \$36 million in the second quarter of 2018 and was \$73 million in the first six months of 2019 compared to \$63 million in the first six months of 2018.

*Adjusted net income* was \$37 million in the second quarter of 2019 compared to \$36 million in the second quarter of 2018, primarily due to higher net investment income and premiums, partially offset by higher operating costs and expenses. Adjusted net income

was \$68 million in the first six months of 2019 compared to \$65 million in the first six months of 2018, primarily due to lower contract benefits and higher premiums, partially offset by higher operating costs and expenses.

*Premiums and contract charges* increased 0.4% or \$1 million in the second quarter of 2019 and 0.5% or \$3 million in the first six months of 2019 compared to the same periods of 2018.

**Premiums and contract charges by product**

(\$ in millions)	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Life	\$ 38	\$ 38	\$ 76	\$ 76
Accident	74	75	150	149
Critical illness	120	119	242	240
Short-term disability	27	27	53	54
Other health	25	24	51	50
<b>Premiums and contract charges</b>	<b>\$ 284</b>	<b>\$ 283</b>	<b>\$ 572</b>	<b>\$ 569</b>

*Contract benefits* in the second quarter of 2019 were comparable to the second quarter of 2018. Contract benefits decreased 1.4% or \$4 million in the first six months of 2019 compared to the first six months of 2018, primarily due to favorable mortality experience in life products.

*Benefit ratio* decreased to 50.4 and 50.3 in the second quarter and the first six months of 2019, respectively, compared to 50.5 and 51.3 in the same periods of 2018, primarily due to favorable mortality experience in life products, partially offset by higher claims experience in disability products.

**Operating costs and expenses**

(\$ in millions)	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Non-deferrable commissions	\$ 26	\$ 27	\$ 52	\$ 54
General and administrative expenses	45	42	90	85
<b>Total operating costs and expenses</b>	<b>\$ 71</b>	<b>\$ 69</b>	<b>\$ 142</b>	<b>\$ 139</b>

*Operating costs and expenses* increased 2.9% or \$2 million in the second quarter of 2019 and 2.2% or \$3 million in the first six months of 2019 compared to the same periods of 2018.

**Analysis of reserves****Reserve for life-contingent contract benefits**

(\$ in millions)	June 30, 2019	December 31, 2018
Traditional life insurance	\$ 273	\$ 269
Accident and health insurance	737	738
<b>Reserve for life-contingent contract benefits</b>	<b>\$ 1,010</b>	<b>\$ 1,007</b>

## Allstate Annuities Segment

## Summarized financial information

(\$ in millions)	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
<b>Revenues</b>				
Contract charges	\$ 4	\$ 3	\$ 7	\$ 6
Net investment income	296	293	486	583
Realized capital gains and losses	48	6	204	(23)
<b>Total revenues</b>	<b>348</b>	<b>302</b>	<b>697</b>	<b>566</b>
<b>Costs and expenses</b>				
Contract benefits	(152)	(145)	(290)	(295)
Interest credited to contractholder funds	(78)	(85)	(159)	(168)
Amortization of DAC	(1)	(2)	(3)	(3)
Operating costs and expenses	(8)	(9)	(15)	(18)
<b>Total costs and expenses</b>	<b>(239)</b>	<b>(241)</b>	<b>(467)</b>	<b>(484)</b>
Gain on disposition of operations	2	2	3	3
Income tax expense	(23)	(13)	(48)	(18)
<b>Net income applicable to common shareholders</b>	<b>\$ 88</b>	<b>\$ 50</b>	<b>\$ 185</b>	<b>\$ 67</b>
<b>Adjusted net income</b>				
Realized capital gains and losses, after-tax	37	5	161	(18)
Valuation changes on embedded derivatives not hedged, after-tax	(2)	—	(5)	4
Gain on disposition of operations, after-tax	1	1	2	2
<b>Net income applicable to common shareholders</b>	<b>\$ 88</b>	<b>\$ 50</b>	<b>\$ 185</b>	<b>\$ 67</b>
Reserve for life-contingent contract benefits as of June 30			\$ 8,607	\$ 8,567
Contractholder funds as of June 30			\$ 9,347	\$ 10,359
Policies in force as of June 30 (in thousands)				
Deferred annuities			120	133
Immediate annuities			81	87
Total			201	220

*Net income applicable to common shareholders* was \$88 million in the second quarter of 2019 compared to \$50 million in the second quarter of 2018 and was \$185 million in the first six months of 2019 compared to \$67 million in the first six months of 2018.

*Adjusted net income* was \$52 million in the second quarter of 2019 compared to \$44 million in the second quarter of 2018, primarily due to lower interest credited to contractholder funds and higher net investment income, partially offset by higher contract benefits. Adjusted net income was \$27 million in the first six months of 2019 compared to \$79 million in the first six months of 2018, primarily due to lower net investment income, partially offset by lower interest credited to contractholder funds.

*Net investment income* increased 1.0% or \$3 million in the second quarter of 2019 compared to the second quarter of 2018, due to higher performance-based investment results, mainly from limited partnership interests, partially offset by lower average investment balances. Performance-based investment results in the second quarter of 2019 reflect higher asset appreciation and gains on sales of underlying investments. Net investment income decreased 16.6% or \$97 million in the first six months of 2019 compared

to the first six months of 2018, due to lower performance-based investment results, mainly from limited partnership interests, and lower average investment balances.

*Net realized capital gains* in both the second quarter of 2019 and the first six months of 2019 primarily related to increased valuation of equity investments and gains on sales of fixed income securities.

*Contract benefits* increased 4.8% or \$7 million in the second quarter of 2019 compared to the second quarter of 2018, primarily due to worse immediate annuity mortality experience. Contract benefits decreased 1.7% or \$5 million in the first six months of 2019 compared to the first six months of 2018, primarily due to lower implied interest on immediate annuities with life contingencies.

*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 \$119 million and \$240 million in the second quarter and first six months of 2019, respectively, compared to \$123 million and \$247 million in the second quarter and first

six months of 2018, respectively. Total benefit spread was \$(31) million in second quarter 2019 compared to \$(21) million in second quarter 2018 and \$(46) million in the first six months of 2019 compared to \$(45) million in the first six months of 2018.

*Interest credited to contractholder funds* decreased 8.2% or \$7 million in the second quarter of 2019 and 5.4% or \$9 million in the first six months of 2019 compared to the same periods of 2018, primarily due to lower average contractholder funds. Valuation changes on derivatives embedded in equity-indexed annuity contracts that are not hedged increased interest credited to contractholder funds by \$3 million

and \$6 million in the second quarter and first six months of 2019, respectively, compared to decreases of \$2 million and \$6 million in the second quarter and first six months of 2018, respectively.

*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)	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Investment spread before valuation changes on embedded derivatives not hedged	\$ 102	\$ 83	\$ 93	\$ 162
Valuation changes on derivatives embedded in equity-indexed annuity contracts that are not hedged	(3)	2	(6)	6
<b>Total investment spread</b>	<b>\$ 99</b>	<b>\$ 85</b>	<b>\$ 87</b>	<b>\$ 168</b>

Investment spread before valuation changes on embedded derivatives not hedged increased by \$19 million to \$102 million in the second quarter of 2019 compared to \$83 million in the second quarter of 2018 primarily due to lower interest credited to contractholder funds as well as higher investment income, mainly from limited partnership interests. Investment spread before valuation changes on embedded derivatives not hedged decreased by \$69 million to \$93 million in the first six months of 2019 compared to \$162 million in the first six months of 2018 primarily due to lower investment income, mainly from

limited partnership interests, partially offset by lower interest credited to contractholder funds.

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

	Three months ended June 30,					
	Weighted average investment yield		Weighted average interest crediting rate		Weighted average investment spreads	
	2019	2018	2019	2018	2019	2018
Deferred fixed annuities	4.5%	4.2%	2.7%	2.8%	1.8 %	1.4%
Immediate fixed annuities with and without life contingencies	7.3	7.1	5.9	6.0	1.4	1.1
	Six months ended June 30,					
	Weighted average investment yield		Weighted average interest crediting rate		Weighted average investment spreads	
	2019	2018	2019	2018	2019	2018
Deferred fixed annuities	4.3%	4.2%	2.7%	2.8%	1.6 %	1.4%
Immediate fixed annuities with and without life contingencies	5.4	7.0	5.9	6.0	(0.5)	1.0

*Operating costs and expenses* decreased by \$1 million in the second quarter of 2019 and \$3 million in the first six months of 2019 compared to the same periods of 2018, primarily due to lower technology and employee-related costs.

## Analysis of reserves and contractholder funds

<b>Product Liabilities</b>			
(\$ in millions)	June 30, 2019		December 31, 2018
Immediate fixed annuities with life contingencies			
Sub-standard structured settlements and group pension terminations <sup>(1)</sup>	\$	5,141	\$ 4,990
Standard structured settlements and SPIA <sup>(2)</sup>		3,403	3,425
Other		63	109
<b>Reserve for life-contingent contract benefits</b>	<b>\$</b>	<b>8,607</b>	<b>\$ 8,524</b>
Deferred fixed annuities	\$	6,797	\$ 7,156
Immediate fixed annuities without life contingencies		2,435	2,525
Other		115	136
<b>Contractholder funds</b>	<b>\$</b>	<b>9,347</b>	<b>\$ 9,817</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. 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. The following table shows the changes in contractholder funds.

(\$ in millions)	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
<b>Contractholder funds, beginning balance</b>	\$ 9,571	\$ 10,643	\$ 9,817	\$ 10,936
<b>Deposits</b>	4	5	9	9
<b>Interest credited</b>	78	84	158	166
<b>Benefits, withdrawals and other adjustments</b>				
Benefits	(135)	(148)	(276)	(304)
Surrenders and partial withdrawals	(150)	(227)	(331)	(428)
Contract charges	(2)	(1)	(4)	(3)
Net transfers from separate accounts	—	—	(1)	—
Other adjustments <sup>(1)</sup>	(19)	3	(25)	(17)
Total benefits, withdrawals and other adjustments	(306)	(373)	(637)	(752)
<b>Contractholder funds, ending balance</b>	<b>\$ 9,347</b>	<b>\$ 10,359</b>	<b>\$ 9,347</b>	<b>\$ 10,359</b>

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

Contractholder funds decreased 2.3% and 4.8% in the second quarter and first six months of 2019, 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 decreased 33.9% to \$150 million in the second quarter of 2019 from \$227 million in the second quarter of 2018. Surrenders and partial withdrawals decreased 22.7% to \$331 million in the first six months of 2019 from \$428 million in the first six months of 2018.

The annualized surrender and partial withdrawal rate on deferred fixed annuities, based on the beginning of year contractholder funds, was 10.1% in the first six months of 2019 compared to 11.4% in the first six months of 2018.

## Investments

Portfolio composition and strategy by reporting segment <sup>(1)</sup>

(\$ in millions)	As of June 30, 2019						
	Property-Liability	Service Businesses	Allstate Life	Allstate Benefits	Allstate Annuities	Corporate and Other	Total
Fixed income securities <sup>(2)</sup>	\$ 31,980	\$ 1,077	\$ 7,682	\$ 1,302	\$ 14,436	\$ 2,007	\$ 58,484
Equity securities <sup>(3)</sup>	5,805	228	102	109	1,339	323	7,906
Mortgage loans	359	—	1,933	205	2,190	—	4,687
Limited partnership interests	4,558	—	—	—	3,260	—	7,818
Short-term investments <sup>(4)</sup>	1,962	103	330	29	899	417	3,740
Other	1,589	—	1,322	304	641	—	3,856
<b>Total</b>	<b>\$ 46,253</b>	<b>\$ 1,408</b>	<b>\$ 11,369</b>	<b>\$ 1,949</b>	<b>\$ 22,765</b>	<b>\$ 2,747</b>	<b>\$ 86,491</b>
<b>Percent to total</b>	<b>53.5%</b>	<b>1.6%</b>	<b>13.1%</b>	<b>2.3%</b>	<b>26.3%</b>	<b>3.2%</b>	<b>100.0%</b>
Market-based core	\$ 32,239	\$ 1,408	\$ 11,369	\$ 1,949	\$ 17,925	\$ 2,747	\$ 67,637
Market-based active	9,268	—	—	—	1,340	—	10,608
Performance-based	4,746	—	—	—	3,500	—	8,246
<b>Total</b>	<b>\$ 46,253</b>	<b>\$ 1,408</b>	<b>\$ 11,369</b>	<b>\$ 1,949</b>	<b>\$ 22,765</b>	<b>\$ 2,747</b>	<b>\$ 86,491</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 \$30.99 billion, \$1.04 billion, \$7.15 billion, \$1.25 billion, \$13.62 billion, \$1.97 billion and \$56.01 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 June 30, 2019, was \$1.23 billion in excess of cost. These net gains were primarily concentrated in the consumer goods and technology sectors and in domestic equity index funds.

<sup>(4)</sup> Short-term investments are carried at fair value.

Investments totaled \$86.49 billion as of June 30, 2019, increasing from \$81.26 billion as of December 31, 2018, primarily due to higher fixed income and equity valuations, positive operating cash flows and issuance of senior debt, partially offset by common share repurchases, dividends paid to shareholders, net reductions in contractholder funds and repayment of senior debt.

**Portfolio composition by investment strategy** We utilize two primary strategies to manage risks and returns and to position our portfolio to take advantage of market opportunities while attempting to mitigate adverse effects. As strategies and market conditions evolve, the asset allocation may change or assets may be moved between strategies.

*Market-based* strategies include investments primarily in public fixed income and equity securities. *Market-based core* seeks to deliver predictable earnings aligned to business needs and returns consistent with the markets in which we invest. Private fixed income assets, such as commercial mortgages, bank loans and privately placed debt that provide liquidity premiums are also included in this category. *Market-based active* seeks to outperform within the public markets through tactical positioning and by taking advantage of short-term opportunities. This category may generate results that meaningfully deviate from those achieved by market indices, both favorably and unfavorably.

*Performance-based* strategy seeks to deliver attractive risk-adjusted returns and supplement market risk with idiosyncratic risk primarily through investments in private equity and real estate.



**Portfolio composition by investment strategy**

(\$ in millions)	As of June 30, 2019			
	Market-based core	Market-based active	Performance-based	Total
Fixed income securities	\$ 49,715	\$ 8,679	\$ 90	\$ 58,484
Equity securities	6,880	798	228	7,906
Mortgage loans	4,687	—	—	4,687
Limited partnership interests	594	239	6,985	7,818
Short-term investments	2,994	746	—	3,740
Other	2,767	146	943	3,856
<b>Total</b>	<b>\$ 67,637</b>	<b>\$ 10,608</b>	<b>\$ 8,246</b>	<b>\$ 86,491</b>
<b>Percent to total</b>	<b>78.2%</b>	<b>12.3%</b>	<b>9.5%</b>	<b>100.0%</b>
Unrealized net capital gains and losses				
Fixed income securities	\$ 2,215	\$ 261	\$ —	\$ 2,476
Limited partnership interests	—	—	(1)	(1)
Other	(3)	—	—	(3)
<b>Total</b>	<b>\$ 2,212</b>	<b>\$ 261</b>	<b>\$ (1)</b>	<b>\$ 2,472</b>

**Fixed income securities by type**

(\$ in millions)	Fair value as of	
	June 30, 2019	December 31, 2018
U.S. government and agencies	\$ 4,160	\$ 5,517
Municipal	8,891	9,169
Corporate	43,273	40,136
Foreign government	791	747
Asset-backed securities ("ABS")	859	1,045
Residential mortgage-backed securities ("RMBS")	418	464
Commercial mortgage-backed securities ("CMBS")	70	70
Redeemable preferred stock	22	22
<b>Total fixed income securities</b>	<b>\$ 58,484</b>	<b>\$ 57,170</b>

Fixed income securities are rated by third-party credit rating agencies and/or are internally rated. As of June 30, 2019, 87.7% 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 and losses for fixed income securities by credit quality

(\$ in millions)	As of June 30, 2019						
	Investment grade		Below investment grade		Total		Percent rated investment grade
	Fair value	Unrealized gain (loss)	Fair value	Unrealized gain (loss)	Fair value	Unrealized gain (loss)	
U.S. government and agencies	\$ 4,160	\$ 180	\$ —	\$ —	\$ 4,160	\$ 180	100.0%
Municipal							
Tax exempt	6,861	238	30	1	6,891	239	99.6%
Taxable	1,960	273	40	1	2,000	274	98.0%
Total Municipal	8,821	511	70	2	8,891	513	99.2%
Corporate							
Public	27,364	1,145	3,415	79	30,779	1,224	88.9%
Privately placed	9,181	361	3,313	68	12,494	429	73.5%
Total Corporate	36,545	1,506	6,728	147	43,273	1,653	84.5%
Foreign government	783	25	8	—	791	25	99.0%
ABS							
Collateralized debt obligations (“CDO”)	316	(2)	38	2	354	—	89.3%
Consumer and other asset-backed securities (“Consumer and other ABS”) (1)	489	6	16	—	505	6	96.8%
Total ABS	805	4	54	2	859	6	93.7%
RMBS							
U.S. government sponsored entities (“U.S. Agency”)	65	1	—	—	65	1	100.0%
Non-agency	38	3	315	89	353	92	10.8%
Total RMBS	103	4	315	89	418	93	24.6%
CMBS	37	1	33	4	70	5	52.9%
Redeemable preferred stock	22	1	—	—	22	1	100.0%
<b>Total fixed income securities</b>	<b>\$ 51,276</b>	<b>\$ 2,232</b>	<b>\$ 7,208</b>	<b>\$ 244</b>	<b>\$ 58,484</b>	<b>\$ 2,476</b>	<b>87.7%</b>

(1) Total Consumer and other ABS consists of \$136 million of consumer auto, \$127 million of credit card and \$242 million of other ABS with unrealized net capital gains of \$1 million, \$1 million and \$4 million, respectively.

**Municipal bonds** include general obligations of state and local issuers and revenue bonds (including pre-refunded bonds, which are bonds for which an irrevocable trust has been established to fund the remaining payments of principal and interest).

**Corporate bonds** include publicly traded and privately placed securities. Privately placed securities primarily consist of corporate issued senior debt securities that are directly negotiated with the borrower or are in unregistered form.

**ABS** includes CDO and Consumer and other ABS. 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 consist of obligations collateralized by cash flow CDO, which are structures collateralized primarily by below investment grade senior secured corporate loans.

**RMBS** 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.

**CMBS** investments are primarily traditional conduit transactions collateralized by commercial mortgage loans, broadly diversified across property types and geographical area.

**Equity securities** totaled \$7.91 billion as of June 30, 2019 and primarily include common stocks, exchange traded and mutual funds, non-redeemable preferred stocks and real estate investment trust equity investments. Exchange traded and mutual funds that have fixed income securities as their underlying investments totaled \$1.98 billion as of June 30, 2019, an increase of \$1.58 billion compared to December 31, 2018.

**Mortgage loans**, which are primarily held in the life and annuity portfolios, totaled \$4.69 billion as of June 30, 2019, and primarily comprise loans secured by first mortgages on developed commercial real estate.

**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 June 30, 2019			
	Limited partnership interests <sup>(1)</sup>	Number of managers	Number of individual investments	Largest exposure to single investment
Private equity	\$ 5,952	148	293	\$ 191
Real estate	1,033	37	76	62
Other	833	11	12	402
<b>Total</b>	<b>\$ 7,818</b>	<b>196</b>	<b>381</b>	

<sup>(1)</sup> We have commitments to invest in additional limited partnership interests totaling \$2.89 billion.

**Unrealized net capital gains** totaled \$2.47 billion as of June 30, 2019 compared to \$33 million as of December 31, 2018.

**Unrealized net capital gains (losses)**

(\$ in millions)	June 30, 2019	December 31, 2018
U.S. government and agencies	\$ 180	\$ 131
Municipal	513	206
Corporate	1,653	(400)
Foreign government	25	8
ABS	6	(4)
RMBS	93	87
CMBS	5	7
Redeemable preferred stock	1	1
<b>Fixed income securities</b>	<b>2,476</b>	<b>36</b>
Derivatives	(3)	(3)
EMA limited partnerships	(1)	—
<b>Unrealized net capital gains and losses, pre-tax</b>	<b>\$ 2,472</b>	<b>\$ 33</b>

The unrealized net capital gain for the fixed income portfolio totaled \$2.48 billion, comprised of \$2.57 billion of gross unrealized gains and \$91 million of gross unrealized losses as of June 30, 2019. This compares to an unrealized net capital gain for the fixed income portfolio totaling \$36 million, comprised of \$993 million of gross unrealized gains and \$957 million of gross unrealized losses as of December 31, 2018. Fixed income valuations increased primarily due to a decrease in risk-free interest rates and tighter credit spreads.

## Gross unrealized gains (losses) on fixed income securities by type and sector

(\$ in millions)	As of June 30, 2019			
	Amortized cost	Gross unrealized		Fair value
		Gains	Losses	
Corporate:				
Consumer goods (cyclical and non-cyclical)	\$ 12,066	\$ 419	\$ (21)	\$ 12,464
Banking	3,989	117	(15)	4,091
Utilities	5,395	369	(14)	5,750
Energy	2,548	125	(9)	2,664
Technology	2,867	83	(5)	2,945
Capital goods	4,995	179	(4)	5,170
Financial services	2,538	91	(4)	2,625
Communications	2,869	123	(3)	2,989
Basic industry	1,974	100	(2)	2,072
Transportation	1,985	113	(1)	2,097
Other	394	12	—	406
<b>Total corporate fixed income portfolio</b>	<b>41,620</b>	<b>1,731</b>	<b>(78)</b>	<b>43,273</b>
U.S. government and agencies	3,980	180	—	4,160
Municipal	8,378	516	(3)	8,891
Foreign government	766	26	(1)	791
ABS	853	11	(5)	859
RMBS	325	94	(1)	418
CMBS	65	8	(3)	70
Redeemable preferred stock	21	1	—	22
<b>Total fixed income securities</b>	<b>\$ 56,008</b>	<b>\$ 2,567</b>	<b>\$ (91)</b>	<b>\$ 58,484</b>

The consumer goods, utilities and capital goods sectors comprise 29%, 13% and 12%, respectively, of the carrying value of our corporate fixed income securities portfolio as of June 30, 2019. The consumer goods, banking and utilities sectors had the highest concentration of gross unrealized losses in our corporate fixed income securities portfolio as of June 30, 2019.

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.

**Net investment income**

(\$ in millions)	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Fixed income securities	\$ 543	\$ 509	\$ 1,081	\$ 1,017
Equity securities	68	61	98	95
Mortgage loans	54	60	107	111
Limited partnership interests	254	173	263	353
Short-term investments	26	19	52	31
Other	67	68	130	134
Investment income, before expense	1,012	890	1,731	1,741
Investment expense <sup>(1) (2)</sup>	(70)	(66)	(141)	(131)
<b>Net investment income</b>	<b>\$ 942</b>	<b>\$ 824</b>	<b>\$ 1,590</b>	<b>\$ 1,610</b>
Market-based core	\$ 647	\$ 622	\$ 1,260	\$ 1,205
Market-based active	86	75	168	146
Performance-based	279	193	303	390
<b>Investment income, before expense</b>	<b>\$ 1,012</b>	<b>\$ 890</b>	<b>\$ 1,731</b>	<b>\$ 1,741</b>

<sup>(1)</sup> Investment expense includes \$20 million and \$18 million of investee level expenses in the second quarter of 2019 and 2018, respectively, and \$40 million and \$36 million in the first six months of 2019 and 2018, respectively. Investee level expenses include depreciation and asset level operating expenses on directly held real estate and other consolidated investments.

<sup>(2)</sup> Investment expense includes \$11 million and \$7 million related to the portion of reinvestment income on securities lending collateral paid to the counterparties in the second quarter of 2019 and 2018, respectively, and \$22 million and \$11 million in the first six months of 2019 and 2018, respectively.

*Net investment income* increased 14.3% or \$118 million in the second quarter of 2019 compared to the second quarter of 2018, primarily due to higher performance-based investment results, mainly from limited partnership interests, and higher income from market-based portfolios. Net investment income decreased 1.2% or \$20 million in the first six months of 2019 compared to the first six months of 2018, primarily due to lower performance-based investment results, mainly from limited partnership interests, partially offset by higher income from market-based portfolios.

**Performance-based investment income**

(\$ in millions)	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Limited partnerships				
Private equity	\$ 216	\$ 152	\$ 211	\$ 329
Real estate	38	21	50	24
<b>Performance-based - limited partnerships</b>	<b>254</b>	<b>173</b>	<b>261</b>	<b>353</b>
Non-limited partnerships				
Private equity	10	4	13	6
Real estate	15	16	29	31
<b>Performance-based - non-limited partnerships</b>	<b>25</b>	<b>20</b>	<b>42</b>	<b>37</b>
Total				
Private equity	226	156	224	335
Real estate	53	37	79	55
<b>Total performance-based</b>	<b>\$ 279</b>	<b>\$ 193</b>	<b>\$ 303</b>	<b>\$ 390</b>
Investee level expenses <sup>(1)</sup>	\$ (18)	\$ (17)	\$ (36)	\$ (33)

<sup>(1)</sup> Investee level expenses include depreciation and asset level operating expenses reported in investment expense.

*Performance-based investment income* increased 44.6% or \$86 million in the second quarter of 2019 compared to the second quarter of 2018, primarily due to higher asset appreciation and gains on sales of underlying investments. Performance-based investment income decreased 22.3% or \$87 million in the first six months of 2019 compared to the first six months of 2018, primarily due to lower asset appreciation related to private equity investments. The five highest contributing performance-based investments in each period generated investment

income of \$80 million and \$92 million in the first six months of 2019 and 2018, respectively.

Performance-based investment 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)	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Impairment write-downs				
Fixed income securities	\$ (9)	\$ (2)	\$ (11)	\$ (3)
Limited partnership interests	(2)	(1)	(3)	(1)
Other investments	(4)	(1)	(15)	(1)
<b>Total impairment write-downs</b>	<b>(15)</b>	<b>(4)</b>	<b>(29)</b>	<b>(5)</b>
Sales	117	(75)	212	(117)
Valuation of equity investments	200	34	827	(49)
Valuation and settlements of derivative instruments	22	20	(24)	12
<b>Realized capital gains and losses, pre-tax</b>	<b>324</b>	<b>(25)</b>	<b>986</b>	<b>(159)</b>
Income tax (expense) benefit	(68)	6	(206)	34
<b>Realized capital gains and losses, after-tax</b>	<b>\$ 256</b>	<b>\$ (19)</b>	<b>\$ 780</b>	<b>\$ (125)</b>
Market-based core	\$ 212	\$ (50)	\$ 731	\$ (127)
Market-based active	75	(11)	161	(60)
Performance-based	37	36	94	28
<b>Realized capital gains and losses, pre-tax</b>	<b>\$ 324</b>	<b>\$ (25)</b>	<b>\$ 986</b>	<b>\$ (159)</b>

*Realized capital gains* in the second quarter of 2019 and in the first six months of 2019, related primarily to increased valuation of equity investments and gains on sales of fixed income securities and investments in directly held real estate.

*Sales* resulted in \$117 million and \$212 million of net realized capital gains in the three and six months ended June 30, 2019, respectively. Sales related primarily to fixed income securities in connection with ongoing portfolio management as well as sales of investments in directly held real estate.

*Valuation of equity investments* resulted in gains of \$200 million for the three months ended June 30, 2019, which included \$178 million of appreciation in the valuation of equity securities and \$22 million of appreciation primarily for certain limited partnerships where the underlying assets are predominately public equity securities. Valuation of equity investments

resulted in gains of \$827 million for the six months ended June 30, 2019, which included \$731 million of appreciation in the valuation of equity securities and \$96 million of appreciation primarily for certain limited partnerships where the underlying assets are predominately public equity securities.

*Valuation and settlements of derivative instruments* generated gains of \$22 million for the three months ended June 30, 2019, primarily comprised of gains on interest rate futures and total return swaps used for asset replication, partially offset by losses on equity options and futures used for risk management. Valuation and settlements of derivative instruments generated losses of \$24 million for the six months ended June 30, 2019, primarily comprised of losses on equity options and futures used for risk management, partially offset by gains on total return swaps and interest rate futures used for asset replication.

**Realized capital gains (losses) for performance-based investments**

(\$ in millions)	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Impairment write-downs	\$ (2)	\$ (1)	\$ (3)	\$ (1)
Sales	31	(1)	60	(1)
Valuation of equity investments	2	19	27	19
Valuation and settlements of derivative instruments	6	19	10	11
<b>Total performance-based</b>	<b>\$ 37</b>	<b>\$ 36</b>	<b>\$ 94</b>	<b>\$ 28</b>

Realized capital gains on performance-based investments were \$37 million in the second quarter of 2019, primarily related to gains on sales of investments in directly held real estate. Realized capital gains on performance-based investments were \$94 million in the first six months of 2019, primarily related to gains on sales of investments in directly held real estate and increased valuation of equity investments. Realized capital gains on sales of investments in directly held real estate includes the recovery of accumulated depreciation recorded in investee level expenses over the investing period.

## 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.

<b>Capital resources</b>		
(\$ in millions)	<b>June 30, 2019</b>	<b>December 31, 2018</b>
Preferred stock, common stock, treasury stock, retained income and other shareholders' equity items	\$ 22,716	\$ 21,194
Accumulated other comprehensive income	1,760	118
<b>Total shareholders' equity</b>	<b>24,476</b>	<b>21,312</b>
Debt	6,628	6,451
<b>Total capital resources</b>	<b>\$ 31,104</b>	<b>\$ 27,763</b>
Ratio of debt to shareholders' equity	27.1%	30.3%
Ratio of debt to capital resources	21.3%	23.2%

**Shareholders' equity** increased in the first six months of 2019, primarily due to increased unrealized capital gains on investments and net income. In the six months ended June 30, 2019, we paid dividends of \$324 million and \$61 million related to our common and preferred shares, respectively.

**Common share repurchases** As of June 30, 2019, there was \$1.57 billion remaining on the \$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. 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. This ASR agreement was completed on May 3, 2019. Under the ASR agreement, we paid \$1.00 billion and acquired 11.1 million shares of which 417 thousand were delivered in 2019.

During the first six months of 2019, we repurchased 4.0 million common shares for \$498 million.

**Common shareholder dividends** On January 2, 2019 and April 1, 2019, we paid common shareholder dividends of \$0.46 and \$0.50, respectively. On May 21, 2019 and July 17, 2019, we declared common shareholder dividends of \$0.50 and \$0.50 payable on July 1, 2019 and October 1, 2019, respectively.

**Issuance of debt** On June 10, 2019, we issued \$500 million of 3.850% Senior Notes due 2049. Interest on the Senior Notes is payable semi-annually in arrears on February 10 and August 10 of each year, beginning on February 10, 2020. The Senior Notes are redeemable at any time at the applicable redemption price prior to the maturity date. The proceeds of this issuance will be used for general corporate purposes.

**Repayment of debt** On May 16, 2019 we repaid \$317 million of 7.450% Senior Notes, Series B, at maturity.

**Financial ratings and strength** Our ratings are influenced by many factors including our operating and financial performance, asset quality, liquidity, asset/liability management, overall portfolio mix, financial leverage (i.e. debt), exposure to risks such as

catastrophes and the current level of operating leverage. The preferred stock and subordinated debentures are viewed as having a common equity component by certain rating agencies and are given equity credit up to a pre-determined limit in our capital structure as determined by their respective methodologies. These respective methodologies consider the existence of certain terms and features in the instruments such as the noncumulative dividend feature in the preferred stock.

In May 2019, A.M. Best affirmed The Allstate Corporation's debt and short-term issuer ratings of a and AMB-1+, respectively, and the insurer financial strength ratings of A+ for Allstate Insurance Company ("AIC"), Allstate Life Insurance Company ("ALIC"), and Allstate Assurance Company ("AAC"). The outlook for the ratings is stable.

In June 2019, S&P Global 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 July 2019, Moody's affirmed The Allstate Corporation's debt and short-term issuer ratings of A3 and P-2, respectively, and the insurance financial strength rating of Aa3 for AIC. Moody's downgraded ALIC and AAC insurance financial strength ratings to A2 from A1 reflecting Moody's shift to a more standard single rating level positive adjustment for subsidiary company ratings. The outlook for the ratings is stable.

**Liquidity sources and uses** We actively manage our financial position and liquidity levels in light of changing market, economic and business conditions. Liquidity is managed at both the entity and enterprise level across the Company and is assessed on both base and stressed level liquidity needs. We believe we have sufficient liquidity to meet these needs. Additionally, we have existing intercompany agreements in place that facilitate liquidity management across the Company to enhance flexibility.

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** Parent holding company deployable assets totaled \$2.82 billion as of June 30, 2019, comprised of 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.

Intercompany dividends were paid in the first six months of 2019 between the following companies: AIC, Allstate Insurance Holdings, LLC ("AIH"), the Corporation and ALIC.

<b>Intercompany dividends</b>	
<b>(\$ in millions)</b>	<b>June 30, 2019</b>
AIC to AIH	\$ 1,878
AIH to the Corporation	1,878
ALIC to AIC	75

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 June 30, 2019, we satisfied all of the tests with no current restrictions on the payment of preferred stock dividends.

The terms of our outstanding subordinated debentures also prohibit us from declaring or paying any dividends or distributions on our common or preferred stock or redeeming, purchasing, acquiring, or making liquidation payments on our common stock or preferred stock if we have elected to defer interest payments on the subordinated debentures, subject to certain limited exceptions. In the first six months of 2019, we did not defer interest payments on the subordinated debentures.

Additional resources 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 June 30, 2019, 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 16.6% as of June 30, 2019. 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 2019.
- 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 570 million shares of treasury stock as of June 30, 2019), 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 \$17.96 billion as of June 30, 2019.

### Contractholder funds by contractual withdrawal provisions

(\$ in millions)		Percent to total
Not subject to discretionary withdrawal	\$ 2,777	15.4%
Subject to discretionary withdrawal with adjustments:		
Specified surrender charges <sup>(1)</sup>	4,776	26.6
Market value adjustments <sup>(2)</sup>	890	5.0
Subject to discretionary withdrawal without adjustments <sup>(3)</sup>	9,521	53.0
<b>Total contractholder funds <sup>(4)</sup></b>	<b>\$ 17,964</b>	<b>100.0%</b>

<sup>(1)</sup> Includes \$1.08 billion of liabilities with a contractual surrender charge of less than 5% of the account balance.

<sup>(2)</sup> \$430 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.

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

<sup>(4)</sup> Includes \$693 million of contractholder funds on variable annuities reinsured to The Prudential Insurance Company of America, a subsidiary of Prudential Financial Inc., in 2006.

Retail life and annuity products may be surrendered by customers for a variety of reasons. Reasons unique to individual customers include a current or unexpected need for cash or a change in life insurance coverage needs. Other key factors that may impact the likelihood of customer surrender include the level of the contract surrender charge, the length of time the contract has been in force, distribution channel, market interest rates, equity market conditions and potential tax implications.

In addition, the propensity for retail life insurance policies to lapse is lower than it is for fixed annuities because of the need for the insured to be re-underwritten upon policy replacement.

The annualized surrender and partial withdrawal rate on deferred fixed annuities and interest-sensitive life insurance products, based on the beginning of year contractholder funds, was 6.4% and 7.3% in the first six months of 2019 and 2018, 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.

## Recent Developments

The following updates the regulation disclosures included in Part I, Item 1. Regulation in our annual report on Form 10-K for the year-ended December 31, 2018.

On May 30, 2019, the Governor of Michigan signed Senate Bill 1, which was passed by the legislature to reform Michigan's no-fault auto insurance system. Following passage, technical corrections were made in House Bill 4397, and both bills were enacted into law on June 11, 2019. The bills generally provide for the following changes:

- Allowing insureds to choose levels of personal injury protection coverage ranging from a complete opt-out of personal injury protection coverage in certain circumstances where the insured already has coverage; or a coverage limit of \$50,000, subject to certain qualifying conditions; coverage limits of \$250,000 to \$500,000; or continuing to choose unlimited lifetime coverage. For claims arising under the unlimited personal injury protection coverage, the Michigan Catastrophic Claims Association ("MCCA"), a state-mandated indemnification mechanism, will still exist and provide reimbursement above the retention threshold for covered losses, just as it currently does.
- Implementing mandated rate reductions that correspond to the level of personal injury protection coverage chosen by insureds, which go into effect July 2, 2020. All rate filings between July 1, 2020 and July 1, 2028 are subject to prior approval by the Michigan Department of Financial Services. The coverage level chosen by insureds will determine the impact these rate rollbacks will have on premiums written.

- Setting fee schedules for personal injury protection claims at 200% of Medicare rates in 2021, declining to 195% in 2022 and 190% in 2023, for any providers other than certain unique categories of providers and applying to treatment on existing and new claims beginning after July 1, 2021. The fee schedules will result in more consistent and capped levels of claim payments.
- Implementing a process of utilization review for existing and new claims for medical treatment, creating a managed care option that provides for allowable expenses for reasonably necessary products, services and accommodations, setting limits on family provided attendant care, creating a fraud authority, and setting limits on the availability of attorney fees associated with personal injury protection coverage claims.

Allstate has advocated for personal injury protection reform for many years in Michigan. We are evaluating the impact of the changes associated with these bills. We anticipate a reduction in our claims and claims expense reserves related to Michigan unlimited personal injury protection and the corresponding MCCA indemnification recoverables.

## Forward-Looking Statements

This report contains “forward-looking statements” that anticipate results based on our estimates, assumptions and plans that are subject to uncertainty. These statements are made subject to the safe-harbor provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements do not relate strictly to historical or current facts and may be identified by their use of words like “plans,” “seeks,” “expects,” “will,” “should,” “anticipates,” “estimates,” “intends,” “believes,” “likely,” “targets” and other words with similar meanings. We believe these statements are based on reasonable estimates, assumptions and plans. If the estimates, assumptions or plans underlying the forward-looking statements prove inaccurate or if other risks or uncertainties arise, actual results could differ materially from those communicated in these forward-looking statements. Factors that could cause actual results to differ materially from those expressed in, or implied by, the forward-looking statements include risks related to:

**Insurance Industry Risks** (1) adverse changes in the nature and level of catastrophes and severe weather events; (2) our catastrophe management strategy on premium growth; (3) unexpected increases in the frequency or severity of claims; (4) the cyclical nature of the property and casualty businesses; (5) the availability of reinsurance at current levels and prices; (6) risk of our reinsurers; (7) changing climate and weather conditions; (8) changes in underwriting and actual experience; (9) changes in reserve estimates; (10) changes in estimates of profitability on interest-sensitive life products

**Financial Risks** (11) conditions in the global economy and capital markets; (12) a downgrade in financial strength ratings; (13) the effect of adverse capital and credit market conditions; (14) possible impairments in the value of goodwill; (15) the realization of deferred tax assets; (16) restrictions on our subsidiaries’ ability to pay dividends; (17) restrictions under the terms of certain of our securities on our ability to pay dividends or repurchase our stock

**Investment Risks** (18) market risk and declines in credit quality relating to our investment portfolio; (19) our subjective determination of the amount of realized capital losses recorded for impairments of our investments and the fair value of our fixed income and equity securities; (20) the influence of changes in market interest rates or performance-based investment returns on our annuity business

**Operational Risks** (21) impacts of new or changing technologies on our business; (22) 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; (23) misconduct or fraudulent acts by employees, agents and third parties; (24) the impact of a large scale pandemic, the threat or occurrence of terrorism or military action; (25) loss of key vendor relationships or failure of a vendor to protect confidential, proprietary and personal information; (26) intellectual property infringement, misappropriation and third-party claims

**Regulatory and Legal Risks** (27) regulatory changes, including limitations on rate increases and requirements to underwrite business and participate in loss sharing arrangements; (28) regulatory reforms and restrictive regulations; (29) changes in tax laws; (30) our ability to mitigate the capital impact associated with statutory reserving and capital requirements; (31) changes in accounting standards; (32) losses from legal and regulatory actions; (33) our participation in indemnification programs, including state industry pools and facilities; (34) impacts from the Covered Agreement, including changes in state insurance laws

**Strategic Risks** (35) competition in the insurance industry and impact of new or changing technologies; (36) market convergence and regulatory changes on our risk segmentation and pricing; (37) acquisitions and divestitures of businesses; and (38) reducing our concentration in spread-based business and exiting certain distribution channels

Additional information concerning these and other factors may be found in our filings with the Securities and Exchange Commission, including the “Risk Factors” section in our most recent annual report on Form 10-K. Forward-looking statements speak only as of the date on which they are made, and we assume no obligation to update or revise any forward-looking statement.

## Item 4. Controls and Procedures

**Evaluation of Disclosure Controls and Procedures.** We maintain disclosure controls and procedures as defined in Rules 13a-15(e) under the Securities Exchange Act of 1934. Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based upon this evaluation, the principal executive officer and the principal financial officer concluded that our disclosure controls and procedures are effective in providing reasonable assurance that material information required to be disclosed in our reports filed with or submitted to the Securities and Exchange Commission under the Securities Exchange Act is made known to management, including the principal executive officer and the principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

**Changes in Internal Control over Financial Reporting.** During the fiscal quarter ended June 30, 2019, there have been no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## Part II. Other Information

## Item 1. Legal Proceedings

Information required for Part II, Item 1 is incorporated by reference to the discussion under the heading "Regulation and compliance" and under the heading "Legal and regulatory proceedings and inquiries" in Note 12 of the condensed consolidated financial statements in Part I, Item 1 of this Form 10-Q.

## Item 1A. Risk Factors

There have been no material changes in our risk factors from those disclosed in Part I, Item 1A in our annual report on Form 10-K for the year ended December 31, 2018.

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

## 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>
April 1, 2019 - April 30, 2019				
Open Market Purchases	6,712	\$ 96.07	—	
May 1, 2019 - May 31, 2019				
ASR Agreement <sup>(2)</sup>	417,156	\$ 89.80	417,156	
Open Market Purchases	1,839,395	\$ 95.91	1,838,986	
June 1, 2019 - June 30, 2019				
Open Market Purchases	1,708,294	\$ 100.70	1,708,185	
<b>Total</b>	<b>3,971,557</b>	<b>\$ 97.32</b>	<b>3,964,327</b>	<b>\$ 1.57 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.

April: 6,712  
May: 409  
June: 109

<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 \$1.00 billion of our outstanding shares of common stock, which settled on May 3, 2019. Under this ASR Agreement, we repurchased a total of 11.1 million shares at an average price of \$89.80.

<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 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. Exhibits***(a) Exhibits*

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

Exhibit Number	Exhibit Description	Incorporated by Reference				Filed or Furnished Herewith
		Form	File Number	Exhibit	Filing Date	
4	The Allstate Corporation hereby agrees to furnish to the Commission, upon request, the instruments defining the rights of holders of each issue of long-term debt of it and its consolidated subsidiaries					
10.1	<a href="#">The Allstate Corporation 2019 Equity Incentive Plan</a>	Proxy	1-11840	App. D	April 8, 2019	
15	<a href="#">Acknowledgment of awareness from Deloitte &amp; Touche LLP, dated July 30, 2019, concerning unaudited interim financial information</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 - The instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document					X
101.SCH	XBRL Taxonomy Extension Schema					X
101.CAL	XBRL Taxonomy Extension Calculation Linkbase					X
101.DEF	XBRL Taxonomy Extension Definition Linkbase					X
101.LAB	XBRL Taxonomy Extension Label Linkbase					X
101.PRE	XBRL Taxonomy Extension Presentation Linkbase					X

## Signature

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

The Allstate Corporation  
(Registrant)

July 30, 2019

By /s/ Eric K. Ferren

**Eric K. Ferren**

Senior Vice President, Controller, and Chief Accounting Officer

(Authorized Signatory and Principal Accounting Officer)

The Allstate Corporation  
2775 Sanders Road  
Northbrook, IL 60062

We have reviewed, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the unaudited interim financial information of The Allstate Corporation and subsidiaries for the periods ended June 30, 2019 and 2018, as indicated in our report dated July 30, 2019; because we did not perform an audit, we expressed no opinion on that information.

We are aware that our report referred to above, which is included in your Quarterly Report on Form 10-Q for the quarter ended June 30, 2019, is incorporated by reference in the following Registration Statements:

**Form S-3 Registration Statement Nos.**

333-34583  
333-224541

**Form S-8 Registration Statement Nos.**

333-04919  
333-16129  
333-40283  
333-134243  
333-144691  
333-175526  
333-188821  
333-200390  
333-218343  
333-228490  
333-228491  
333-228492  
333-231753

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

/s/ DELOITTE & TOUCHE LLP

Chicago, Illinois  
July 30, 2019

## Certifications

Exhibit 31 (i)

I, Thomas J. Wilson, certify that:

1. I have reviewed this quarterly report on Form 10-Q of The Allstate Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 30, 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 quarterly report on Form 10-Q of The Allstate Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 30, 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 quarterly report on Form 10-Q for the fiscal period ended June 30, 2019 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: July 30, 2019

/s/ Thomas J. Wilson

Thomas J. Wilson

Chairman of the Board, President, and Chief Executive Officer

/s/ Mario Rizzo

Mario Rizzo

Executive Vice President and Chief Financial Officer