UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

/X/ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2018

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ______ to ______
Commission file number 1-11840

Allstate
You're in good hands.

THE ALLSTATE CORPORATION

(Exact name of registrant as specified in its charter)

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No ___

Indicate by check mark whether the registrant has submitted electronically 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 X No ___

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

Large accelerated filer	X	Accelerated filer	____
Non-accelerated filer	____	Smaller reporting company	____
		Emerging growth company	____

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ____

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ___ No X

As of October 15, 2018, the registrant had 344,442,270 common shares, $.01 par value, outstanding.

The Allstate Corporation
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September 30, 2018

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Part I. Financial Information
Item 1. Financial Statements

The Allstate Corporation and Subsidiaries
Condensed Consolidated Statements of Operations

($ in millions, except per share data)	Three months ended September 30, 2018	Three months ended September 30, 2017	Nine months ended September 30, 2018	Nine months ended September 30, 2017
	(unaudited)		(unaudited)	
Revenues				
Property and casualty insurance premiums	$ 8,595	$ 8,121	$ 25,341	$ 24,098
Life premiums and contract charges	612	593	1,840	1,777
Other revenue	238	228	682	664
Net investment income	844	843	2,454	2,488
Realized capital gains and losses:				
Total other-than-temporary impairment (“OTTI”) losses	(4)	(26)	(8)	(135)
OTTI losses reclassified (from) to other comprehensive income (“OCI”)	(1)	(2)	(2)	(2)
Net OTTI losses recognized in earnings	**(5)**	**(28)**	**(10)**	**(137)**
Sales and valuation changes on equity investments and derivatives	181	131	27	455
Total realized capital gains and losses	**176**	**103**	**17**	**318**
Total revenues	**10,465**	**9,888**	**30,334**	**29,345**
Costs and expenses				
Property and casualty insurance claims and claims expense	5,817	5,545	16,758	16,650
Life contract benefits	498	456	1,485	1,416
Interest credited to contractholder funds	163	174	489	522
Amortization of deferred policy acquisition costs	1,317	1,200	3,886	3,545
Operating costs and expenses	1,534	1,446	4,296	4,065
Restructuring and related charges	16	14	65	77
Interest expense	82	83	251	251
Total costs and expenses	**9,427**	**8,918**	**27,230**	**26,526**
Gain on disposition of operations	1	1	4	15
Income from operations before income tax expense	**1,039**	**971**	**3,108**	**2,834**
Income tax expense	169	305	587	894
Net income	**870**	**666**	**2,521**	**1,940**
Preferred stock dividends	37	29	105	87
Net income applicable to common shareholders	**$ 833**	**$ 637**	**$ 2,416**	**$ 1,853**
Earnings per common share:				
Net income applicable to common shareholders per common share - Basic	$ 2.41	$ 1.76	$ 6.91	$ 5.10
Weighted average common shares - Basic	346.0	361.3	349.7	363.5
Net income applicable to common shareholders per common share - Diluted	$ 2.37	$ 1.74	$ 6.80	$ 5.02
Weighted average common shares - Diluted	351.7	367.1	355.4	369.1
Cash dividends declared per common share	$ 0.46	$ 0.37	$ 1.38	$ 1.11

See notes to condensed consolidated financial statements.

The Allstate Corporation and Subsidiaries
Condensed Consolidated Statements of Comprehensive Income

($ in millions)	Three months ended September 30, 2018	Three months ended September 30, 2017	Nine months ended September 30, 2018	Nine months ended September 30, 2017
	(unaudited)		(unaudited)	
Net income	$ 870	$ 666	$ 2,521	$ 1,940
Other comprehensive (loss) income, after-tax				
Changes in:				
Unrealized net capital gains and losses	(70)	125	(768)	598
Unrealized foreign currency translation adjustments	(14)	28	(25)	36
Unrecognized pension and other postretirement benefit cost	68	73	113	110
Other comprehensive (loss) income, after-tax	**(16)**	**226**	**(680)**	**744**
Comprehensive income	**$ 854**	**$ 892**	**$ 1,841**	**$ 2,684**

See notes to condensed consolidated financial statements.

The Allstate Corporation and Subsidiaries
Condensed Consolidated Statements of Financial Position

($ in millions, except par value data)	September 30, 2018	December 31, 2017
Assets	**(unaudited)**	
Investments		
Fixed income securities, at fair value (amortized cost $57,618 and $57,525)	$ 57,663	$ 58,992
Equity securities, at fair value (cost $5,741 and $5,461)	6,965	6,621
Mortgage loans	4,592	4,534
Limited partnership interests	7,602	6,740
Short-term, at fair value (amortized cost $3,071 and $1,944)	3,071	1,944
Other	4,075	3,972
Total investments	**83,968**	**82,803**
Cash	460	617
Premium installment receivables, net	6,196	5,786
Deferred policy acquisition costs	4,667	4,191
Reinsurance recoverables, net	8,994	8,921
Accrued investment income	616	569
Property and equipment, net	1,032	1,072
Goodwill	2,189	2,181
Other assets	3,061	2,838
Separate Accounts	3,307	3,444
Total assets	**$ 114,490**	**$ 112,422**
Liabilities		
Reserve for property and casualty insurance claims and claims expense	$ 26,939	$ 26,325
Reserve for life-contingent contract benefits	12,214	12,549
Contractholder funds	18,650	19,434
Unearned premiums	14,408	13,473
Claim payments outstanding	904	875
Deferred income taxes	660	782
Other liabilities and accrued expenses	7,325	6,639
Long-term debt	6,450	6,350
Separate Accounts	3,307	3,444
Total liabilities	**90,857**	**89,871**
Commitments and Contingent Liabilities (Note 12)		
Shareholders' equity		
Preferred stock and additional capital paid-in, $1 par value, 25 million shares authorized, 95.2 thousand and 72.2 thousand shares issued and outstanding, $2,380 and $1,805 aggregate liquidation preference	2,303	1,746
Common stock, $.01 par value, 2.0 billion shares authorized and 900 million issued, 345 million and 355 million shares outstanding	9	9
Additional capital paid-in	3,441	3,313
Retained income	46,178	43,162
Deferred Employee Stock Ownership Plan ("ESOP") expense	(3)	(3)
Treasury stock, at cost (555 million and 545 million shares)	(27,011)	(25,982)
Accumulated other comprehensive income:		
Unrealized net capital gains and losses:		
Unrealized net capital gains and losses on fixed income securities with OTTI	86	85
Other unrealized net capital gains and losses	(53)	1,981
Unrealized adjustment to DAC, DSI and insurance reserves	(49)	(404)
Total unrealized net capital gains and losses	**(16)**	**1,662**
Unrealized foreign currency translation adjustments	(34)	(9)
Unrecognized pension and other postretirement benefit cost	(1,234)	(1,347)
Total accumulated other comprehensive income ("AOCI")	**(1,284)**	**306**
Total shareholders' equity	**23,633**	**22,551**
Total liabilities and shareholders' equity	**$ 114,490**	**$ 112,422**

See notes to condensed consolidated financial statements.

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

($ in millions)	Nine months ended September 30,	
	2018	2017
	(unaudited)	
Preferred stock par value	$ —	$ —
Preferred stock additional capital paid-in		
Balance, beginning of period	1,746	1,746
Preferred stock issuance	557	—
Balance, end of period	**2,303**	**1,746**
Common stock par value	**9**	**9**
Common stock additional capital paid-in		
Balance, beginning of period	3,313	3,303
Forward contract on accelerated share repurchase agreement	45	—
Equity incentive plans activity	83	27
Balance, end of period	**3,441**	**3,330**
Retained income		
Balance, beginning of period	43,162	40,678
Cumulative effect of change in accounting principle	1,088	—
Net income	2,521	1,940
Dividends on common stock	(488)	(406)
Dividends on preferred stock	(105)	(87)
Balance, end of period	**46,178**	**42,125**
Deferred ESOP expense	**(3)**	**(6)**
Treasury stock		
Balance, beginning of period	(25,982)	(24,741)
Shares acquired	(1,117)	(845)
Shares reissued under equity incentive plans, net	88	173
Balance, end of period	**(27,011)**	**(25,413)**
Accumulated other comprehensive income		
Balance, beginning of period	306	(416)
Cumulative effect of change in accounting principle	(910)	—
Change in unrealized net capital gains and losses	(768)	598
Change in unrealized foreign currency translation adjustments	(25)	36
Change in unrecognized pension and other postretirement benefit cost	113	110
Balance, end of period	**(1,284)**	**328**
Total shareholders' equity	**$ 23,633**	**$ 22,119**

See notes to condensed consolidated financial statements.

The Allstate Corporation and Subsidiaries
Condensed Consolidated Statements of Cash Flows

($ in millions)	Nine months ended September 30, 2018	2017
Cash flows from operating activities	**(unaudited)**	
Net income	$ 2,521	$ 1,940
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and other non-cash items	376	358
Realized capital gains and losses	(17)	(318)
Gain on disposition of operations	(4)	(15)
Interest credited to contractholder funds	489	522
Changes in:		
Policy benefits and other insurance reserves	90	1,276
Unearned premiums	785	525
Deferred policy acquisition costs	(203)	(176)
Premium installment receivables, net	(422)	(267)
Reinsurance recoverables, net	(103)	(1,017)
Income taxes	(227)	119
Other operating assets and liabilities	533	267
Net cash provided by operating activities	**3,818**	**3,214**
Cash flows from investing activities		
Proceeds from sales		
Fixed income securities	26,223	19,508
Equity securities	4,637	5,179
Limited partnership interests	490	767
Other investments	234	170
Investment collections		
Fixed income securities	2,388	3,038
Mortgage loans	378	477
Other investments	370	458
Investment purchases		
Fixed income securities	(29,049)	(23,935)
Equity securities	(4,791)	(5,296)
Limited partnership interests	(1,317)	(1,082)
Mortgage loans	(435)	(311)
Other investments	(686)	(700)
Change in short-term investments, net	(665)	2,257
Change in other investments, net	(28)	(28)
Purchases of property and equipment, net	(195)	(216)
Acquisition of operations	(10)	(1,356)
Net cash used in investing activities	**(2,456)**	**(1,070)**
Cash flows from financing activities		
Proceeds from issuance of long-term debt	498	—
Redemption and repayment of long-term debt	(401)	—
Proceeds from issuance of preferred stock	557	—
Contractholder fund deposits	756	767
Contractholder fund withdrawals	(1,474)	(1,416)
Dividends paid on common stock	(455)	(391)
Dividends paid on preferred stock	(97)	(87)
Treasury stock purchases	(1,062)	(848)
Shares reissued under equity incentive plans, net	66	132
Other	93	(47)
Net cash used in financing activities	**(1,519)**	**(1,890)**
Net (decrease) increase in cash	**(157)**	**254**
Cash at beginning of period	617	436
Cash at end of period	**$ 460**	**$ 690**

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 September 30, 2018 and for the three month and nine month periods ended September 30, 2018 and 2017 are unaudited. The condensed consolidated financial statements reflect all adjustments (consisting only of normal recurring accruals) which are, in the opinion of management, necessary for the fair presentation of the financial position, results of operations and cash flows for the interim periods. These condensed consolidated financial statements and notes should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's annual report on Form 10-K for the year ended December 31, 2017. The results of operations for the interim periods should not be considered indicative of results to be expected for the full year. All significant intercompany accounts and transactions have been eliminated.

Adopted accounting standards

Recognition and Measurement of Financial Assets and Financial Liabilities

Effective January 1, 2018, the Company adopted new Financial Accounting Standards Board ("FASB") guidance requiring equity investments, including equity securities and limited partnership interests not accounted for under the equity method of accounting or that do not result in consolidation to be measured at fair value with changes in fair value recognized in net income. The guidance clarifies that an entity should evaluate the realizability of deferred tax assets related to available-for-sale fixed income securities in combination with the entity's other deferred tax assets. The Company's adoption of the new FASB guidance included adoption of the relevant elements of Technical Corrections and Improvements to Financial Instruments, issued in February 2018.

Upon adoption of the new guidance on January 1, 2018, $1.16 billion of pre-tax unrealized net capital gains for equity securities were reclassified from AOCI to retained income. The after-tax change in accounting for equity securities did not affect the Company's total shareholders' equity and the unrealized net capital gains of $910 million, reclassified to retained income will never be recognized in net income.

Upon adoption of the new guidance on January 1, 2018, the carrying value of cost method limited partnership interests increased $224 million, pre-tax, to fair value. The after-tax cumulative-effect increase in retained income of $177 million increased the Company's shareholders' equity but will never be recognized in net income thereby negatively impacting calculations of returns on equity.

Revenue from Contracts with Customers

Effective January 1, 2018, the Company adopted new FASB guidance which revises the criteria for revenue recognition. Insurance contracts are excluded from the scope of the new guidance. The Company's principal activities impacted by the new guidance are those related to the issuance of protection plans for consumer products and automobiles and service contracts that provide roadside assistance. Under the guidance, the transaction price is attributed to underlying performance obligations in the contract and revenue is recognized as the entity satisfies performance obligations and transfers control of a good or service to the customer. Incremental costs of obtaining a contract may be capitalized and amortized to the extent the entity expects to recover those costs.

Adoption of the guidance on January 1, 2018 under the modified retrospective approach resulted in the recognition of an immaterial after-tax net cumulative effect increase to the beginning balance of retained income. In addition to the net cumulative effect, the Company also recorded in the statement of financial position an increase of approximately $160 million pre-tax in unearned premiums with a corresponding $160 million pre-tax increase in deferred policy acquisition costs ("DAC") for protection plans sold directly to retailers for which SquareTrade Holding Company, Inc. ("SquareTrade") is deemed to be the principal in the transaction. This impact offsets fully and did not impact retained income at the date of adoption.

Presentation of Net Periodic Pension and Postretirement Benefits Costs

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

Goodwill Impairment

In January 2017, the FASB issued guidance to simplify the accounting for goodwill impairment which

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

Changes to significant accounting policies

Investments

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

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

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

Recognition of Revenue

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

Tax Reform

On December 22, 2017, Public Law 115-97, known as the Tax Cuts and Jobs Act of 2017 ("Tax Legislation") became effective, permanently reducing the U.S. corporate income tax rate from 35% to 21% beginning January 1, 2018. As a result, the corporate tax rate is not comparable between periods. During 2017, the Company revalued its deferred tax assets and liabilities and recorded liabilities related to the transition to the modified territorial system for international taxation. The impact of the Tax Legislation was adjusted from the Company's preliminary estimate due to, among other things, changes in interpretations and assumptions the Company previously made, guidance that was issued and actions the Company took as a result of the Tax Legislation. During the third quarter of 2018, the Company recorded a reduction of $31 million to income tax expense related to these provisional amounts. The Company may make adjustments to these provisional amounts as additional information becomes available and future guidance is issued by the Internal Revenue Service.

Pending accounting standards

Accounting for Leases

In February 2016, the FASB issued guidance revising the accounting for leases. Under the new guidance, lessees will be required to recognize a right-of-use ("ROU") asset and lease liability for all leases other than those with a term less than one year. The lease liability will be equal to the present value of lease payments. A ROU asset will be based on the lease liability adjusted for qualifying initial direct costs. The Company currently estimates that the recognition of the ROU asset and lease liability will result in an increase in both total assets and liabilities in the Condensed Consolidated Statement of Financial Position of approximately $525 million. The new guidance requires sellers in a sale-leaseback transaction to recognize the entire gain from the sale of an underlying asset at the time the sale is recognized rather than over the leaseback term. The carrying value of unrecognized gains on sale-leaseback transactions executed prior to January 1, 2019 are approximately $20 million, after-tax, and will be recorded as an increase to retained income.

The expense of operating leases under the new guidance will be recognized in the income statement on a straight-line basis by adjusting the amortization of

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

Measurement of Credit Losses on Financial Instruments

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

Accounting for Hedging Activities

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

Changes to the Disclosure Requirements for Deferred Benefit Plans

In August 2018, the FASB issued amendments to modify certain disclosure requirements for defined benefit plans. Disclosure additions relate to the weighted-average interest crediting rates for cash balance plans and other plans with interest crediting rates and explanations for significant gains and losses related to changes in the benefit obligation for the period. Disclosures to be removed include those that identify amounts that are expected to be reclassified out of AOCI and into the income statement in the coming year and the anticipated impact of a one-percentage point change in assumed health care cost trend rate on service and interest cost and on the accumulated benefit obligation. The amendments are effective for annual reporting periods beginning after December 15, 2020. The impacts of adoption are to the Company’s disclosures only.

Accounting for Long-Duration Insurance Contracts

In August 2018, the FASB issued guidance revising the accounting for certain long-duration insurance contracts. The new guidance changes the measurement of the Company’s reserves for traditional life, life-contingent immediate annuities and certain voluntary accident and health insurance products.

Under the new guidance, measurement assumptions, including those for mortality, morbidity and policy terminations, will be required to be reviewed and updated at least annually. The effect of updating measurement assumptions other than the discount rate are required to be determined on a retrospective basis and reported in net income. In addition, cash flows under the new guidance are required to be discounted using an upper-medium grade fixed income instrument yield that is updated through OCI at each reporting date. These changes will replace current GAAP, which utilizes assumptions set at policy issuance until such time as the assumptions result in reserves that are deficient when compared to reserves computed using current assumptions. When this occurs under current GAAP, premium deficiency reserves are recognized by unlocking reserve assumptions to eliminate a reserve deficiency.

The new guidance requires DAC and other capitalized balances currently amortized in proportion to premiums or gross profits to be amortized on a constant level basis over the expected term for all long-duration insurance contracts. DAC will not be subject to loss recognition testing but rather will be

reduced when actual experience exceeds expected experience (i.e. as a result of unexpected contract terminations). The new guidance will no longer require adjustments to DAC and deferred sales inducement costs (“DSI”) related to unrealized gains and losses.

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 a change in the instrument’s 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 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 the new guidance may be applied retrospectively using actual historical experience as of contract inception. The guidance for market risk benefits is required to be adopted retrospectively.

The Company is evaluating the anticipated impacts of applying the new guidance to both retained income and AOCI. While the requirements of the new guidance represent a material change from existing GAAP, the underlying economics of the business and related cash flows are unchanged. The Company has not completed an evaluation of the specific impacts of adopting the new guidance, but anticipates the financial statement impact of migrating from existing GAAP to that required by the new guidance to be material, largely attributed to the impact of transitioning from an original investment-based discount rate to one based on an upper-medium grade fixed income investment yield and updates to mortality assumptions that had previously been locked in at issuance. The Company expects the most significant impacts will occur in the run-off annuity segment. The revised accounting for DAC will be applied prospectively using the new model and any DAC effects existing in AOCI as a result of applying existing GAAP at the date of adoption will be reversed.

Other revenue presentation

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

Note 2 Earnings per Common Share

Basic earnings per common share is computed using the weighted average number of common shares outstanding, including vested unissued participating restricted stock units. Diluted earnings per common share is computed using the weighted average number of common and dilutive potential common shares outstanding. For the Company, dilutive potential common shares consist of outstanding stock options and unvested non-participating restricted stock units and contingently issuable performance stock awards.

Computation of basic and diluted earnings per common share

($ in millions, except per share data)	Three months ended September 30, 2018	Three months ended September 30, 2017	Nine months ended September 30, 2018	Nine months ended September 30, 2017
Numerator:				
Net income	$ 870	$ 666	$ 2,521	$ 1,940
Less: Preferred stock dividends	37	29	105	87
Net income applicable to common shareholders [1]	**$ 833**	**$ 637**	**$ 2,416**	**$ 1,853**
Denominator:				
Weighted average common shares outstanding	346.0	361.3	349.7	363.5
Effect of dilutive potential common shares:				
Stock options	3.8	4.4	3.8	4.3
Restricted stock units (non-participating) and performance stock awards	1.9	1.4	1.9	1.3
Weighted average common and dilutive potential common shares outstanding	**351.7**	**367.1**	**355.4**	**369.1**
Earnings per common share - Basic	$ 2.41	$ 1.76	$ 6.91	$ 5.10
Earnings per common share - Diluted	$ 2.37	$ 1.74	$ 6.80	$ 5.02

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

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

Options to purchase 2.3 million and 0.2 million Allstate common shares, with exercise prices ranging from $84.93 to $102.84 and $78.35 to $93.93, were outstanding for the three month periods ended September 30, 2018 and 2017, respectively, but were not included in the computation of diluted earnings per common share in those periods. Options to purchase 1.9 million and 2.5 million Allstate common shares, with exercise prices ranging from $84.93 to $102.84 and $74.03 to $93.93, were outstanding for the nine month periods ended September 30, 2018 and 2017, respectively, but were not included in the computation of diluted earnings per common share in those periods.

Note 3 Acquisitions

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

In connection with the SquareTrade acquisition, the Company recorded goodwill of $1.10 billion, commissions paid to retailers (reported in deferred policy acquisition costs) of $66 million, other intangible assets (reported in other assets) of $555 million, contractual liability insurance policy premium expenses (reported in other assets) of $205 million, unearned premiums of $389 million and net deferred income tax liability of $138 million. These amounts reflect re-measurement adjustments to the fair value of the opening balance sheet assets and liabilities.

Of the $555 million assigned to other intangible assets, $465 million was attributable to acquired customer relationships and $69 million was assigned to the SquareTrade trade name which is considered to have an indefinite useful life. The amortization expense of intangible assets was $20 million and $23 million for the three months ended September 30, 2018 and 2017, respectively, and was $61 million and $69 million for the nine months ended September 30, 2018 and 2017, respectively.

Subsequent event 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. Due to the limited time since the closing date, the Company is currently evaluating the allocation of the purchase price and is unable to provide amounts recognized as of the closing date for the major classes of assets acquired and liabilities assumed. The Company will include this information in its annual report on Form 10-K for the year ended December 31, 2018.

Note 4 Reportable Segments

Reportable segments revenue information

($ in millions)	Three months ended September 30, 2018	Three months ended September 30, 2017	Nine months ended September 30, 2018	Nine months ended September 30, 2017
Property-Liability				
Insurance premiums				
Auto	$ 5,798	$ 5,501	$ 17,094	$ 16,327
Homeowners	1,891	1,832	5,603	5,462
Other personal lines	455	439	1,354	1,306
Commercial lines	176	124	477	367
Allstate Protection	8,320	7,896	24,528	23,462
Discontinued Lines and Coverages	—	—	—	—
Total property-liability insurance premiums	8,320	7,896	24,528	23,462
Other revenue	192	185	550	533
Net investment income	410	368	1,100	1,063
Realized capital gains and losses	126	82	16	302
Total Property-Liability	**9,048**	**8,531**	**26,194**	**25,360**
Service Businesses				
Consumer product protection plans	125	78	369	207
Roadside assistance	66	69	198	204
Finance and insurance products	84	78	246	225
Intersegment premiums and service fees (1)	31	26	89	82
Other revenue	16	17	48	50
Net investment income	7	4	18	11
Realized capital gains and losses	—	—	(6)	—
Total Service Businesses	**329**	**272**	**962**	**779**
Allstate Life				
Traditional life insurance premiums	149	141	443	420
Accident and health insurance premiums	—	—	1	1
Interest-sensitive life insurance contract charges	173	175	531	535
Other revenue	30	26	84	81
Net investment income	128	119	380	362
Realized capital gains and losses	(3)	2	(9)	4
Total Allstate Life	**477**	**463**	**1,430**	**1,403**
Allstate Benefits				
Traditional life insurance premiums	13	12	32	30
Accident and health insurance premiums	246	232	739	696
Interest-sensitive life insurance contract charges	26	29	83	85
Net investment income	19	18	57	54
Realized capital gains and losses	2	1	—	1
Total Allstate Benefits	**306**	**292**	**911**	**866**
Allstate Annuities				
Fixed annuities contract charges	5	4	11	10
Net investment income	260	324	843	967
Realized capital gains and losses	51	18	28	11
Total Allstate Annuities	**316**	**346**	**882**	**988**
Corporate and Other				
Net investment income	20	10	56	31
Realized capital gains and losses	—	—	(12)	—
Total Corporate and Other	**20**	**10**	**44**	**31**
Intersegment eliminations (1)	(31)	(26)	(89)	(82)
Consolidated revenues	**$ 10,465**	**$ 9,888**	**$ 30,334**	**$ 29,345**

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

Reportable segments financial performance

($ in millions)	Three months ended September 30, 2018	Three months ended September 30, 2017	Nine months ended September 30, 2018	Nine months ended September 30, 2017
Property-Liability				
Allstate Protection	$ 553	$ 572	$ 1,934	$ 1,392
Discontinued Lines and Coverages	(80)	(88)	(86)	(95)
Total underwriting income	**473**	**484**	**1,848**	**1,297**
Net investment income	410	368	1,100	1,063
Income tax expense on operations	(178)	(271)	(603)	(746)
Realized capital gains and losses, after-tax	103	54	16	199
Gain on disposition of operations, after-tax	—	1	—	7
Tax Legislation expense	(3)	—	(3)	—
Property-Liability net income applicable to common shareholders	**805**	**636**	**2,358**	**1,820**
Service Businesses				
Adjusted net income (loss)	—	(17)	(4)	(35)
Realized capital gains and losses, after-tax	(1)	—	(5)	—
Amortization of purchased intangible assets, after-tax	(16)	(15)	(48)	(45)
Tax Legislation expense	(4)	—	(4)	—
Service Businesses net loss applicable to common shareholders	**(21)**	**(32)**	**(61)**	**(80)**
Allstate Life				
Adjusted net income	74	74	221	196
Realized capital gains and losses, after-tax	(3)	1	(7)	2
DAC and DSI amortization related to realized capital gains and losses, after-tax	(1)	(2)	(6)	(8)
Tax Legislation expense	(16)	—	(16)	—
Allstate Life net income applicable to common shareholders	**54**	**73**	**192**	**190**
Allstate Benefits				
Adjusted net income	32	28	94	75
Realized capital gains and losses, after-tax	2	1	—	1
Allstate Benefits net income applicable to common shareholders	**34**	**29**	**94**	**76**
Allstate Annuities				
Adjusted net income	20	55	99	149
Realized capital gains and losses, after-tax	40	11	22	6
Valuation changes on embedded derivatives not hedged, after-tax	1	(1)	5	(2)
Gain on disposition of operations, after-tax	1	1	3	3
Tax Legislation benefit	69	—	69	—
Allstate Annuities net income applicable to common shareholders	**131**	**66**	**198**	**156**
Corporate and Other				
Adjusted net loss	(155)	(134)	(340)	(295)
Realized capital gains and losses, after-tax	—	—	(10)	—
Business combination expenses, after-tax	—	(1)	—	(14)
Tax Legislation expense	(15)	—	(15)	—
Corporate and Other net loss applicable to common shareholders	**(170)**	**(135)**	**(365)**	**(309)**
Consolidated net income applicable to common shareholders	**$ 833**	**$ 637**	**$ 2,416**	**$ 1,853**

Note 5 Investments

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

($ in millions)	Amortized cost	Gross unrealized Gains	Gross unrealized Losses	Fair value
September 30, 2018				
U.S. government and agencies	$ 3,142	$ 36	$ (27)	$ 3,151
Municipal	9,316	204	(105)	9,415
Corporate	42,828	557	(723)	42,662
Foreign government	854	12	(12)	854
Asset-backed securities (“ABS”)	979	8	(8)	979
Residential mortgage-backed securities (“RMBS”)	404	98	(2)	500
Commercial mortgage-backed securities (“CMBS”)	74	7	(1)	80
Redeemable preferred stock	21	1	—	22
Total fixed income securities	**$ 57,618**	**$ 923**	**$ (878)**	**$ 57,663**
December 31, 2017				
U.S. government and agencies	$ 3,580	$ 56	$ (20)	$ 3,616
Municipal	8,053	311	(36)	8,328
Corporate	42,996	1,234	(204)	44,026
Foreign government	1,005	27	(11)	1,021
ABS	1,266	13	(7)	1,272
RMBS	480	101	(3)	578
CMBS	124	6	(2)	128
Redeemable preferred stock	21	2	—	23
Total fixed income securities	**$ 57,525**	**$ 1,750**	**$ (283)**	**$ 58,992**

Scheduled maturities for fixed income securities

($ in millions)	As of September 30, 2018 Amortized cost	As of September 30, 2018 Fair value
Due in one year or less	$ 4,038	$ 4,042
Due after one year through five years	28,963	28,812
Due after five years through ten years	16,216	15,987
Due after ten years	6,944	7,263
	56,161	**56,104**
ABS, RMBS and CMBS	1,457	1,559
Total	**$ 57,618**	**$ 57,663**

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 September 30, 2018	Three months ended September 30, 2017	Nine months ended September 30, 2018	Nine months ended September 30, 2017
Fixed income securities	$ 527	$ 519	$ 1,544	$ 1,564
Equity securities	35	37	130	130
Mortgage loans	52	52	163	157
Limited partnership interests [1][2]	210	223	563	596
Short-term investments	19	9	50	21
Other	71	58	205	174
Investment income, before expense	**914**	**898**	**2,655**	**2,642**
Investment expense	(70)	(55)	(201)	(154)
Net investment income	**$ 844**	**$ 843**	**$ 2,454**	**$ 2,488**

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

[2] Includes net investment income of $135 million and $381 million for EMA limited partnership interests and $75 million and $182 million for limited partnership interests carried at fair value for the three and nine months ended September 30, 2018, respectively.

Realized capital gains and losses by asset type

($ in millions)	Three months ended September 30, 2018	Three months ended September 30, 2017	Nine months ended September 30, 2018	Nine months ended September 30, 2017
Fixed income securities	$ (30)	$ 41	$ (153)	$ 78
Equity securities	223	57	204	182
Mortgage loans	—	1	2	1
Limited partnership interests	(23)	21	(56)	92
Derivatives	5	(17)	20	(40)
Other	1	—	—	5
Realized capital gains and losses	**$ 176**	**$ 103**	**$ 17**	**$ 318**

Realized capital gains and losses by transaction type

($ in millions)	Three months ended September 30, 2018	Three months ended September 30, 2017	Nine months ended September 30, 2018	Nine months ended September 30, 2017
Impairment write-downs [1]	$ (5)	$ (23)	$ (10)	$ (94)
Change in intent write-downs [1]	—	(5)	—	(43)
Net OTTI losses recognized in earnings	**(5)**	**(28)**	**(10)**	**(137)**
Sales [1]	(22)	148	(139)	495
Valuation of equity investments [1]	198	—	149	—
Valuation and settlements of derivative instruments	5	(17)	17	(40)
Realized capital gains and losses	**$ 176**	**$ 103**	**$ 17**	**$ 318**

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

Gross gains of $21 million and gross losses of $48 million were realized on sales of fixed income securities during the three months ended September 30, 2018. Gross gains of $145 million and gross losses of $36 million were realized on sales of fixed income and equity securities during the three months ended September 30, 2017.

Gross gains of $95 million and gross losses of $242 million were realized on sales of fixed income securities during the nine months ended September 30, 2018. Gross gains of $521 million and gross losses of $161 million were realized on sales of fixed income and equity securities during the nine months ended September 30, 2017.

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

($ in millions)	Three months ended September 30, 2018	Nine months ended September 30, 2018
Equity securities [1]	$ 234	$ 321
Limited partnership interests carried at fair value [1]	75	181
Total valuation changes	**$ 309**	**$ 502**

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

OTTI losses by asset type

($ in millions)	Three months ended September 30, 2018 Gross	Three months ended September 30, 2018 Included in OCI	Three months ended September 30, 2018 Net	Three months ended September 30, 2017 Gross	Three months ended September 30, 2017 Included in OCI	Three months ended September 30, 2017 Net
Fixed income securities:						
Municipal	$ —	$ —	$ —	$ —	$ —	$ —
ABS	—	(1)	(1)	—	(1)	(1)
RMBS	—	—	—	—	—	—
CMBS	(2)	—	(2)	(1)	(1)	(2)
Total fixed income securities	**(2)**	**(1)**	**(3)**	**(1)**	**(2)**	**(3)**
Equity securities (1)	—	—	—	(8)	—	(8)
Mortgage loans	—	—	—	(1)	—	(1)
Limited partnership interests (1)	(2)	—	(2)	(16)	—	(16)
Other	—	—	—	—	—	—
OTTI losses	**$ (4)**	**$ (1)**	**$ (5)**	**$ (26)**	**$ (2)**	**$ (28)**

	Nine months ended September 30, 2018 Gross	Nine months ended September 30, 2018 Included in OCI	Nine months ended September 30, 2018 Net	Nine months ended September 30, 2017 Gross	Nine months ended September 30, 2017 Included in OCI	Nine months ended September 30, 2017 Net
Fixed income securities:						
Municipal	$ —	$ —	$ —	$ (1)	$ (2)	$ (3)
Corporate	—	—	—	(9)	3	(6)
ABS	(1)	(1)	(2)	(1)	(1)	(2)
RMBS	(1)	—	(1)	(1)	(3)	(4)
CMBS	(2)	(1)	(3)	(9)	1	(8)
Total fixed income securities	**(4)**	**(2)**	**(6)**	**(21)**	**(2)**	**(23)**
Equity securities (1)	—	—	—	(77)	—	(77)
Mortgage loans	—	—	—	(1)	—	(1)
Limited partnership interests (1)	(3)	—	(3)	(32)	—	(32)
Other	(1)	—	(1)	(4)	—	(4)
OTTI losses	**$ (8)**	**$ (2)**	**$ (10)**	**$ (135)**	**$ (2)**	**$ (137)**

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

The total amount of OTTI losses included in AOCI at the time of impairment for fixed income securities, which were not included in earnings, are presented in the following table. The amounts exclude $195 million and $208 million as of September 30, 2018 and December 31, 2017, respectively, of net unrealized gains related to changes in valuation of the fixed income securities subsequent to the impairment measurement date.

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

($ in millions)	September 30, 2018	December 31, 2017
Municipal	$ (5)	$ (5)
ABS	(11)	(15)
RMBS	(68)	(77)
CMBS	(3)	(4)
Total	**$ (87)**	**$ (101)**

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

($ in millions)	Three months ended 2018	Three months ended 2017	Nine months ended September 30, 2018	Nine months ended September 30, 2017
Beginning balance	$ (206)	$ (281)	$ (226)	$ (318)
Additional credit loss for securities previously other-than-temporarily impaired	(3)	(3)	(5)	(15)
Additional credit loss for securities not previously other-than-temporarily impaired	—	—	(1)	(8)
Reduction in credit loss for securities disposed or collected	4	20	26	76
Change in credit loss due to accretion of increase in cash flows	—	—	1	1
Ending balance	**$ (205)**	**$ (264)**	**$ (205)**	**$ (264)**

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) September 30, 2018	Fair value	Gross unrealized Gains	Gross unrealized Losses	Unrealized net gains (losses)
Fixed income securities	$ 57,663	$ 923	$ (878)	$ 45
Short-term investments	3,071	—	—	—
Derivative instruments	—	—	(3)	(3)
EMA limited partnerships [(1)]				2
Unrealized net capital gains and losses, pre-tax				**44**
Amounts recognized for:				
Insurance reserves [(2)]				—
DAC and DSI [(3)]				(62)
Amounts recognized				**(62)**
Deferred income taxes				2
Unrealized net capital gains and losses, after-tax				**$ (16)**

(1) 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.

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

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

Unrealized net capital gains and losses included in AOCI

($ in millions) December 31, 2017	Fair value	Gross unrealized Gains	Gross unrealized Losses	Unrealized net gains (losses)
Fixed income securities	$ 58,992	$ 1,750	$ (283)	$ 1,467
Equity securities	6,621	1,172	(12)	1,160
Short-term investments	1,944	—	—	—
Derivative instruments [(1)]	2	2	(3)	(1)
EMA limited partnerships				1
Unrealized net capital gains and losses, pre-tax				**2,627**
Amounts recognized for:				
Insurance reserves				(315)
DAC and DSI				(196)
Amounts recognized				**(511)**
Deferred income taxes				(454)
Unrealized net capital gains and losses, after-tax				**$ 1,662**

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

Change in unrealized net capital gains and losses

($ in millions)	Nine months ended September 30, 2018
Fixed income securities	$ (1,422)
Equity securities [(1)]	—
Derivative instruments	(2)
EMA limited partnerships	1
Total	**(1,423)**
Amounts recognized for:	
Insurance reserves	315
DAC and DSI	134
Amounts recognized	**449**
Deferred income taxes	206
Decrease in unrealized net capital gains and losses, after-tax	**$ (768)**

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

Portfolio monitoring

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

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

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

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

The Company's portfolio monitoring process includes a quarterly review of all securities to identify instances where the fair value of a security compared to its amortized cost is below established thresholds. The process also includes the monitoring of other impairment indicators such as ratings, ratings downgrades and payment defaults. The securities identified, in addition to other securities for which the Company may have a concern, are evaluated for potential OTTI using all reasonably available information relevant to the collectability or recovery of the security. Inherent in the Company's evaluation of

OTTI for these securities are assumptions and estimates about the financial condition and future earnings potential of the issue or issuer. Some of the factors that may be considered in evaluating whether a decline in fair value is other than temporary are: 1) the financial condition, near-term and long-term prospects of the issue or issuer, including relevant industry specific market conditions and trends, geographic location and implications of rating agency actions and offering prices; 2) the specific reasons that a security is in an unrealized loss position, including overall market conditions which could affect liquidity; and 3) the length of time and extent to which the fair value has been less than amortized cost.

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

	Less than 12 months			12 months or more			
($ in millions)	**Number of issues**	**Fair value**	**Unrealized losses**	**Number of issues**	**Fair value**	**Unrealized losses**	**Total unrealized losses**
September 30, 2018							
Fixed income securities							
U.S. government and agencies	65	$ 2,517	$ (23)	26	$ 175	$ (4)	$ (27)
Municipal	3,192	5,600	(75)	480	667	(30)	(105)
Corporate	1,823	24,061	(500)	329	4,274	(223)	(723)
Foreign government	26	166	(2)	25	432	(10)	(12)
ABS	68	442	(3)	19	107	(5)	(8)
RMBS	97	21	—	182	53	(2)	(2)
CMBS	5	18	—	3	1	(1)	(1)
Total fixed income securities	**5,276**	**$ 32,825**	**$ (603)**	**1,064**	**$ 5,709**	**$ (275)**	**$ (878)**
Investment grade fixed income securities	4,939	$ 30,338	$ (529)	1,015	$ 5,461	$ (253)	$ (782)
Below investment grade fixed income securities	337	2,487	(74)	49	248	(22)	(96)
Total fixed income securities	**5,276**	**$ 32,825**	**$ (603)**	**1,064**	**$ 5,709**	**$ (275)**	**$ (878)**
December 31, 2017							
Fixed income securities							
U.S. government and agencies	66	$ 2,829	$ (18)	18	$ 182	$ (2)	$ (20)
Municipal	1,756	3,143	(24)	165	349	(12)	(36)
Corporate	781	11,616	(102)	208	3,289	(102)	(204)
Foreign government	45	580	(10)	5	44	(1)	(11)
ABS	57	476	(3)	9	34	(4)	(7)
RMBS	118	35	(1)	181	50	(2)	(3)
CMBS	2	1	—	6	23	(2)	(2)
Redeemable preferred stock	1	—	—	—	—	—	—
Total fixed income securities	**2,826**	**18,680**	**(158)**	**592**	**3,971**	**(125)**	**(283)**
Equity securities	127	369	(12)	2	—	—	(12)
Total fixed income and equity securities	**2,953**	**$ 19,049**	**$ (170)**	**594**	**$ 3,971**	**$ (125)**	**$ (295)**
Investment grade fixed income securities	2,706	$ 17,668	$ (134)	535	$ 3,751	$ (98)	$ (232)
Below investment grade fixed income securities	120	1,012	(24)	57	220	(27)	(51)
Total fixed income securities	**2,826**	**$ 18,680**	**$ (158)**	**592**	**$ 3,971**	**$ (125)**	**$ (283)**

As of September 30, 2018, $862 million of the $878 million unrealized losses are related to securities with an unrealized loss position less than 20% of amortized cost, the degree of which suggests that these securities do not pose a high risk of being other-than-temporarily impaired. Of the $862 million, $770 million are related to unrealized losses on investment grade fixed income securities. Of the remaining $92 million, $58 million have been in an unrealized loss position for less than 12 months. Investment grade is defined as a security having a rating of Aaa, Aa, A or Baa from Moody's, a rating of AAA, AA, A or BBB from S&P Global Ratings ("S&P"), a comparable rating from another nationally recognized rating agency, or a comparable internal rating if an externally provided rating is not available. Market prices for certain securities may have credit spreads which imply higher or lower credit quality than the current third party rating. Unrealized losses on investment grade securities are principally related to an increase in market yields which may include increased risk-free interest rates and/or wider credit spreads since the time of initial purchase. The unrealized losses are expected to reverse as the securities approach maturity.

As of September 30, 2018, the remaining $16 million of unrealized losses are related to securities in unrealized loss positions greater than or equal to 20% of amortized cost. Investment grade fixed income securities comprising $12 million of these unrealized losses were evaluated based on factors such as discounted cash flows and the financial condition and near-term and long-term prospects of the issue or issuer and were determined to have adequate resources to fulfill contractual obligations. Of the $16 million, $4 million are related to below investment

grade fixed income securities. Of these amounts, $1 million are related to below investment grade fixed income securities that had been in an unrealized loss position greater than or equal to 20% of amortized cost for a period of twelve or more consecutive months as of September 30, 2018.

ABS, RMBS and CMBS in an unrealized loss position were evaluated based on actual and projected collateral losses relative to the securities' positions in the respective securitization trusts, security specific expectations of cash flows, and credit ratings. This evaluation also takes into consideration credit enhancement, measured in terms of (i) subordination 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 September 30, 2018, the Company has not made the decision to sell and it is not more likely than not the Company will be required to sell fixed income securities with unrealized losses before recovery of the amortized cost basis.

Limited partnerships

Investments in limited partnership interests include interests in private equity funds, real estate funds and other funds. As of September 30, 2018 and December 31, 2017, the carrying value of EMA limited partnerships totaled $5.89 billion and $5.41 billion, respectively, and limited partnerships carried at fair value as of September 30, 2018, while at cost method as of December 31, 2017, totaled $1.71 billion and $1.33 billion, respectively.

Mortgage loans

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

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

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

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

($ in millions)	September 30, 2018			December 31, 2017		
Debt service coverage ratio distribution	Fixed rate mortgage loans	Variable rate mortgage loans	Total	Fixed rate mortgage loans	Variable rate mortgage loans	Total
Below 1.0	$ 2	$ 30	$ 32	$ 3	$ —	$ 3
1.0 - 1.25	218	—	218	345	—	345
1.26 - 1.50	1,216	—	1,216	1,141	30	1,171
Above 1.50	3,021	101	3,122	2,949	62	3,011
Total non-impaired mortgage loans	**$ 4,457**	**$ 131**	**$ 4,588**	**$ 4,438**	**$ 92**	**$ 4,530**

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

Net carrying value of impaired mortgage loans

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

The valuation allowance on impaired loans had no activity for the three months and nine months ended September 30, 2018 and 2017. The average balance of impaired loans was $4 million and $8 million for the nine months ended September 30, 2018 and 2017, respectively.

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

Short-term investments

Short-term investments, including commercial paper, U.S. Treasury bills, money market funds and other short-term investments, are carried at fair value.

As of September 30, 2018 and December 31, 2017, the fair value of short-term investments totaled $3.07 billion and $1.94 billion, respectively.

Other investments

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

Other investments by asset type

($ in millions)	September 30, 2018		December 31, 2017	
Bank loans	$	1,608	$	1,702
Policy loans		900		905
Real estate		776		632
Agent loans		597		538
Other		194		195
Total	**$**	**4,075**	**$**	**3,972**

Note 6 Fair Value of Assets and Liabilities

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

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

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

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

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

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

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

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

The Company is responsible for the determination of fair value and the supporting assumptions and

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

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

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

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

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

Level 1 measurements

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

Level 2 measurements

- *Fixed income securities:*

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

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

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

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

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

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

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

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

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

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

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

Level 3 measurements

- *Fixed income securities:*

  Municipal: Comprise municipal bonds that are not rated by third party credit rating agencies. The primary inputs to the valuation of these municipal bonds include quoted prices for identical or similar assets in markets that exhibit less liquidity relative to those markets supporting Level 2 fair value measurements, contractual cash flows, benchmark yields and credit spreads. Also included are municipal bonds valued based on non-binding broker quotes where the inputs have not been corroborated to be market observable and municipal bonds in default valued based on the present value of expected cash flows.

  Corporate - public and Corporate - privately placed: Primarily valued based on non-binding broker quotes where the inputs have not been corroborated to be market observable. Other inputs include an interest rate yield curve, as well as published credit spreads for similar assets that incorporate the credit quality and industry sector of the issuer.

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

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

assumptions. These are categorized as Level 3 as a result of the significance of non-market observable inputs.

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

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

Investments excluded from the fair value hierarchy

Limited partnerships carried at fair value, which do not have readily determinable fair values, use NAV provided by the investees and are excluded from the fair value hierarchy. These investments are generally not redeemable by the investees and generally cannot be sold without approval of the general partner. We receive distributions of income and from liquidation of the underlying assets of the investees over the life of these investments, typically 10-12 years. As of September 30, 2018, the Company has commitments to invest $775 million in these limited partnership interests.

Assets and liabilities measured at fair value

	As of September 30, 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**
Assets					
Fixed income securities:					
U.S. government and agencies	$ 2,693	$ 458	$ —		$ 3,151
Municipal	—	9,326	89		9,415
Corporate - public	—	30,758	92		30,850
Corporate - privately placed	—	11,645	167		11,812
Foreign government	—	854	—		854
ABS - CDO	—	310	29		339
ABS - consumer and other	—	588	52		640
RMBS	—	500	—		500
CMBS	—	54	26		80
Redeemable preferred stock	—	22	—		22
Total fixed income securities	**2,693**	**54,515**	**455**		**57,663**
Equity securities	6,286	359	320		6,965
Short-term investments	1,228	1,823	20		3,071
Other investments: Free-standing derivatives	—	120	1	$ (13)	108
Separate account assets	3,307	—	—		3,307
Total recurring assets at fair value	**$ 13,514**	**$ 56,817**	**$ 796**	**$ (13)**	**$ 71,114**
% of total assets at fair value	19.0%	79.9%	1.1%	— %	100%
Investments reported at NAV					1,709
Total					**$ 72,823**
Liabilities					
Contractholder funds: Derivatives embedded in life and annuity contracts	$ —	$ —	$ (266)		$ (266)
Other liabilities: Free-standing derivatives	—	(47)	—	$ 6	(41)
Total recurring liabilities at fair value	**$ —**	**$ (47)**	**$ (266)**	**$ 6**	**$ (307)**
% of total liabilities at fair value	—%	15.3%	86.7%	(2.0)%	100%

Assets and liabilities measured at fair value

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

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

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

($ in millions)	Fair value	Valuation technique	Unobservable input	Range	Weighted average
September 30, 2018					
Derivatives embedded in life and annuity contracts – Equity-indexed and forward starting options	$ (239)	Stochastic cash flow model	Projected option cost	1.0%-2.2%	1.74%
December 31, 2017					
Derivatives embedded in life and annuity contracts – Equity-indexed and forward starting options	$ (252)	Stochastic cash flow model	Projected option cost	1.0 - 2.2%	1.74%

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

As of September 30, 2018 and December 31, 2017, Level 3 fair value measurements of fixed income securities total $455 million and $606 million, respectively, and include $199 million and $271 million, respectively, of securities valued based on non-binding broker quotes where the inputs have not been corroborated to be market observable and $48 million and $58 million, respectively, of municipal fixed income securities that are not rated by third party credit rating agencies. The Company does not develop the unobservable inputs used in measuring fair value; therefore, these are not included in the table above. However, an increase (decrease) in credit spreads for fixed income securities valued based on non-binding broker quotes would result in a lower (higher) fair value, and an increase (decrease) in the credit rating of municipal bonds that are not rated by third party credit rating agencies would result in a higher (lower) fair value.

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

($ in millions)	Balance as of June 30, 2018	Total gains (losses) included in: Net income (1)	Total gains (losses) included in: OCI	Transfers into Level 3	Transfers out of Level 3
Assets					
Fixed income securities:					
Municipal	$ 106	$ —	$ (1)	$ —	$ (9)
Corporate - public	76	—	(1)	12	(4)
Corporate - privately placed	195	1	(1)	—	(20)
ABS - CDO	9	—	1	20	—
ABS - consumer and other	73	—	—	12	(29)
CMBS	26	—	—	—	—
Total fixed income securities	**485**	**1**	**(2)**	**44**	**(62)**
Equity securities	291	8	—	—	—
Short-term investments	—	—	—	—	—
Free-standing derivatives, net	1	—	—	—	—
Total recurring Level 3 assets	**$ 777**	**$ 9**	**$ (2)**	**$ 44**	**$ (62)**
Liabilities					
Contractholder funds: Derivatives embedded in life and annuity contracts	$ (260)	$ (7)	$ —	$ —	$ —
Total recurring Level 3 liabilities	**$ (260)**	**$ (7)**	**$ —**	**$ —**	**$ —**

	Purchases	Sales	Issues	Settlements	Balance as of September 30, 2018
Assets					
Fixed income securities:					
Municipal	$ —	$ (6)	$ —	$ (1)	$ 89
Corporate - public	10	(1)	—	—	92
Corporate - privately placed	6	(2)	—	(12)	167
ABS - CDO	—	—	—	(1)	29
ABS - consumer and other	33	(20)	—	(17)	52
CMBS	—	—	—	—	26
Total fixed income securities	**49**	**(29)**	**—**	**(31)**	**455**
Equity securities	21	—	—	—	320
Short-term investments	20	—	—	—	20
Free-standing derivatives, net	—	—	—	—	1 (2)
Total recurring Level 3 assets	**$ 90**	**$ (29)**	**$ —**	**$ (31)**	**$ 796**
Liabilities					
Contractholder funds: Derivatives embedded in life and annuity contracts	$ —	$ —	$ —	$ 1	$ (266)
Total recurring Level 3 liabilities	**$ —**	**$ —**	**$ —**	**$ 1**	**$ (266)**

(1) The effect to net income totals $2 million and is reported in the Condensed Consolidated Statements of Operations as follows: $9 million in realized capital gains and losses, $(9) million in interest credited to contractholder funds and $2 million in life contract benefits.

(2) Comprises $1 million of assets.

Rollforward of Level 3 assets and liabilities held at fair value during the nine months period ended September 30, 2018

($ in millions)	Balance as of December 31, 2017	Total gains (losses) included in: Net income (1)	Total gains (losses) included in: OCI	Transfers into Level 3	Transfers out of Level 3
Assets					
Fixed income securities:					
Municipal	$ 101	$ 1	$ (2)	$ —	$ (11)
Corporate - public	108	—	(3)	16	(9)
Corporate - privately placed	224	(1)	(2)	20	(49)
ABS - CDO	99	—	1	20	(89)
ABS - consumer and other	48	—	1	22	(45)
CMBS	26	—	—	—	—
Total fixed income securities	**606**	**—**	**(5)**	**78**	**(203)**
Equity securities	210	24	—	—	—
Short-term investments	20	—	—	—	—
Free-standing derivatives, net	1	—	—	—	—
Total recurring Level 3 assets	**$ 837**	**$ 24**	**$ (5)**	**$ 78**	**$ (203)**
Liabilities					
Contractholder funds: Derivatives embedded in life and annuity contracts	$ (286)	$ 17	$ —	$ —	$ —
Total recurring Level 3 liabilities	**$ (286)**	**$ 17**	**$ —**	**$ —**	**$ —**

	Purchases	Sales	Issues	Settlements	Balance as of September 30, 2018
Assets					
Fixed income securities:					
Municipal	$ 10	$ (8)	$ —	$ (2)	$ 89
Corporate - public	10	(27)	—	(3)	92
Corporate - privately placed	21	(5)	—	(41)	167
ABS - CDO	—	—	—	(2)	29
ABS - consumer and other	108	(62)	—	(20)	52
CMBS	1	—	—	(1)	26
Total fixed income securities	**150**	**(102)**	**—**	**(69)**	**455**
Equity securities	100	(14)	—	—	320
Short-term investments	45	(45)	—	—	20
Free-standing derivatives, net	—	—	—	—	1 (2)
Total recurring Level 3 assets	**$ 295**	**$ (161)**	**$ —**	**$ (69)**	**$ 796**
Liabilities					
Contractholder funds: Derivatives embedded in life and annuity contracts	$ —	$ —	$ (1)	$ 4	$ (266)
Total recurring Level 3 liabilities	**$ —**	**$ —**	**$ (1)**	**$ 4**	**$ (266)**

(1) The effect to net income totals $41 million and is reported in the Condensed Consolidated Statements of Operations as follows: $24 million in realized capital gains and losses, $10 million in interest credited to contractholder funds and $7 million in life contract benefits.
(2) Comprises $1 million of assets.

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

($ in millions)	Balance as of June 30, 2017	Total gains (losses) included in: Net income [1]	Total gains (losses) included in: OCI	Transfers into Level 3	Transfers out of Level 3
Assets					
Fixed income securities:					
Municipal	$ 114	$ —	$ —	$ —	$ (4)
Corporate - public	60	—	—	—	(4)
Corporate - privately placed	266	1	2	—	(34)
ABS - CDO	91	—	1	—	(68)
ABS - consumer and other	120	—	—	—	(62)
CMBS	24	—	—	—	—
Total fixed income securities	**675**	**1**	**3**	**—**	**(172)**
Equity securities	166	2	1	—	(1)
Free-standing derivatives, net	1	—	—	—	—
Total recurring Level 3 assets	**$ 842**	**$ 3**	**$ 4**	**$ —**	**$ (173)**
Liabilities					
Contractholder funds: Derivatives embedded in life and annuity contracts	$ (285)	$ (9)	$ —	$ —	$ —
Total recurring Level 3 liabilities	**$ (285)**	**$ (9)**	**$ —**	**$ —**	**$ —**

	Purchases	Sales	Issues	Settlements	Balance as of September 30, 2017
Assets					
Fixed income securities:					
Municipal	$ 1	$ (3)	$ —	$ (1)	$ 107
Corporate - public	51	(1)	—	(2)	104
Corporate - privately placed	18	(1)	—	(2)	250
ABS - CDO	—	—	—	(5)	19
ABS - consumer and other	10	—	—	(2)	66
CMBS	3	—	—	(1)	26
Total fixed income securities	**83**	**(5)**	**—**	**(13)**	**572**
Equity securities	—	—	—	—	168
Free-standing derivatives, net	—	—	—	—	1 [2]
Total recurring Level 3 assets	**$ 83**	**$ (5)**	**$ —**	**$ (13)**	**$ 741**
Liabilities					
Contractholder funds: Derivatives embedded in life and annuity contracts	$ —	$ —	$ —	$ 2	$ (292)
Total recurring Level 3 liabilities	**$ —**	**$ —**	**$ —**	**$ 2**	**$ (292)**

(1) The effect to net income totals $(6) million and is reported in the Condensed Consolidated Statements of Operations as follows: $3 million in net investment income, $(5) million in interest credited to contractholder funds and $(4) million in life contract benefits.

(2) Comprises $1 million of assets.

Rollforward of Level 3 assets and liabilities held at fair value during the nine months period ended September 30, 2017

($ in millions)	Balance as of December 31, 2016	Total gains (losses) included in: Net income (1)	Total gains (losses) included in: OCI	Transfers into Level 3	Transfers out of Level 3
Assets					
Fixed income securities:					
Municipal	$ 125	$ (1)	$ 6	$ —	$ (5)
Corporate - public	78	—	—	—	(20)
Corporate - privately placed	263	7	—	30	(34)
ABS - CDO	27	—	3	30	(190)
ABS - consumer and other	42	—	—	—	(69)
RMBS	1	—	—	—	—
CMBS	22	—	—	—	—
Total fixed income securities	**558**	**6**	**9**	**60**	**(318)**
Equity securities	163	15	4	—	(4)
Short-term investments	15	—	—	—	—
Free-standing derivatives, net	(2)	3	—	—	—
Other assets	1	(1)	—	—	—
Total recurring Level 3 assets	**$ 735**	**$ 23**	**$ 13**	**$ 60**	**$ (322)**
Liabilities					
Contractholder funds: Derivatives embedded in life and annuity contracts	$ (290)	$ (6)	$ —	$ —	$ —
Total recurring Level 3 liabilities	**$ (290)**	**$ (6)**	**$ —**	**$ —**	**$ —**

	Purchases	Sales	Issues	Settlements	Balance as of September 30, 2017
Assets					
Fixed income securities:					
Municipal	$ 6	$ (23)	$ —	$ (1)	$ 107
Corporate - public	50	—	—	(4)	104
Corporate - privately placed	22	(30)	—	(8)	250
ABS - CDO	160	—	—	(11)	19
ABS - consumer and other	99	—	—	(6)	66
RMBS	—	—	—	(1)	—
CMBS	6	—	—	(2)	26
Total fixed income securities	**343**	**(53)**	**—**	**(33)**	**572**
Equity securities	3	(13)	—	—	168
Short-term investments	25	(40)	—	—	—
Free-standing derivatives, net	—	—	—	—	1 (2)
Other assets	—	—	—	—	—
Total recurring Level 3 assets	**$ 371**	**$ (106)**	**$ —**	**$ (33)**	**$ 741**
Liabilities					
Contractholder funds: Derivatives embedded in life and annuity contracts	$ —	$ —	$ (1)	$ 5	$ (292)
Total recurring Level 3 liabilities	**$ —**	**$ —**	**$ (1)**	**$ 5**	**$ (292)**

(1) The effect to net income totals $17 million and is reported in the Condensed Consolidated Statements of Operations as follows: $7 million in realized capital gains and losses, $17 million in net investment income, $(11) million in interest credited to contractholder funds and $4 million in life contract benefits.

(2) Comprises $1 million of assets.

Transfers between level categorizations may occur due to changes in the availability of market observable inputs, which generally are caused by changes in market conditions such as liquidity, trading volume or bid-ask spreads. Transfers between level categorizations may also occur due to changes in the valuation source. Transfers in and out of level categorizations are reported as having occurred at the beginning of the quarter in which the transfer occurred. Therefore, for all transfers into Level 3, all realized and changes in unrealized gains and losses in the quarter of transfer are reflected in the Level 3 rollforward table.

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

Transfers into Level 3 during the three months and nine months ended September 30, 2018 and 2017 included situations where a fair value quote was not provided by the Company's independent third-party valuation service provider and as a result the price was stale or had been replaced with a broker quote where the inputs had not been corroborated to be market observable resulting in the security being classified as Level 3. Transfers out of Level 3 during the three months and nine months ended September 30, 2018 and 2017 included situations where a broker quote was used in the prior period and a fair value quote became available from the Company's independent third-party valuation service provider in the current period. A quote utilizing the new pricing source was not available as of the prior period, and any gains or losses related to the change in valuation source for individual securities were not significant.

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

($ in millions)	Three months ended September 30, 2018	Three months ended September 30, 2017	Nine months ended September 30, 2018	Nine months ended September 30, 2017
Assets				
Fixed income securities:				
Municipal	$ —	$ —	$ —	$ (3)
Corporate	—	1	—	1
Total fixed income securities	—	1	—	(2)
Equity securities	8	2	23	16
Free-standing derivatives, net	—	(3)	—	—
Other assets	—	—	—	(1)
Total recurring Level 3 assets	**$ 8**	**$ —**	**$ 23**	**$ 13**
Liabilities				
Contractholder funds: Derivatives embedded in life and annuity contracts	$ (7)	$ (9)	$ 17	$ (6)
Total recurring Level 3 liabilities	**$ (7)**	**$ (9)**	**$ 17**	**$ (6)**

The amounts in the table above represent gains and losses related to valuation changes included in net income for the period of time that the asset or liability was held and determined to be in Level 3. These gains and losses result in $1 million of net income for the three months ended September 30, 2018 and are reported as follows: $8 million in realized capital gains and losses, $2 million in life contract benefits and $(9) million in interest credited to contractholder funds. These gains and losses result in $(9) million of net income for the three months ended September 30, 2017 and are reported as follows: $(3) million in realized capital gains and losses, $3 million in net investment income, $(5) million in interest credited to contractholder funds and $(4) million in life contract benefits. These gains and losses result in $40 million of net income for the nine months ended September 30, 2018 and are reported as follows: $23 million in realized capital gains and losses, $10 million in interest credited to contractholder funds and $7 million in life contract benefits. These gains and losses result in $7 million of net income for the nine months ended September 30, 2017 and are reported as follows: $(3) million in realized capital gains and losses, $17 million in net investment income, $(11) million in interest credited to contractholder funds and $4 million in life contract benefits.

Financial assets

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

($ in millions)	September 30, 2018 Carrying value	September 30, 2018 Fair value	December 31, 2017 Carrying value	December 31, 2017 Fair value
Mortgage loans	$ 4,592	$ 4,607	$ 4,534	$ 4,732
Bank loans	1,608	1,614	1,702	1,704
Agent loans	597	586	538	536

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

Financial liabilities

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

($ in millions)	September 30, 2018 Carrying value	September 30, 2018 Fair value	December 31, 2017 Carrying value	December 31, 2017 Fair value
Contractholder funds on investment contracts	$ 9,546	$ 9,951	$ 10,367	$ 11,071
Long-term debt	6,450	6,833	6,350	7,199
Liability for collateral	1,403	1,403	1,124	1,124

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

Note 7 Derivative Financial Instruments

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

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

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

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

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

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

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

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

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

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

periodic settlements, when applicable. With the exception of non-hedge derivatives used for asset replication and non-hedge embedded derivatives, all of the Company's derivatives are evaluated for their ongoing effectiveness as either accounting hedge or non-hedge derivative financial instruments on at least a quarterly basis.

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

($ in millions, except number of contracts)	Balance sheet location	Volume (1) Notional amount	Volume (1) Number of contracts	Fair value, net	Gross asset	Gross liability
Asset derivatives						
Derivatives not designated as accounting hedging instruments						
Interest rate contracts						
Interest rate cap agreements	Other investments	$ 20	n/a	$ —	$ —	$ —
Options	Other investments	—	6,813	—	—	—
Equity and index contracts						
Options	Other investments	—	3,842	106	106	—
Futures	Other assets	—	1,217	—	—	—
Total return index contracts						
Total return swap agreements – fixed income	Other investments	60	n/a	2	2	—
Total return swap agreements – equity index	Other investments	23	n/a	—	—	—
Foreign currency contracts						
Foreign currency forwards	Other investments	527	n/a	10	12	(2)
Credit default contracts						
Credit default swaps – buying protection	Other investments	222	n/a	(3)	—	(3)
Credit default swaps – selling protection	Other investments	4	n/a	—	—	—
Other contracts						
Other	Other assets	3	n/a	—	—	—
Total asset derivatives		**$ 859**	**11,872**	**$ 115**	**$ 120**	**$ (5)**
Liability derivatives						
Derivatives not designated as accounting hedging instruments						
Interest rate contracts						
Interest rate cap agreements	Other liabilities & accrued expenses	$ 18	n/a	$ 1	$ 1	$ —
Options	Other liabilities & accrued expenses	—	1,062	—	—	—
Equity and index contracts						
Options and futures	Other liabilities & accrued expenses	—	5,059	(40)	—	(40)
Total return index contracts						
Total return swap agreements – fixed income	Other liabilities & accrued expenses	—	n/a	—	—	—
Total return swap agreements – equity index	Other liabilities & accrued expenses	210	n/a	(1)	—	(1)
Foreign currency contracts						
Foreign currency forwards	Other liabilities & accrued expenses	—	n/a	—	—	—
Embedded derivative financial instruments						
Guaranteed accumulation benefits	Contractholder funds	200	n/a	(17)	—	(17)
Guaranteed withdrawal benefits	Contractholder funds	248	n/a	(10)	—	(10)
Equity-indexed and forward starting options in life and annuity product contracts	Contractholder funds	1,783	n/a	(239)	—	(239)
Credit default contracts						
Credit default swaps – buying protection	Other liabilities & accrued expenses	21	n/a	(1)	—	(1)
Credit default swaps – selling protection	Other liabilities & accrued expenses	1	n/a	—	—	—
Total liability derivatives		**2,481**	**6,121**	**(307)**	**$ 1**	**$ (308)**
Total derivatives		**$ 3,340**	**17,993**	**$ (192)**		

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

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

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

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

Gross and net amounts for OTC derivatives (1)

($ in millions)	Gross amount	Offsets Counter-party netting	Offsets Cash collateral (received) pledged	Net amount on balance sheet	Securities collateral (received) pledged	Net amount
September 30, 2018						
Asset derivatives	$ 16	$ (6)	$ (7)	$ 3	$ —	$ 3
Liability derivatives	(8)	6	—	(2)	—	(2)
December 31, 2017						
Asset derivatives	$ 8	$ (7)	$ 1	$ 2	$ —	$ 2
Liability derivatives	(26)	7	7	(12)	3	(9)

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

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

($ in millions)	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
(Loss) gain recognized in OCI on derivatives during the period	$ —	$ (3)	$ 1	$ (5)
Loss recognized in OCI on derivatives during the term of the hedging relationship	(3)	(2)	(3)	(2)
Loss reclassified from AOCI into income (net investment income)	—	(2)	—	(1)
Gain reclassified from AOCI into income (realized capital gains and losses)	—	—	3	—

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

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

($ in millions)	Realized capital gains and losses	Life contract benefits	Interest credited to contractholder funds	Operating costs and expenses	Total gain (loss) recognized in net income on derivatives
Three months ended September 30, 2018					
Interest rate contracts	$ (1)	$ —	$ —	$ —	$ (1)
Equity and index contracts	(12)	—	19	9	16
Embedded derivative financial instruments	—	2	(8)	—	(6)
Foreign currency contracts	7	—	—	—	7
Total return swaps	11	—	—	—	11
Total	**$ 5**	**$ 2**	**$ 11**	**$ 9**	**$ 27**
Nine months ended September 30, 2018					
Equity and index contracts	$ (15)	$ —	$ 25	$ 12	$ 22
Embedded derivative financial instruments	—	7	13	—	20
Foreign currency contracts	19	—	—	(1)	18
Total return swaps	12	—	—	—	12
Credit default contracts	1	—	—	—	1
Total	**$ 17**	**$ 7**	**$ 38**	**$ 11**	**$ 73**
Three months ended September 30, 2017					
Equity and index contracts	$ (10)	$ —	$ 11	$ 8	$ 9
Embedded derivative financial instruments	—	(4)	(3)	—	(7)
Foreign currency contracts	(5)	—	—	1	(4)
Credit default contracts	(2)	—	—	—	(2)
Total	**$ (17)**	**$ (4)**	**$ 8**	**$ 9**	**$ (4)**
Nine months ended September 30, 2017					
Equity and index contracts	$ (17)	$ —	$ 33	$ 20	$ 36
Embedded derivative financial instruments	—	4	(7)	—	(3)
Foreign currency contracts	(20)	—	—	6	(14)
Credit default contracts	(3)	—	—	—	(3)
Total	**$ (40)**	**$ 4**	**$ 26**	**$ 26**	**$ 16**

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

The Company manages its exposure to credit risk by utilizing highly rated counterparties, establishing risk control limits, executing legally enforceable master netting agreements ("MNAs") and obtaining collateral where appropriate. The Company uses MNAs for OTC derivative transactions that permit either party to net payments due for transactions and collateral is either pledged or obtained when certain predetermined exposure limits are exceeded. As of September 30, 2018, counterparties pledged $9 million in collateral to the Company, and the Company pledged $2 million in collateral to counterparties which includes $1 million of collateral posted under MNAs for contracts containing credit-risk-contingent provisions that are in a liability position and $1 million of collateral posted under MNAs for contracts without credit-risk-contingent features. The Company has not incurred any losses on derivative financial instruments due to counterparty nonperformance. Other derivatives, including futures and certain option contracts, are traded on organized exchanges which require margin deposits and

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

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

For certain exchange traded and cleared derivatives, margin deposits are required as well as daily cash settlements of margin accounts. As of September 30, 2018, the Company pledged $32 million in the form of margin deposits.

OTC derivatives counterparty credit exposure by counterparty credit rating

($ in millions)	September 30, 2018				December 31, 2017			
Rating (1)	Number of counter-parties	Notional amount (2)	Credit exposure (2)	Exposure, net of collateral (2)	Number of counter-parties	Notional amount (2)	Credit exposure (2)	Exposure, net of collateral (2)
AA-	—	$ —	$ —	$ —	1	$ 18	$ 1	$ —
A+	4	659	11	3	3	90	3	1
A	1	10	—	—	—	—	—	—
Total	**5**	**$ 669**	**$ 11**	**$ 3**	**4**	**$ 108**	**$ 4**	**$ 1**

(1) Rating is the lower of S&P or Moody's ratings.

(2) Only OTC derivatives with a net positive fair value are included for each counterparty.

Market risk is the risk that the Company will incur losses due to adverse changes in market rates and prices. Market risk exists for all of the derivative financial instruments the Company currently holds, as these instruments may become less valuable due to adverse changes in market conditions. To limit this risk, the Company's senior management has established risk control limits. In addition, changes in fair value of the derivative financial instruments that the Company uses for risk management purposes are generally offset by the change in the fair value or cash flows of the hedged risk component of the related assets, liabilities or forecasted transactions.

Certain of the Company's derivative instruments contain credit-risk-contingent termination events, cross-default provisions and credit support annex agreements. Credit-risk-contingent termination events allow the counterparties to terminate the derivative agreement or a specific trade on certain dates if AIC's, ALIC's or Allstate Life Insurance Company of New York's ("ALNY") financial strength credit ratings by Moody's or S&P fall below a certain level. Credit-risk-contingent cross-default provisions allow the counterparties to terminate the derivative agreement if the Company defaults by pre-determined threshold amounts on certain debt instruments. Credit-risk-contingent credit support annex agreements specify the amount of collateral the Company must post to counterparties based on AIC's, ALIC's or ALNY's financial strength credit ratings by Moody's or S&P, or in the event AIC, ALIC or ALNY are no longer rated by either Moody's or S&P.

The following summarizes the fair value of derivative instruments with termination, cross-default or collateral credit-risk-contingent features that are in a liability position, as well as the fair value of assets and collateral that are netted against the liability in accordance with provisions within legally enforceable MNAs.

($ in millions)	September 30, 2018	December 31, 2017
Gross liability fair value of contracts containing credit-risk-contingent features	$ 7	$ 28
Gross asset fair value of contracts containing credit-risk-contingent features and subject to MNAs	(5)	(17)
Collateral posted under MNAs for contracts containing credit-risk-contingent features	(1)	(6)
Maximum amount of additional exposure for contracts with credit-risk-contingent features if all features were triggered concurrently	**$ 1**	**$ 5**

Credit derivatives - selling protection

A credit default swap ("CDS") is a derivative instrument, representing an agreement between two parties to exchange the credit risk of a specified entity (or a group of entities), or an index based on the credit risk of a group of entities (all commonly referred to as the "reference entity" or a portfolio of "reference entities"), in return for a periodic premium. In selling protection, CDS are used to replicate fixed income securities and to complement the cash market when credit exposure to certain issuers is not available or when the derivative alternative is less expensive than the cash market alternative. CDS typically have a five-year term.

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

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

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

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

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

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

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

Management believes that the reserve for property and casualty insurance claims and claims expense, net of reinsurance recoverables, is appropriately established in the aggregate and adequate to cover the ultimate net cost of reported and unreported claims arising from losses which had

occurred by the date of the Condensed Consolidated Statements of Financial Position based on available facts, technology, laws and regulations.

Allstate's reserves for asbestos claims were $882 million and $884 million, net of reinsurance recoverables of $423 million and $412 million, as of September 30, 2018 and December 31, 2017, respectively. Reserves for environmental claims were $174 million and $166 million, net of reinsurance recoverables of $40 million and $33 million, as of September 30, 2018 and December 31, 2017, respectively.

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

($ in millions)	Nine months ended September 30, 2018	2017
Balance as of January 1	$ 26,325	$ 25,250
Less reinsurance recoverables	(6,471)	(6,184)
Net balance as of January 1	**19,854**	**19,066**
SquareTrade acquisition as of January 3, 2017	—	17
Incurred claims and claims expense related to:		
Current year	16,893	16,971
Prior years	(135)	(321)
Total incurred	**16,758**	**16,650**
Claims and claims expense paid related to:		
Current year	(10,124)	(10,052)
Prior years	(6,174)	(5,784)
Total paid	**(16,298)**	**(15,836)**
Net balance as of September 30	20,314	19,897
Plus reinsurance recoverables	6,625	7,257
Balance as of September 30	**$ 26,939**	**$ 27,154**

Incurred claims and claims expense represents the sum of paid losses and reserve changes in the period. This expense includes losses from catastrophes of $1.89 billion and $2.64 billion in the nine months ended September 30, 2018 and 2017, respectively, net of reinsurance and other recoveries. Catastrophes are an inherent risk of the property and casualty insurance business that have contributed to, and will continue to contribute to, material year-to-year fluctuations in the Company's results of operations and financial position. During the nine months ended September 30, 2018, incurred claims and claims expense included $135 million of prior year reserve reestimates, increasing net income, including favorable prior year reserve reestimates excluding catastrophes of $180 million and $45 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 $372 million, primarily due to continued favorable personal lines auto injury coverage development, offset by net increases of $192 million, related to commercial lines and discontinued lines and coverages of $107 million and $85 million, respectively. Unfavorable catastrophe loss reestimates of $45 million, net of reinsurance and other recoveries, include $84 million of unfavorable reestimates related to homeowners, including $37 million for Texas Windstorm Insurance Association ("TWIA") assessments related to Hurricane Harvey (see Note 12), offset by $39 million of favorable reestimates, primarily related to auto.

Note 9 Reinsurance

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

($ in millions)	Three months ended September 30, 2018	Three months ended September 30, 2017	Nine months ended September 30, 2018	Nine months ended September 30, 2017
Property and casualty insurance premiums earned	$ (260)	$ (245)	$ (756)	$ (745)
Life premiums and contract charges	(76)	(75)	(221)	(225)

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 September 30, 2018	Three months ended September 30, 2017	Nine months ended September 30, 2018	Nine months ended September 30, 2017
Property and casualty insurance claims and claims expense [(1)]	$ (247)	$ (1,268)	$ (572)	$ (1,523)
Life contract benefits	(35)	(47)	(150)	(164)
Interest credited to contractholder funds	(5)	(6)	(16)	(17)

(1) Includes expected reinsurance recoveries on catastrophe losses related to homeowners flood claims covered by the National Flood Insurance Program.

Note 10 Capital Structure

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

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

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

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

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

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

Subsequent event On October 15, 2018, the Company redeemed all 15,400 shares of its Fixed Rate Noncumulative Perpetual Preferred Stock, Series C, par value $1.00 per share and liquidation preference $25,000 per share and the corresponding depositary shares for a total redemption payment of $385 million.

Note 11 Company Restructuring

The Company undertakes various programs to reduce expenses. These programs generally involve a reduction in staffing levels, and in certain cases, office closures. Restructuring and related charges primarily include employee severance and relocation benefits, and post-exit rent expenses in connection with these programs, and non-cash charges resulting from pension benefit payments made to agents and certain legal expenses and settlements incurred in connection with the 1999 reorganization of Allstate's multiple agency programs to a single exclusive agency program. The expenses related to these activities are included in the Condensed Consolidated Statements of Operations as restructuring and related charges, and totaled $16 million and $14 million during the three months ended September 30, 2018 and 2017, respectively, and $65 million and $77 million during the nine months ended September 30, 2018 and 2017, respectively. Restructuring expenses in 2018 primarily related to realignment of certain employees to centralized talent centers as well as legal settlements and expenses.

Restructuring activity during the period

($ in millions)	Employee costs	Exit costs	Total liability
Restructuring liability as of December 31, 2017	$ 15	$ 30	$ 45
Expense incurred	41	26	67
Adjustments to liability	—	(2)	(2)
Payments and non-cash pension settlements	(20)	(38)	(58)
Restructuring liability as of September 30, 2018	**$ 36**	**$ 16**	**$ 52**

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

As of September 30, 2018, the cumulative amount incurred to date for active programs totaled $130 million for employee costs and $110 million for exit costs.

Note 12 Guarantees and Contingent Liabilities

Shared markets and state facility assessments

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

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

During 2018, the TWIA Board announced assessments related to Hurricane Harvey for which the Company's share was $37 million. These costs were recorded in property and casualty insurance claims and claims expense as catastrophe losses on the Condensed Consolidated Statements of Operations. Any assessments from TWIA for a particular quarter or annual period may be material to the results of operations and cash flows, but not the financial position of the Company.

Guarantees

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

Related to the disposal through reinsurance of substantially all of its variable annuity business to Prudential in 2006, the Company and its consolidated subsidiaries, ALIC and ALNY, have agreed to indemnify Prudential for certain pre-closing contingent liabilities (including extra-contractual liabilities of ALIC and ALNY and liabilities specifically excluded from the transaction) that ALIC and ALNY have agreed to retain. In addition, the Company, ALIC and ALNY will each indemnify Prudential for certain post-closing liabilities that may arise from the acts of ALIC, ALNY and their agents, including certain liabilities arising from ALIC's and ALNY's provision of transition services. The reinsurance agreements contain no limitations or indemnifications with regard to insurance risk transfer and transferred all of the future risks and responsibilities for performance on the underlying variable annuity contracts to Prudential, including

those related to benefit guarantees. Management does not believe this agreement will have a material effect on results of operations, cash flows or financial position of the Company.

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

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

Regulation and compliance

The Company is subject to extensive laws, regulations, administrative directives, and regulatory actions. From time to time, regulatory authorities or legislative bodies seek to influence and restrict premium rates, require premium refunds to policyholders, require reinstatement of terminated policies, prescribe rules or guidelines on how affiliates compete in the marketplace, restrict the ability of insurers to cancel or non-renew policies, require insurers to continue to write new policies or limit their ability to write new policies, limit insurers' ability to change coverage terms or to impose underwriting standards, impose additional regulations regarding agent and broker compensation, regulate the nature of and amount of investments, impose fines and penalties for unintended errors or mistakes, impose additional regulations regarding cybersecurity and privacy, and otherwise expand overall regulation of insurance products and the insurance industry. In addition, the Company is subject to laws and regulations administered and enforced by federal agencies, international agencies, and other organizations, including but not limited to the 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 case of *Jack Jimenez, et al. v. Allstate Insurance Company* was filed in the U.S. District Court for the Central District of California in September 2010. Plaintiffs allege off-the-clock wage and hour claims and other California Labor Code violations resulting from purported unpaid overtime. Plaintiffs seek recovery of unpaid compensation, liquidated damages, penalties, and attorneys' fees and costs. The court certified a class that includes all adjusters in the state of California, except auto field adjusters, from September 29, 2006 to final judgment. Allstate's appeals to the Ninth Circuit Court of Appeals and then to the U.S. Supreme Court did not result in decertification. No trial date is calendared.

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

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

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

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

In *Biefeldt v. Wilson, et al.*, a plaintiff alleging to be a stockholder in the Company filed a shareholder derivative complaint in the Circuit Court for Cook County, Illinois, Chancery Division on August 3, 2017. The plaintiff seeks, on behalf of the Company, an unspecified amount of damages and various forms of equitable relief. The complaint alleges breaches of fiduciary duty based on allegations similar to those asserted in *In re The Allstate Corp. Securities Litigation*. The complaint names as defendants the Company's chairman, president and chief executive officer, its former president, its former chief financial officer, who is now the Company's vice chairman, and the members of the board of directors during the relevant period. The defendants' motion to dismiss the complaint was heard on May 8, 2018. On June 29, 2018, the court granted the motion to dismiss. On July 26, 2018, the court consolidated this matter with the *IBEW Local No. 98 Pension Fund* matter described below. The court granted the consolidated plaintiffs leave to file a consolidated complaint by August 10, 2018. Defendants answered the consolidated complaint on September 24, 2018. Plaintiff's opposition brief is due on November 8, 2018, and defendants' reply is due on December 7, 2018.

In *IBEW Local No. 98 Pension Fund v. Wilson, et al.*, another plaintiff alleging to be a stockholder in the Company filed a shareholder derivative complaint in the Circuit Court for Cook County, Illinois, Chancery Division on April 12, 2018. The plaintiff seeks, on behalf of the Company, an unspecified amount of damages and various forms of equitable relief. The complaint alleges breaches of fiduciary duty based on allegations similar to those asserted in *In re The Allstate Corp. Securities Litigation*. The complaint also includes allegations concerning the exercise of stock options by the Company's chairman, president and chief executive officer and several other members of our board of directors during the relevant period. The complaint names as defendants the Company's chairman, president and chief executive officer, its former president and the members of the board of directors during the relevant period. On May 17, 2018, the court transferred this case to the same judge handling the *Biefeldt v. Wilson, et al.* lawsuit. On July 26, 2018, the court consolidated this matter with the *Biefeldt* matter described above. The court granted the consolidated plaintiffs leave to file a consolidated complaint by August 10, 2018. Defendants answered the consolidated complaint on September 24, 2018. Plaintiff's opposition brief is due on November 8, 2018, and defendants' reply is due on December 7, 2018.

In *Sundquist v. Wilson, et al*., another plaintiff alleging to be a stockholder in the Company filed a shareholder derivative complaint in federal court in the Northern District of Illinois on May 21, 2018. The plaintiff seeks, on behalf of the Company, an unspecified amount of damages and various forms of equitable relief. The complaint alleges breaches of fiduciary duty based on allegations similar to those asserted in *In re The Allstate Corp. Securities Litigation*. The complaint also asserts state law "misappropriation" claims based on stock option transactions by the Company's chairman, president and chief executive officer, its former chief financial officer, who is now the Company's vice chairman, and members of the board of directors. The complaint names as defendants the Company's chairman, president and chief executive officer, its former president, its former chief financial officer, who is now the Company's vice chairman, and the members of the board of directors during the relevant period. Defendants answered the complaint on August 7, 2018. Plaintiff filed her opposition to defendants' motion to dismiss on September 7, 2018. Defendants filed their reply to plaintiff's opposition on September 28, 2018.

In re The Allstate Corp. Securities Litigation is a putative class action filed in November 2016 in the United States District Court for the Northern District of Illinois against the Company and several of its officers asserting claims under the federal securities laws. Plaintiffs seek an unspecified amount of damages, costs, attorney's fees, and such other relief as the court deems appropriate. Plaintiffs allege that the Company and certain senior officers made allegedly material misstatements or omissions concerning claim

frequency statistics and the reasons for a claim frequency increase for Allstate brand auto insurance. Plaintiffs' further allege that a senior officer engaged in stock option exercises and sales during that time allegedly while in possession of nonpublic information about claim frequency. The Company, its chairman, president and chief executive officer, and its former president are the named defendants. Defendants answered the complaint, disputing plaintiffs' allegations that there was any misstatement or omission or other misconduct, after the court denied their motion to dismiss on February 27, 2018. On June 22, 2018, plaintiffs filed their motion for class certification. Defendants' response to plaintiffs' motion was filed on October 5, 2018. Plaintiffs' reply is due on November 19, 2018. 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.

Note 13 Benefit Plans

Components of net periodic cost included in operating costs and expenses

($ in millions)	Three months ended September 30, 2018	Three months ended September 30, 2017	Nine months ended September 30, 2018	Nine months ended September 30, 2017
Pension benefits				
Service cost	$ 29	$ 28	$ 85	$ 85
Interest cost	60	66	181	198
Expected return on plan assets	(105)	(102)	(316)	(306)
Amortization of:				
Prior service credit	(14)	(14)	(42)	(42)
Net actuarial loss	43	48	132	142
Settlement loss	68	94	82	110
Net periodic pension cost	**$ 81**	**$ 120**	**$ 122**	**$ 187**
Postretirement benefits				
Service cost	$ 2	$ 2	$ 6	$ 6
Interest cost	3	4	10	11
Amortization of:				
Prior service credit	(5)	(6)	(16)	(18)
Net actuarial gain	(6)	(6)	(17)	(18)
Net periodic postretirement credit	**$ (6)**	**$ (6)**	**$ (17)**	**$ (19)**

During the third quarter of 2018, the Company concluded that its qualified employee pension plan 2018 lump sum payments are expected to exceed a threshold of service and interest cost due to higher-than-expected retirement levels and rising interest rates that reduce benefit lump sum payments in the future.

As a result, a pension settlement loss of $61 million, pre-tax, was recorded as part of operating costs and expenses in the Corporate and Other segment.

The Company will continue to monitor lump sum payments through the end of the year and will recognize an additional settlement loss based on lump sum payments made during the fourth quarter of 2018.

During the third quarter of 2017, the Company also recorded a pension settlement loss in the amount of $86 million, pre-tax, related to higher levels of lump sum payments in the qualified employee pension plan.

Note 14 Supplemental Cash Flow Information

Non-cash investing activities include $78 million and $31 million related to mergers and exchanges completed with equity securities, fixed income securities and limited partnerships, and modifications of certain mortgage loans for the nine months ended September 30, 2018 and 2017, respectively. Non-cash financing activities include $30 million and $42 million related to the issuance of Allstate common shares for vested equity awards for the nine months ended September 30, 2018 and 2017, respectively.

Liabilities for collateral received in conjunction with the Company's securities lending program and over-the-counter and cleared derivatives are reported in other liabilities and accrued expenses or other investments.

The accompanying cash flows are included in cash flows from operating activities in the Condensed Consolidated Statements of Cash Flows along with the activities resulting from management of the proceeds, which are as follows:

	Nine months ended September 30,	
($ in millions)	**2018**	**2017**
Net change in proceeds managed		
Net change in fixed income securities	$ 175	$ 129
Net change in short-term investments	(454)	(157)
Operating cash flow (used) provided	**$ (279)**	**$ (28)**
Net change in cash	—	1
Net change in proceeds managed	**$ (279)**	**$ (27)**
Net change in liabilities		
Liabilities for collateral, beginning of period	$ (1,124)	$ (1,129)
Liabilities for collateral, end of period	(1,403)	(1,156)
Operating cash flow provided (used)	**$ 279**	**$ 27**

Note 15 Other Comprehensive Income

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

($ in millions)	Three months ended September 30,					
	2018			2017		
	Pre-tax	Tax	After-tax	Pre-tax	Tax	After-tax
Unrealized net holding gains and losses arising during the period, net of related offsets	$ (116)	$ 25	$ (91)	$ 300	$ (105)	$ 195
Less: reclassification adjustment of realized capital gains and losses	(26)	5	(21)	107	(37)	70
Unrealized net capital gains and losses	**(90)**	**20**	**(70)**	**193**	**(68)**	**125**
Unrealized foreign currency translation adjustments	**(18)**	**4**	**(14)**	**43**	**(15)**	**28**
Unrecognized pension and other postretirement benefit cost arising during the period	—	—	—	(5)	3	(2)
Less: reclassification adjustment of net periodic cost recognized in operating costs and expenses	(86)	18	(68)	(116)	41	(75)
Unrecognized pension and other postretirement benefit cost	**86**	**(18)**	**68**	**111**	**(38)**	**73**
Other comprehensive (loss) income	**$ (22)**	**$ 6**	**$ (16)**	**$ 347**	**$ (121)**	**$ 226**

	Nine months ended September 30,					
	2018			2017		
	Pre-tax	Tax	After-tax	Pre-tax	Tax	After-tax
Unrealized net holding gains and losses arising during the period, net of related offsets	$ (1,103)	$ 233	$ (870)	$ 1,165	$ (408)	$ 757
Less: reclassification adjustment of realized capital gains and losses	(129)	27	(102)	245	(86)	159
Unrealized net capital gains and losses	**(974)**	**206**	**(768)**	**920**	**(322)**	**598**
Unrealized foreign currency translation adjustments	**(32)**	**7**	**(25)**	**55**	**(19)**	**36**
Unrecognized pension and other postretirement benefit cost arising during the period	4	(1)	3	(8)	5	(3)
Less: reclassification adjustment of net periodic cost recognized in operating costs and expenses	(139)	29	(110)	(174)	61	(113)
Unrecognized pension and other postretirement benefit cost	**143**	**(30)**	**113**	**166**	**(56)**	**110**
Other comprehensive (loss) income	**$ (863)**	**$ 183**	**$ (680)**	**$ 1,141**	**$ (397)**	**$ 744**

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

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

Basis for Review Results

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

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

Emphasis of a Matter

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

/s/ DELOITTE & TOUCHE LLP

Chicago, Illinois
October 31, 2018

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations for the Three and Nine Month Periods Ended September 30, 2018 and 2017

Overview

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

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

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

Measuring segment profit or loss

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

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

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

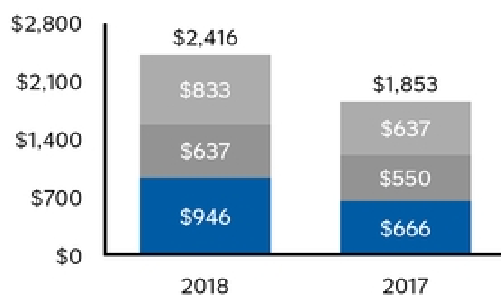
- Realized capital gains and losses, after-tax, except for periodic settlements and accruals on non-hedge derivative instruments, which are reported with realized capital gains and losses but included in adjusted net income
- Valuation changes on embedded derivatives not hedged, after-tax
- Amortization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

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

Highlights

Consolidated Net Income

($ in millions)

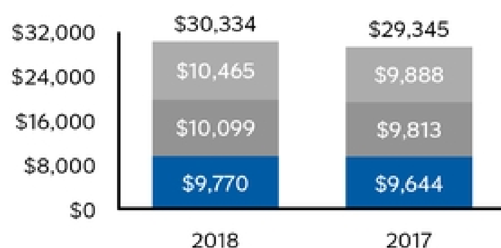


Consolidated net income applicable to common shareholders increased 30.8% and 30.4% in the third quarter and first nine months of 2018, respectively, compared to the prior periods. The increase in both periods was driven by a 5.8% and 3.4% increase in total revenue (see table below), lower catastrophe losses and a lower effective tax rate from the Tax Cuts and Jobs Act of 2017, partially offset by higher property and casualty insurance non-catastrophe claims losses, higher amortization of DAC for property and casualty businesses and Allstate Life, and lower realized capital gains in the first nine months of 2018 compared to the same period of 2017.

The Property-Liability combined ratio increased from 93.9 in the third quarter of 2017 to 94.3 in the third quarter of 2018 and improved from 94.5 in the first nine months of 2017 to 92.5 in the first nine months of 2018.

Total Revenue

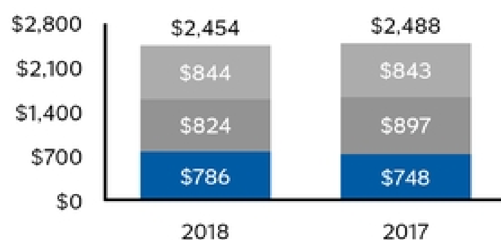
($ in millions)



Total revenue increased 5.8% and 3.4% in the third quarter and first nine months of 2018, respectively, compared to the prior periods, driven by a 5.7% and 5.0% increase in insurance premiums in the third quarter and first nine months of 2018, respectively. Insurance premiums increased in the following segments: Allstate Protection (Allstate brand and Esurance), Service Businesses, Allstate Benefits and Allstate Life. The increase in revenue in the first nine months of 2018 is partially offset by lower net realized capital gains and net investment income.

Net Investment Income

($ in millions)



Net investment income was flat in the third quarter of 2018, compared to the third quarter of 2017. Net investment income decreased 1.4% in the first nine months of 2018, compared to the first nine months of 2017, primarily due to lower performance-based investment results, mainly from limited partnerships.

Legend

Segment Highlights

Allstate Protection underwriting income totaled $553 million in the third quarter of 2018, a 3.3% decrease from $572 million in the third quarter of 2017, primarily due to higher claim severity, higher operating costs and expenses and lower favorable non-catastrophe prior year reserve reestimates, partially offset by increased premiums earned, lower catastrophe losses and improved auto claim frequency.

Underwriting income totaled $1.93 billion in the first nine months of 2018, a 38.9% increase from $1.39 billion in the first nine months of 2017, primarily due to increased premiums earned, lower catastrophe losses and improved auto claim frequency, partially offset by higher claim severity and operating costs and expenses.

Premiums written increased 5.9% to $8.80 billion in the third quarter of 2018 and 5.8% to $25.19 billion in the first nine months of 2018, compared to the same periods of 2017.

Service Businesses adjusted net income was zero in the third quarter of 2018 compared to an adjusted net loss of $17 million in the third quarter of 2017. Adjusted net loss improved to $4 million in the first nine months of 2018 compared to $35 million in the first nine months of 2017. The improvements in both periods were primarily due to improved loss experience at SquareTrade and Allstate Dealer Services, partially offset by higher loss costs and investments in the provider network and technology at Allstate Roadside Services and investments in business expansion at Arity.

Total revenues increased 21.0% to $329 million in the third quarter of 2018 and 23.5% to $962 million in the first nine months of 2018, compared to the same periods of 2017. These amounts include $24 million and $80 million related to SquareTrade in the third quarter and first nine months of 2018, respectively, recorded for protection plans sold directly to retailers prior to January 1, 2018 for which SquareTrade is deemed to be the principal. These amounts are due to the adoption of the revenue from contracts with customers accounting standard and are offset by corresponding increases in amortization of DAC, resulting in no impact to adjusted net income.

Net investment income increased $3 million in the third quarter of 2018 and $7 million in the first nine months of 2018, compared to the same periods of 2017.

Allstate Life adjusted net income was $74 million in both the third quarter of 2018 and 2017. Adjusted net income was $221 million in the first nine months of 2018 compared to $196 million in the first nine months of 2017, primarily due to a lower effective tax rate from the Tax Legislation, increased premiums and higher net investment income, partially offset by higher contract benefits.

Premiums and contract charges increased 1.9% to $322 million in the third quarter of 2018 and 2.0% to $975 million in the first nine months of 2018, compared to the same periods of 2017.

Allstate Benefits adjusted net income was $32 million in the third quarter of 2018 compared to $28 million in the third quarter of 2017 and $94 million in the first nine months of 2018 compared to $75 million in the first nine months of 2017, primarily due to higher premiums and a lower effective tax rate from the Tax Legislation, partially offset by higher contract benefits and operating costs and expenses.

Premiums and contract charges increased 4.4% to $285 million in the third quarter of 2018 and 5.3% to $854 million in the first nine months of 2018, compared to the same periods of 2017.

Allstate Annuities adjusted net income was $20 million in the third quarter of 2018 compared to $55 million in the third quarter of 2017 and $99 million in the first nine months of 2018 compared to $149 million in the first nine months of 2017, primarily due to decreased net investment income, driven by lower performance-based investment results and average investment balances, partially offset by a lower effective tax rate from the Tax Legislation and decreased interest credited to contractholder funds.

Net investment income decreased 19.8% to $260 million in the third quarter of 2018 and 12.8% to $843 million in the first nine months of 2018, compared to the same periods of 2017.

Financial Highlights

Tax reform On December 22, 2017, Public Law 115-97, known as the Tax Cuts and Jobs Act of 2017 ("Tax Legislation") became effective, permanently reducing the U.S. corporate income tax rate from 35% to 21% beginning January 1, 2018. As a result, the corporate tax rate is not comparable between periods. During 2017, we revalued deferred tax assets and liabilities and recorded liabilities related to the transition to the modified territorial system for international taxation. During the third quarter of 2018, the impact of the Tax Legislation was adjusted from our preliminary estimate due to, among other things, changes in interpretations and assumptions we previously made, guidance that was issued and actions we took as a result of the Tax Legislation. During the third quarter of 2018, we recorded a reduction of $31 million to income tax expense related to these provisional amounts. We may make adjustments to these provisional amounts as additional information becomes available and future guidance is issued by the Internal Revenue Service.

We are utilizing a portion of the benefits from the Tax Legislation for the following initiatives:

- Accelerating growth initiatives
- Enhancing our employee value proposition
- Improving local communities
- Increasing cash returns to shareholders through the increase of our quarterly dividend per common share in the first quarter of 2018

In the first quarter of 2018, employees received either $1,000 or $2,000 of Choice Dollars ("Choice Dollars") following a reduction in the federal tax rate, which could be taken as a cash bonus or contributed to a 401(k) or health savings account. $43 million was recorded as an expense with $21 million recorded in claims and claim expense and $22 million recorded in other costs and expenses.

The expenses associated with these initiatives will occur throughout 2018 and will reoccur in future periods.

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

Investments totaled $83.97 billion as of September 30, 2018, increasing from $82.80 billion as of December 31, 2017.

Shareholders' equity As of September 30, 2018, shareholders' equity was $23.63 billion, including $3.38 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 $60.79 as of September 30, 2018, an increase of 9.2% from $55.69 as of September 30, 2017, and an increase of 5.6% from $57.58 as of December 31, 2017.

Return on average common shareholders' equity For the twelve months ended September 30, 2018, net income applicable to common shareholders' return on the average of beginning and ending period common shareholders' equity of 17.4% increased by 3.9 points from 13.5% for the twelve months ended September 30, 2017.

Pension settlement loss During the third quarter of 2018, we concluded that our qualified employee pension plan 2018 lump sum payments are expected to exceed a threshold of service and interest cost, which resulted in a pension settlement loss of $61 million, pre-tax, and was recorded as part of operating costs and expenses in the Corporate and Other segment. We will continue to monitor lump sum payments through the end of the year and we expect to recognize an additional settlement loss based on lump sum payments made during the fourth quarter of 2018. During third quarter 2017, we also recorded a pension settlement loss in the amount of $86 million, pre-tax, related to higher levels of lump sum payments in the qualified employee pension plan.

Common share repurchases On October 31, 2018, the Board authorized a new $3.00 billion common share repurchase program that is expected to be completed by April 2020.

Adopted Accounting Standards

Recognition and Measurement of Financial Assets and Financial Liabilities ("recognition and measurement accounting standard") Beginning January 1, 2018, equity securities are reported at fair value with changes in fair value recognized in realized capital gains and losses. Limited partnerships previously reported using the cost method are now reported at fair value with changes in fair value recognized in net investment income. See the Investments section of this Item for further details.

Revenue from Contracts with Customers Beginning January 1, 2018, we adopted the revenue from contracts with customers accounting standard, which revises the criteria for revenue recognition and impacted the Service Businesses segment by increasing deferred revenue by approximately $160 million with a corresponding increase in DAC for protection plans that are sold directly to retailers. The anticipated impact of these adjustments offset and do not impact net income, but impact premium and DAC comparability trends as they are recognized over the life of the policy.

See Note 1 of the condensed consolidated financial statements for additional details on the adopted accounting standards.

Consolidated net income

($ in millions)	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Revenues				
Property-liability insurance premiums	$ 8,595	$ 8,121	$ 25,341	$ 24,098
Life and annuity premiums and contract charges	612	593	1,840	1,777
Other revenue	238	228	682	664
Net investment income [1]	844	843	2,454	2,488
Realized capital gains and losses:				
Total other-than-temporary impairment ("OTTI") losses	(4)	(26)	(8)	(135)
OTTI losses reclassified (from) to other comprehensive income	(1)	(2)	(2)	(2)
Net OTTI losses recognized in earnings	(5)	(28)	(10)	(137)
Sales and valuation changes on equity investments and derivatives	181	131	27	455
Total realized capital gains and losses [1]	176	103	17	318
Total revenues	**10,465**	**9,888**	**30,334**	**29,345**
Costs and expenses				
Property and casualty insurance claims and claims expense	(5,817)	(5,545)	(16,758)	(16,650)
Life contract benefits	(498)	(456)	(1,485)	(1,416)
Interest credited to contractholder funds	(163)	(174)	(489)	(522)
Amortization of deferred policy acquisition costs	(1,317)	(1,200)	(3,886)	(3,545)
Operating costs and expenses	(1,534)	(1,446)	(4,296)	(4,065)
Restructuring and related charges	(16)	(14)	(65)	(77)
Interest expense	(82)	(83)	(251)	(251)
Total costs and expenses	**(9,427)**	**(8,918)**	**(27,230)**	**(26,526)**
Gain on disposition of operations	1	1	4	15
Income tax expense [2]	(169)	(305)	(587)	(894)
Net income	**870**	**666**	**2,521**	**1,940**
Preferred stock dividends	(37)	(29)	(105)	(87)
Net income applicable to common shareholders	**$ 833**	**$ 637**	**$ 2,416**	**$ 1,853**

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

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

Property-Liability Operations

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

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

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

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

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

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

Summarized financial data

($ in millions, except ratios)	Three months ended September 30, 2018	Three months ended September 30, 2017	Nine months ended September 30, 2018	Nine months ended September 30, 2017
Premiums written	$ 8,800	$ 8,311	$ 25,185	$ 23,810
Revenues				
Premiums earned	$ 8,320	$ 7,896	$ 24,528	$ 23,462
Other revenue	192	185	550	533
Net investment income	410	368	1,100	1,063
Realized capital gains and losses	126	82	16	302
Total revenues	**9,048**	**8,531**	**26,194**	**25,360**
Costs and expenses				
Claims and claims expense	(5,729)	(5,441)	(16,491)	(16,376)
Amortization of DAC	(1,133)	(1,060)	(3,331)	(3,114)
Operating costs and expenses	(1,162)	(1,084)	(3,347)	(3,135)
Restructuring and related charges	(15)	(12)	(61)	(73)
Total costs and expenses	**(8,039)**	**(7,597)**	**(23,230)**	**(22,698)**
Gain on disposition of operations [1]	—	—	—	10
Income tax expense	(204)	(298)	(606)	(852)
Net income applicable to common shareholders	**$ 805**	**$ 636**	**$ 2,358**	**$ 1,820**
Underwriting income	$ 473	$ 484	$ 1,848	$ 1,297
Net investment income	410	368	1,100	1,063
Income tax expense on operations	(178)	(271)	(603)	(746)
Realized capital gains and losses, after-tax	103	54	16	199
Gain on disposition of operations, after-tax	—	1	—	7
Tax Legislation expense	(3)	—	(3)	—
Net income applicable to common shareholders	**$ 805**	**$ 636**	**$ 2,358**	**$ 1,820**
Catastrophe losses [2]	$ 625	$ 856	$ 1,892	$ 2,630
GAAP operating ratios				
Claims and claims expense ratio	68.8	68.9	67.3	69.8
Expense ratio	25.5	25.0	25.2	24.7
Combined ratio	94.3	93.9	92.5	94.5
Effect of catastrophe losses on combined ratio	7.5	10.9	7.7	11.2
Effect of prior year reserve reestimates on combined ratio	0.1	(1.7)	(0.5)	(1.4)
Effect of catastrophe losses included in prior year reserve reestimates on combined ratio	—	(0.1)	0.2	(0.1)
Effect of amortization of purchased intangible assets on combined ratio	0.1	—	0.1	—
Effect of restructuring and related charges on combined ratio	0.2	0.2	0.2	0.3
Effect of Discontinued Lines and Coverages on combined ratio	0.9	1.1	0.4	0.4

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

(2) Prior year reserve reestimates included in catastrophe losses totaled $1 million and $45 million unfavorable in the three and nine months ended September 30, 2018, respectively, including $37 million for Texas Windstorm Insurance Association ("TWIA") assessments related to Hurricane Harvey recorded in second quarter 2018 (see Note 12 of the condensed consolidated financial statements), compared to $7 million and $10 million favorable in the three and nine months ended September 30, 2017, respectively.

Net investment income increased 11.4% or $42 million to $410 million in the third quarter of 2018 and 3.5% or $37 million to $1.10 billion in the first nine months of 2018 from $368 million in the third quarter of 2017 and $1.06 billion in the first nine months of 2017, and benefited from higher performance-based investment results, primarily from limited partnerships, and higher market-based portfolio income.

Net investment income

($ in millions)	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Fixed income securities	$ 240	$ 229	$ 690	$ 681
Equity securities	24	27	93	89
Mortgage loans	5	4	13	9
Limited partnership interests [1]	136	108	301	281
Short-term investments	11	5	26	13
Other	33	25	93	74
Investment income, before expense	449	398	1,216	1,147
Investment expense [2] [3]	(39)	(30)	(116)	(84)
Net investment income	**$ 410**	**$ 368**	**$ 1,100**	**$ 1,063**

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

[2] Investment expense includes $10 million and $5 million of investee level expenses in the third quarter of 2018 and 2017, respectively, and $34 million and $16 million in the first nine months of 2018 and 2017, respectively. Investee level expenses include depreciation and asset level operating expenses on directly held real estate and other consolidated investments.

[3] Investment expense includes $6 million and $1 million related to the portion of reinvestment income on securities lending collateral paid to the counterparties in the third quarter of 2018 and 2017, respectively, and $12 million and $3 million in the first nine months of 2018 and 2017, respectively.

Realized capital gains and losses Net realized capital gains in the third quarter and first nine months of 2018, primarily related to increases in the valuation of equity investments, partially offset by losses on sales of fixed income securities.

Realized capital gains and losses

($ in millions)	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Impairment write-downs [1]	$ (1)	$ (17)	$ (3)	$ (55)
Change in intent write-downs [1]	—	(5)	—	(39)
Net OTTI losses recognized in earnings	(1)	(22)	(3)	(94)
Sales [1]	(16)	117	(104)	423
Valuation of equity investments [1]	142 [2]	—	114 [3]	—
Valuation and settlements of derivative instruments	1	(13)	9	(27)
Realized capital gains and losses, pre-tax	126	82	16	302
Income tax expense	(23)	(28)	—	(103)
Realized capital gains and losses, after-tax	**$ 103**	**$ 54**	**$ 16**	**$ 199**

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

[2] Includes $161 million of appreciation of equity investments and $19 million of declines in value primarily related to certain limited partnerships where the underlying assets are predominately public equity securities.

[3] Includes $156 million of appreciation of equity investments and $42 million of declines in value primarily related to certain limited partnerships where the underlying assets are predominately public equity securities.

Allstate Protection Segment

Underwriting results

($ in millions)	Three months ended September 30, 2018	Three months ended September 30, 2017	Nine months ended September 30, 2018	Nine months ended September 30, 2017
Premiums written	$ 8,800	$ 8,311	$ 25,185	$ 23,810
Premiums earned	$ 8,320	$ 7,896	$ 24,528	$ 23,462
Other revenue	192	185	550	533
Claims and claims expense	(5,649)	(5,353)	(16,406)	(16,283)
Amortization of DAC	(1,133)	(1,060)	(3,331)	(3,114)
Other costs and expenses	(1,162)	(1,084)	(3,346)	(3,133)
Restructuring and related charges	(15)	(12)	(61)	(73)
Underwriting income	**$ 553**	**$ 572**	**$ 1,934**	**$ 1,392**
Catastrophe losses	$ 625	$ 856	$ 1,892	$ 2,630
Underwriting income (loss) by line of business				
Auto	$ 371	$ 252	$ 1,326	$ 892
Homeowners	204	335	546	431
Other personal lines [1]	7	(15)	114	54
Commercial lines	(43)	(15)	(87)	(21)
Other business lines [2]	15	15	39	37
Answer Financial	(1)	—	(4)	(1)
Underwriting income	**$ 553**	**$ 572**	**$ 1,934**	**$ 1,392**

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

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

Changes in underwriting results from prior year by component and by line of business (1)

	Three months ended September 30,									
	Auto		Homeowners		Other personal lines		Commercial lines		Allstate Protection (2)	
($ in millions)	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Underwriting income (loss) - prior period	$ 252	$ 18	$ 335	$ 395	$ (15)	$ 50	$ (15)	$ (19)	$ 572	$ 459
Changes in underwriting income (loss) from:										
Increase (decrease) premiums earned	297	148	59	19	16	13	52	(3)	424	177
Increase (decrease) other revenue	5	2	2	(1)	(2)	2	—	—	7	5
(Increase) decrease incurred claims and claims expense ("losses"):										
Incurred losses, excluding catastrophe losses and reserve reestimates	(234)	214	(92)	3	—	(29)	(52)	8	(378)	196
Catastrophe losses, excluding reserve reestimates	259	(221)	(40)	(119)	14	(40)	6	(5)	239	(385)
Non-catastrophe reserve reestimates	(90)	176	(21)	30	(2)	(2)	(36)	7	(149)	211
Catastrophe reserve reestimates	—	3	(8)	8	(1)	—	1	(1)	(8)	10
Losses subtotal	(65)	172	(161)	(78)	11	(71)	(81)	9	(296)	32
(Increase) decrease expenses	(118)	(88)	(31)	—	(3)	(9)	1	(2)	(154)	(101)
Underwriting income (loss)	**$ 371**	**$ 252**	**$ 204**	**$ 335**	**$ 7**	**$ (15)**	**$ (43)**	**$ (15)**	**$ 553**	**$ 572**

	Nine months ended September 30,									
	Auto		Homeowners		Other personal lines		Commercial lines		Allstate Protection (2)	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Underwriting income (loss) - prior period	$ 892	$ (56)	$ 431	$ 528	$ 54	$ 104	$ (21)	$ (90)	$ 1,392	$ 523
Changes in underwriting income (loss) from:										
Increase (decrease) premiums earned	767	448	141	24	48	35	110	(16)	1,066	491
Increase (decrease) other revenue	15	3	4	(1)	1	—	(3)	2	17	11
(Increase) decrease incurred claims and claims expense ("losses"):										
Incurred losses, excluding catastrophe losses and reserve reestimates	(396)	560	(199)	(49)	(43)	(27)	(81)	29	(719)	513
Catastrophe losses, excluding reserve reestimates	358	(179)	377	(182)	50	(26)	8	3	793	(384)
Non-catastrophe reserve reestimates	(3)	289	(46)	73	8	(1)	(101)	46	(142)	407
Catastrophe reserve reestimates	23	6	(86)	21	7	(7)	1	3	(55)	23
Losses subtotal	(18)	676	46	(137)	22	(61)	(173)	81	(123)	559
(Increase) decrease expenses	(330)	(179)	(76)	17	(11)	(24)	—	2	(418)	(192)
Underwriting income (loss)	**$ 1,326**	**$ 892**	**$ 546**	**$ 431**	**$ 114**	**$ 54**	**$ (87)**	**$ (21)**	**$ 1,934**	**$ 1,392**

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

(2) Includes other business lines underwriting income of $15 million in both the third quarter of 2018 and 2017 and $39 million and $37 million in the first nine months of 2018 and 2017, respectively. Includes Answer Financial underwriting loss of $1 million and zero in the third quarter of 2018 and 2017, respectively, and $4 million and $1 million in the first nine months of 2018 and 2017, respectively.

Underwriting income decreased to $553 million in the third quarter of 2018 from $572 million in the third quarter of 2017, primarily due to higher claim severity, higher operating costs and expenses and lower favorable non-catastrophe prior year reserve reestimates, partially offset by increased premiums earned, lower catastrophe losses and improved auto claim frequency. Underwriting income increased to $1.93 billion in the first nine months of 2018 from $1.39 billion in the first nine months of 2017, primarily due to increased premiums earned, lower catastrophe losses and improved auto claim frequency, partially offset by higher claim severity and operating costs and expenses.

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 September 30,		Nine months ended September 30,	
Premiums written	**2018**	**2017**	**2018**	**2017**
Auto	$ 5,987	$ 5,664	$ 17,513	$ 16,569
Homeowners	2,144	2,053	5,800	5,542
Other personal lines	496	478	1,390	1,336
Subtotal – Personal lines	8,627	8,195	24,703	23,447
Commercial lines	173	116	482	363
Total premiums written	**$ 8,800**	**$ 8,311**	**$ 25,185**	**$ 23,810**
Reconciliation of premiums written to premiums earned:				
Increase in unearned premiums	(505)	(456)	(643)	(397)
Other	25	41	(14)	49
Total premiums earned	**$ 8,320**	**$ 7,896**	**$ 24,528**	**$ 23,462**
Auto	$ 5,798	$ 5,501	$ 17,094	$ 16,327
Homeowners	1,891	1,832	5,603	5,462
Other personal lines	455	439	1,354	1,306
Subtotal – Personal lines	8,144	7,772	24,051	23,095
Commercial lines	176	124	477	367
Total	**$ 8,320**	**$ 7,896**	**$ 24,528**	**$ 23,462**

Combined ratios by line of business

	Loss ratio		Expense ratio [1]		Combined ratio	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**
Three months ended September 30,						
Auto	67.8	70.3	25.8	25.1	93.6	95.4
Homeowners	64.3	57.6	24.9	24.1	89.2	81.7
Other personal lines	69.3	74.3	29.2	29.1	98.5	103.4
Commercial lines	104.5	83.1	19.9	29.0	124.4	112.1
Total	**67.9**	**67.8**	**25.5**	**25.0**	**93.4**	**92.8**
Nine months ended September 30,						
Auto	66.6	69.6	25.6	24.9	92.2	94.5
Homeowners	66.1	68.6	24.2	23.5	90.3	92.1
Other personal lines	63.5	67.6	28.1	28.3	91.6	95.9
Commercial lines	96.0	77.6	22.2	28.1	118.2	105.7
Total	**66.9**	**69.4**	**25.2**	**24.7**	**92.1**	**94.1**

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

Loss ratios by line of business

	Loss ratio		Effect of catastrophe losses		Effect of prior year reserve reestimates		Effect of catastrophe losses included in prior year reserve reestimates	
	2018	2017	2018	2017	2018	2017	2018	2017
Three months ended September 30,								
Auto	67.8	70.3	2.1	6.9	(1.7)	(3.4)	(0.1)	(0.1)
Homeowners	64.3	57.6	23.5	21.6	(0.7)	(2.3)	0.3	(0.1)
Other personal lines	69.3	74.3	11.4	14.8	0.7	—	—	(0.2)
Commercial lines	104.5	83.1	3.4	10.5	23.8	5.6	—	0.8
Total	**67.9**	**67.8**	**7.5**	**10.9**	**(0.8)**	**(2.8)**	**—**	**(0.1)**
Nine months ended September 30,								
Auto	66.6	69.6	1.8	4.2	(2.1)	(2.1)	(0.2)	(0.1)
Homeowners	66.1	68.6	25.8	31.8	0.9	(1.6)	1.5	(0.1)
Other personal lines	63.5	67.6	9.5	14.3	(1.1)	—	(0.2)	0.4
Commercial lines	96.0	77.6	2.7	6.0	22.4	1.9	—	0.3
Total	**66.9**	**69.4**	**7.7**	**11.2**	**(0.9)**	**(1.8)**	**0.2**	**(0.1)**

Catastrophe losses were $625 million and $1.89 billion in the third quarter and first nine months of 2018, respectively, including $37 million for TWIA assessments related to Hurricane Harvey recorded in second quarter 2018 (see Note 12 of the condensed consolidated financial statements), compared to $856 million and $2.63 billion in the third quarter and first nine months of 2017, respectively.

We define a "catastrophe" as an event that produces pre-tax losses before reinsurance in excess of $1 million and involves multiple first party policyholders, or a winter weather event that produces a number of claims in excess of a preset, per-event threshold of average claims in a specific area, occurring within a certain amount of time following the event. Catastrophes are caused by various natural events including high winds, winter storms and freezes, tornadoes, hailstorms, wildfires, tropical storms, tsunamis, hurricanes, earthquakes and volcanoes. We are also exposed to man-made catastrophic events, such as certain types of terrorism or industrial accidents. The nature and level of catastrophes in any period cannot be reliably predicted.

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

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

Catastrophe losses by the size of event

	Three months ended September 30, 2018					
($ in millions)	Number of events		Claims and claims expense		Combined ratio impact	Average catastrophe loss per event
Size of catastrophe loss						
Greater than $250 million	—	—%	$ —	—%	—	$ —
$101 million to $250 million	—	—	—	—	—	—
$50 million to $100 million	4	9.1	240	38.4	2.9	60
Less than $50 million	40	90.9	282	45.1	3.4	7
Total	**44**	**100.0%**	**522**	**83.5**	**6.3**	**12**
Prior year reserve reestimates			1	0.2	—	
Prior quarter reserve reestimates			102	16.3	1.2	
Total catastrophe losses			**$ 625**	**100.0%**	**7.5**	

	Nine months ended September 30, 2018					
	Number of events		Claims and claims expense		Combined ratio impact	Average catastrophe loss per event
Size of catastrophe loss						
Greater than $250 million	—	—%	$ —	—%	—	$ —
$101 million to $250 million	3	3.2	416	22.0	1.7	139
$50 million to $100 million	10	10.9	706	37.3	2.9	71
Less than $50 million	79	85.9	725	38.3	2.9	9
Total	**92**	**100.0%**	**1,847**	**97.6**	**7.5**	**20**
Prior year reserve reestimates			45	2.4	0.2	
Total catastrophe losses			**$ 1,892**	**100.0%**	**7.7**	

Catastrophe losses by the type of event

($ in millions)	Three months ended September 30,				Nine months ended September 30,			
	Number of events	2018	Number of events	2017	Number of events	2018	Number of events	2017
Hurricanes/Tropical storms	2	$ 75	2	$ 641	3	$ 79	2	$ 641
Tornadoes	1	9	—	—	1	9	3	101
Wind/Hail	34	376	17	180	77	1,567	81	1,872
Wildfires	7	62	3	8	9	78	3	8
Other events	—	—	—	—	2	114	2	23
Prior year reserve reestimates		1		(7)		45		(10)
Prior quarter reserve reestimates		102		39		—		—
Total catastrophe losses	44	$ 625	22	$ 861	92	$ 1,892	91	$ 2,635

Expense ratio increased 0.5 points in both the third quarter and first nine months of 2018 compared to the same periods of 2017.

Expense ratios by line of business

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Auto	25.8	25.1	25.6	24.9
Homeowners	24.9	24.1	24.2	23.5
Other personal lines	29.2	29.1	28.1	28.3
Commercial lines	19.9	29.0	22.2	28.1
Total expense ratio [(1)]	**25.5**	**25.0**	**25.2**	**24.7**

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

Impact of specific costs and expenses on the expense ratio

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Amortization of DAC	13.6	13.4	13.6	13.3
Advertising expense	2.9	2.4	2.3	2.3
Amortization of purchased intangible assets	0.1	—	0.1	—
Other costs and expenses [(1)]	8.7	9.0	9.0	8.8
Restructuring and related charges	0.2	0.2	0.2	0.3
Total expense ratio	**25.5**	**25.0**	**25.2**	**24.7**

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

Reserve reestimates were favorable in the third quarter and first nine months of 2018 and primarily related to continued favorable personal lines auto injury coverage development, partially offset by strengthening in our commercial lines.

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

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

Reserve reestimates

($ in millions, except ratios)	Three months ended September 30, Reserve reestimate (1) 2018	Three months ended September 30, Reserve reestimate (1) 2017	Three months ended September 30, Effect on combined ratio (2) 2018	Three months ended September 30, Effect on combined ratio (2) 2017	Nine months ended September 30, Reserve reestimate (1) 2018	Nine months ended September 30, Reserve reestimate (1) 2017	Nine months ended September 30, Effect on combined ratio (2) 2018	Nine months ended September 30, Effect on combined ratio (2) 2017
Auto	$ (99)	$ (189)	(1.2)	(2.4)	$ (356)	$ (336)	(1.4)	(1.4)
Homeowners	(13)	(42)	(0.1)	(0.5)	46	(86)	0.2	(0.4)
Other personal lines	3	—	—	—	(15)	—	(0.1)	—
Commercial lines	42	7	0.5	0.1	107	7	0.4	—
Total Allstate Protection (3)	**$ (67)**	**$ (224)**	**(0.8)**	**(2.8)**	**$ (218)**	**$ (415)**	**(0.9)**	**(1.8)**
Allstate brand	$ (64)	$ (221)	(0.8)	(2.8)	$ (216)	$ (409)	(0.9)	(1.8)
Esurance brand	—	(1)	—	—	—	(2)	—	—
Encompass brand	(3)	(2)	—	—	(2)	(4)	—	—
Total Allstate Protection	**$ (67)**	**$ (224)**	**(0.8)**	**(2.8)**	**$ (218)**	**$ (415)**	**(0.9)**	**(1.8)**

(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 $1 million and $45 million unfavorable in the three and nine months ended September 30, 2018, respectively, including $37 million for TWIA assessments related to Hurricane Harvey recorded in second quarter 2018 (see Note 12 of the condensed consolidated financial statements), and $7 million and $10 million favorable in the three and nine months ended September 30, 2017, 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 nine months ended September 30, 2018. Detailed analysis of underwriting results, premiums written and earned, and the combined ratios, including loss and expense ratios, are discussed in the brand sections below.

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

($ in millions)	Allstate brand		Esurance brand		Encompass brand		Allstate Protection	
Premiums written	**Amount**	**Percent to total**	**Amount**	**Percent to total**	**Amount**	**Percent to total**	**Amount**	**Percent to total**
Auto	$ 15,719	68.5 %	$ 1,387	94.3 %	$ 407	52.9 %	$ 17,513	69.6 %
Homeowners	5,422	23.6	78	5.3	300	39.0	5,800	23.0
Other personal lines	1,322	5.8	6	0.4	62	8.1	1,390	5.5
Commercial lines	482	2.1	—	—	—	—	482	1.9
Total	**$ 22,945**	**100.0 %**	**$ 1,471**	**100.0 %**	**$ 769**	**100.0 %**	**$ 25,185**	**100.0 %**
Percent to total Allstate Protection		**91.1 %**		**5.8 %**		**3.1 %**		
PIF (thousands)								
Auto	19,912	65.2 %	1,463	91.4 %	504	61.2 %	21,879	66.3 %
Homeowners	6,145	20.1	92	5.7	240	29.1	6,477	19.7
Other personal lines	4,271	14.0	46	2.9	80	9.7	4,397	13.3
Commercial lines	231	0.7	—	—	—	—	231	0.7
Total	**30,559**	**100.0 %**	**1,601**	**100.0 %**	**824**	**100.0 %**	**32,984**	**100.0 %**
Percent to total Allstate Protection		**92.6 %**		**4.9 %**		**2.5 %**		
Underwriting income (loss)								
Auto	$ 1,305	67.4 %	$ 1	(6.3)%	$ 20	111.1 %	$ 1,326	68.6 %
Homeowners	574	29.6	(18)	112.6	(10)	(55.5)	546	28.2
Other personal lines	105	5.4	1	(6.3)	8	44.4	114	5.9
Commercial lines	(87)	(4.4)	—	—	—	—	(87)	(4.5)
Other business lines	39	2.0	—	—	—	—	39	2.0
Answer Financial							(4)	(0.2)
Total	**$ 1,936**	**100.0 %**	**$ (16)**	**100.0 %**	**$ 18**	**100.0 %**	**$ 1,934**	**100.0 %**

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

- *PIF*: Policy counts are based on items rather than customers. A multi-car customer would generate multiple item (policy) counts, even if all cars were insured under one policy. 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 12 months for auto and homeowners.
- *Renewal ratio*: Renewal policies issued during the period, based on contract effective dates, divided by the total policies issued 6 months prior for auto (generally 12 months prior for Encompass brand) or 12 months prior for homeowners.

Underwriting results

($ in millions)	Three months ended September 30, 2018	Three months ended September 30, 2017	Nine months ended September 30, 2018	Nine months ended September 30, 2017
Premiums written	$ 8,010	$ 7,587	$ 22,945	$ 21,700
Premiums earned	$ 7,587	$ 7,195	$ 22,386	$ 21,356
Other revenue	152	149	431	425
Claims and claims expense	(5,121)	(4,858)	(14,861)	(14,696)
Amortization of DAC	(1,076)	(1,000)	(3,157)	(2,931)
Other costs and expenses	(974)	(912)	(2,810)	(2,625)
Restructuring and related charges	(14)	(12)	(53)	(65)
Underwriting income	**$ 554**	**$ 562**	**$ 1,936**	**$ 1,464**
Catastrophe losses	$ 588	$ 827	$ 1,754	$ 2,450
Underwriting income (loss) by line of business				
Auto	$ 368	$ 261	$ 1,305	$ 927
Homeowners	213	319	574	473
Other personal lines [1]	1	(18)	105	48
Commercial lines	(43)	(15)	(87)	(21)
Other business lines [2]	15	15	39	37
Underwriting income	**$ 554**	**$ 562**	**$ 1,936**	**$ 1,464**

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

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

($ in millions)	Three months ended September 30, 2018	Three months ended September 30, 2017	Nine months ended September 30, 2018	Nine months ended September 30, 2017
Underwriting income (loss) - prior period	$ 562	$ 497	$ 1,464	$ 659
Changes in underwriting income from:				
Increase (decrease) premiums earned	392	193	1,030	534
Increase (decrease) other revenue	3	5	6	11
(Increase) decrease incurred claims and claims expense (“losses”):				
Incurred losses, excluding catastrophe losses and reserve reestimates	(350)	168	(708)	445
Catastrophe losses, excluding reserve reestimates	244	(396)	736	(336)
Non-catastrophe reserve reestimates	(152)	212	(153)	398
Catastrophe reserve reestimates	(5)	9	(40)	22
Losses subtotal	(263)	(7)	(165)	529
(Increase) decrease expenses	(140)	(126)	(399)	(269)
Underwriting income	**$ 554**	**$ 562**	**$ 1,936**	**$ 1,464**

[1] The 2018 column presents changes in 2018 compared to 2017. The 2017 column presents changes in 2017 compared to 2016.

Underwriting income totaled $554 million in the third quarter of 2018 decreasing marginally from $562 million in the third quarter of 2017, primarily due to higher claim severity, lower favorable non-catastrophe prior year reserve reestimates and higher agent and employee-related compensation costs, partially offset by increased premiums earned, lower catastrophe losses and improved auto claim frequency. Underwriting income increased to $1.94 billion in the first nine months of 2018 from $1.46 billion in the first nine months of 2017, primarily due to increased premiums earned, lower catastrophe losses and improved auto claim frequency, partially offset by higher claim severity and agent and employee-related compensation costs.

Premiums written and earned by line of business

($ in millions)	Three months ended September 30,		Nine months ended September 30,	
Premiums written	**2018**	**2017**	**2018**	**2017**
Auto	$ 5,357	$ 5,096	$ 15,719	$ 14,903
Homeowners	2,008	1,921	5,422	5,171
Other personal lines	472	454	1,322	1,263
Subtotal – Personal lines	7,837	7,471	22,463	21,337
Commercial lines	173	116	482	363
Total	**$ 8,010**	**$ 7,587**	**$ 22,945**	**$ 21,700**
Premiums earned				
Auto	$ 5,210	$ 4,950	$ 15,387	$ 14,673
Homeowners	1,769	1,707	5,238	5,086
Other personal lines	432	414	1,284	1,230
Subtotal – Personal lines	7,411	7,071	21,909	20,989
Commercial lines	176	124	477	367
Total	**$ 7,587**	**$ 7,195**	**$ 22,386**	**$ 21,356**

Auto premium measures and statistics

	Three months ended September 30,		Nine months ended September 30,	
	2018	**2017**	**2018**	**2017**
PIF (thousands)	19,912	19,513	19,912	19,513
New issued applications (thousands)	755	651	2,223	1,900
Average premium	$ 572	$ 556	$ 567	$ 546
Renewal ratio (%)	88.7	87.7	88.5	87.5
Approved rate changes [(1)]:				
# of locations [(2)]	20	17	42	43
Total brand (%) [(3)]	—	0.4	0.8	2.8 [(6)]
Location specific (%) [(4)] [(5)]	1.0	3.0	2.7	4.7 [(6)]

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

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

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

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

(5) Based on historical premiums written in the locations noted above, the annual impact of rate changes approved for auto totaled $12 million and $165 million in the three and nine months ended September 30, 2018, respectively, compared to $76 million and $551 million in the three and nine months ended September 30, 2017, respectively.

(6) Includes a rate increase in California in first quarter 2017. Excluding California, Allstate brand auto total brand and location specific rate changes were 2.2% and 4.3%, respectively, for the nine months ended September 30, 2017.

Auto insurance premiums written totaled $5.36 billion in the third quarter of 2018, a 5.1% increase from $5.10 billion in the third quarter of 2017 and $15.72 billion in the first nine months of 2018, a 5.5% increase from $14.90 billion in the first nine months of 2017. Factors impacting premiums written were the following:

- 2.0% or 399 thousand increase in PIF as of September 30, 2018 compared to September 30, 2017. Auto PIF increased in 40 states, including 8 of our largest 10 states, as of September 30, 2018 compared to September 30, 2017.
- 1.0 point increase in the renewal ratio in both the third quarter and first nine months of 2018, compared to the same periods of 2017. 48 states, including 9 of our 10 largest states, and 45 states, including 9 of our 10 largest states, experienced increases in the renewal ratio in the third quarter and first nine months of 2018, respectively, compared to the same periods of 2017.
- 16.0% and 17.0% increase in new issued applications in the third quarter and first nine months of 2018, respectively, compared to the same periods of 2017 due to improved competitive position, increasing agency productivity and expansion of the agency footprint. The increase in new issued applications is geographically broad-based with 39 states, including 8 of our 10 largest states, experiencing increases in new issued applications in the third quarter of 2018 compared to the third quarter of 2017, with 32 states experiencing double digit increases. 42 states, including 9 of our 10 largest states, experienced increases in new issued applications in the first nine months of 2018 compared to the same period

of 2017, with 35 states experiencing double digit increases.

- 2.9% and 3.8% increase in average premium in the third quarter and first nine months of 2018, respectively, compared to the same periods of 2017, primarily due to rate increases approved in 2017.

Homeowners premium measures and statistics

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
PIF (thousands)	6,145	6,071	6,145	6,071
New issued applications (thousands)	219	198	629	556
Average premium	$ 1,238	$ 1,203	$ 1,227	$ 1,194
Renewal ratio (%)	88.3	87.5	87.9	87.2
Approved rate changes [(1)]:				
# of locations [(2)]	10	8	28	23
Total brand (%)	0.4	0.5	1.6	1.6
Location specific (%) [(3)]	3.6	5.3	4.1	4.2

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

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

(3) Based on historical premiums written in the locations noted above, the annual impact of rate changes approved for homeowners totaled $30 million and $115 million in the three and nine months ended September 30, 2018, respectively, compared to $38 million and $113 million in the three and nine months ended September 30, 2017, respectively.

Homeowners insurance premiums written totaled $2.01 billion in the third quarter of 2018, a 4.5% increase from $1.92 billion in the third quarter of 2017 and $5.42 billion in the first nine months of 2018, a 4.9% increase from $5.17 billion in the first nine months of 2017. Factors impacting premiums written were the following:

- 1.2% or 74 thousand increase in PIF as of September 30, 2018 compared to September 30, 2017. Homeowners PIF increased in 30 states, including 5 of our largest 10 states, as of September 30, 2018 compared to September 30, 2017.
- 0.8 point and 0.7 point increase in the renewal ratio in the third quarter and first nine months of 2018, respectively, compared to the same periods of 2017. Of our largest 10 states, 9 experienced an increase in the renewal ratio in both the third quarter and first nine months of 2018 compared to the same periods of 2017.
- 10.6% and 13.1% increase in new issued applications in the third quarter and first nine months of 2018, respectively, compared to the same periods of 2017, due to improved competitive position, increasing agency productivity and expansion of the agency footprint. The increase in new issued applications is geographically broad-based with 7 of our largest 10 states experiencing increases in both the third quarter and first nine months of 2018 compared to the same periods of 2017.
- 2.9% and 2.8% increase in average premium in the third quarter and first nine months of 2018, respectively, compared to the same periods of 2017, primarily due to rate increases and increasing insured home values due to inflation.
- $4 million decrease in the cost of our catastrophe reinsurance program to $65 million in the third quarter of 2018 from $69 million in the third quarter of 2017, and $24 million decrease to $199 million in the first nine months of 2018 from $223 million in the first nine months of 2017. Catastrophe reinsurance premiums are recorded primarily in the Allstate brand and are a reduction of premium.

Other personal lines premiums written totaled $472 million in the third quarter of 2018, a 4.0% increase from $454 million in the third quarter of 2017 and $1.32 billion in the first nine months of 2018, a 4.7% increase from $1.26 billion in the first nine months of 2017. The increase in both periods was primarily due to increases in personal umbrella and condominium insurance premiums, partially offset by agreements to transfer our auto residual market obligations to third party carriers.

Commercial lines premiums written totaled $173 million in the third quarter of 2018, a 49.1% increase from $116 million in the third quarter of 2017 and $482 million in the nine months of 2018, a 32.8% increase from $363 million in the first nine months of 2017. The increase in both periods was due to the agreement with a transportation network company to provide commercial auto insurance coverage in select states.

Combined ratios by line of business

	Loss ratio		Expense ratio [(1)]		Combined ratio	
	2018	2017	2018	2017	2018	2017
Three months ended September 30,						
Auto	67.2	69.8	25.7	24.9	92.9	94.7
Homeowners	63.7	57.9	24.3	23.4	88.0	81.3
Other personal lines	70.9	75.3	28.9	29.0	99.8	104.3
Commercial lines	104.5	83.1	19.9	29.0	124.4	112.1
Total	**67.5**	**67.5**	**25.2**	**24.7**	**92.7**	**92.2**
Nine months ended September 30,						
Auto	65.9	69.0	25.6	24.7	91.5	93.7
Homeowners	65.5	67.9	23.5	22.8	89.0	90.7
Other personal lines	64.2	67.9	27.6	28.2	91.8	96.1
Commercial lines	96.0	77.6	22.2	28.1	118.2	105.7
Total	**66.4**	**68.8**	**25.0**	**24.3**	**91.4**	**93.1**

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

Loss ratios by line of business

	Loss ratio		Effect of catastrophe losses		Effect of prior year reserve reestimates		Effect of catastrophe losses included in prior year reserve reestimates	
	2018	2017	2018	2017	2018	2017	2018	2017
Three months ended September 30,								
Auto	67.2	69.8	2.2	7.3	(1.9)	(3.8)	(0.1)	(0.1)
Homeowners	63.7	57.9	23.6	22.4	(0.9)	(2.5)	0.1	(0.2)
Other personal lines	70.9	75.3	11.8	15.7	1.9	0.7	—	—
Commercial lines	104.5	83.1	3.4	10.5	23.8	5.6	—	0.8
Total	**67.5**	**67.5**	**7.8**	**11.5**	**(0.8)**	**(3.1)**	**—**	**(0.1)**
Nine months ended September 30,								
Auto	65.9	69.0	1.8	4.4	(2.3)	(2.3)	(0.2)	(0.1)
Homeowners	65.5	67.9	25.6	31.6	0.6	(1.7)	1.3	(0.1)
Other personal lines	64.2	67.9	9.7	14.7	(0.3)	0.5	(0.2)	0.4
Commercial lines	96.0	77.6	2.7	6.0	22.4	1.9	—	0.3
Total	**66.4**	**68.8**	**7.9**	**11.5**	**(1.0)**	**(1.9)**	**0.1**	**—**

Auto loss ratio decreased 2.6 points and 3.1 points in the third quarter and first nine months of 2018, respectively, compared to the same periods of 2017, primarily due to increased premiums earned, lower catastrophe losses and improved claim frequency, partially offset by higher claim severity.

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

- *Paid claim frequency* [(1)] is calculated as annualized notice counts closed with payment in the period divided by the average of PIF with the applicable coverage during the period.
- *Gross claim frequency* [(1)] is calculated as annualized notice counts received in the period divided by the average of PIF with the applicable coverage during the period. Gross claim frequency includes all actual notice counts, regardless of their current status (open or closed) or their ultimate disposition (closed with a payment or closed without payment).
- *Paid claim severity* is calculated by dividing the sum of paid losses and loss expenses by claims closed with a payment during the period.
- *Percent change in frequency or severity statistics* is calculated as the amount of increase or decrease in the paid or gross claim frequency or severity in the current period compared to the same period in the prior year divided by the prior year paid or gross claim frequency or severity.

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

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

We are continuing to aggressively seek new technology and process solutions to provide continued loss cost accuracy, efficient processing and enhanced customer experiences that are simple, fast and produce high degrees of satisfaction. For example, we have opened several Digital Operating Centers to handle auto claims countrywide utilizing our virtual estimation capabilities, which includes estimating damage through photos and video with the use of QuickFoto Claim® and Virtual Assist℠. These organizational and process changes 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.

Property damage paid claim frequency increased 0.2% and decreased 2.0% in the third quarter and first nine months of 2018, respectively, compared to the same periods of 2017. 36 states experienced a year over year decrease in property damage paid claim frequency in the first nine months of 2018 when compared to the same period of 2017. Third quarter 2018 paid claim frequency increased slightly compared to a very favorable third quarter 2017 that was partially impacted by Hurricanes Harvey and Irma. Third quarter 2018 paid claim frequency remains consistent with the results experienced in the first half of 2018. Property damage paid claim severities increased 7.7% and 5.4% in the third quarter and first nine months of 2018, respectively, compared to the same periods of 2017 due to the impact of higher costs to repair more sophisticated newer model vehicles, higher third-party subrogation demands and increased costs associated with total losses.

Bodily injury gross claim frequency decreased 0.7% and 1.8% in the third quarter and first nine months of 2018, respectively, compared to the same periods of 2017. Bodily injury severity trends have been impacted by higher medical costs, which after adjusting for company specific claims practices, policy provisions and coverage limits, generally increased consistent with medical care inflation indices.

Homeowners loss ratio increased 5.8 points in the third quarter of 2018 compared to the same period of 2017 primarily due to higher loss costs and catastrophe losses, partially offset by increased premiums earned. Homeowners loss ratio decreased 2.4 points in the first nine months of 2018 compared to the same period of 2017, primarily due to lower catastrophe losses and increased premiums earned, partially offset by higher loss costs driven by adverse non-catastrophe weather in 2018 compared to the prior year and less favorable non-catastrophe prior year reserve reestimates in the first nine months of 2018 compared to favorable prior year reserve reestimates in the first nine months of 2017. Paid claim frequency excluding catastrophe losses increased 8.5% and 3.7% in the third quarter and first nine months of 2018, respectively, compared to the same periods of 2017. Paid claim severity excluding catastrophe losses increased 3.4% and 7.2% in the third quarter and first nine months of 2018, respectively, compared to the same periods of 2017, primarily due to a higher level of fire and water claims experienced in the first nine months of 2018, which typically have higher severities. Homeowner paid claim severity can be impacted by both the mix of perils and the magnitude of specific losses paid during the quarter.

Other personal lines loss ratio decreased 4.4 points and 3.7 points in the third quarter and first nine months of 2018, respectively, compared to the same periods of 2017, primarily due to lower catastrophe losses and increased premiums earned, partially offset by higher non-catastrophe loss costs.

Commercial lines loss ratio increased 21.4 points and 18.4 points in the third quarter and first nine months of 2018, respectively, compared to the same periods of 2017, primarily due to unfavorable non-catastrophe prior year reserve reestimates related to auto bodily injury coverages, partially offset by increased premiums earned. Commercial lines include losses recorded related to a transportation network company based on original pricing expectations given limited loss experience.

Catastrophe losses were $588 million and $1.75 billion in the third quarter and first nine months of 2018, respectively, compared to $827 million and $2.45 billion in the third quarter and first nine months of 2017, respectively.

Expense ratios by line of business

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Auto	25.7	24.9	25.6	24.7
Homeowners	24.3	23.4	23.5	22.8
Other personal lines	28.9	29.0	27.6	28.2
Commercial lines	19.9	29.0	22.2	28.1
Total expense ratio [1]	**25.2**	**24.7**	**25.0**	**24.3**

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

Impact of specific costs and expenses on the expense ratio

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Amortization of DAC	14.2	13.9	14.1	13.7
Advertising expense	2.5	2.1	2.1	2.0
Other costs and expenses [1]	8.3	8.5	8.6	8.3
Restructuring and related charges	0.2	0.2	0.2	0.3
Total expense ratio	**25.2**	**24.7**	**25.0**	**24.3**

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

Expense ratio increased 0.5 points and 0.7 points in the third quarter and first nine months of 2018, respectively, compared to the same periods of 2017, primarily due to higher agent and employee-related compensation costs and higher advertising costs.

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

Underwriting results

($ in millions)	Three months ended September 30, 2018	Three months ended September 30, 2017	Nine months ended September 30, 2018	Nine months ended September 30, 2017
Premiums written	$ 519	$ 453	$ 1,471	$ 1,318
Premiums earned	$ 479	$ 432	$ 1,375	$ 1,280
Other revenue	21	17	61	50
Claims and claims expense	(366)	(337)	(1,051)	(997)
Amortization of DAC	(10)	(11)	(31)	(31)
Other costs and expenses	(134)	(120)	(368)	(354)
Restructuring and related charges	—	—	(2)	(3)
Underwriting loss	**$ (10)**	**$ (19)**	**$ (16)**	**$ (55)**
Catastrophe losses	$ 14	$ 17	$ 46	$ 49
Underwriting income (loss) by line of business				
Auto	$ (5)	$ (15)	$ 1	$ (32)
Homeowners	(6)	(4)	(18)	(24)
Other personal lines	1	—	1	1
Underwriting loss	**$ (10)**	**$ (19)**	**$ (16)**	**$ (55)**

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

($ in millions)	Three months ended September 30, 2018	Three months ended September 30, 2017	Nine months ended September 30, 2018	Nine months ended September 30, 2017
Underwriting income (loss) - prior period	$ (19)	$ (41)	$ (55)	$ (103)
Changes in underwriting income (loss) from:				
Increase (decrease) premiums earned	47	14	95	43
Increase (decrease) other revenue	4	2	11	3
(Increase) decrease incurred claims and claims expense (“losses”):				
Incurred losses, excluding catastrophe losses and reserve reestimates	(32)	(5)	(58)	(29)
Catastrophe losses, excluding reserve reestimates	4	(3)	6	(19)
Non-catastrophe reserve reestimates	—	(3)	1	(11)
Catastrophe reserve reestimates	(1)	—	(3)	1
Losses subtotal	(29)	(11)	(54)	(58)
(Increase) decrease expenses	(13)	17	(13)	60
Underwriting income (loss)	**$ (10)**	**$ (19)**	**$ (16)**	**$ (55)**

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

Underwriting loss totaled $10 million in the third quarter of 2018, an improvement from $19 million in the third quarter of 2017, and $16 million in the first nine months of 2018, compared to $55 million in the first nine months of 2017. The improvement in both periods was primarily due to increased premiums earned, partially offset by higher claim severities.

Premiums written and earned by line of business

($ in millions)	Three months ended September 30,		Nine months ended September 30,	
Premiums written	**2018**	**2017**	**2018**	**2017**
Auto	$ 487	$ 427	$ 1,387	$ 1,252
Homeowners	30	24	78	60
Other personal lines	2	2	6	6
Total	**$ 519**	**$ 453**	**$ 1,471**	**$ 1,318**
Premiums earned				
Auto	$ 455	$ 411	$ 1,305	$ 1,225
Homeowners	22	19	64	49
Other personal lines	2	2	6	6
Total	**$ 479**	**$ 432**	**$ 1,375**	**$ 1,280**

Auto premium measures and statistics

	Three months ended September 30,		Nine months ended September 30,	
	2018	**2017**	**2018**	**2017**
PIF (thousands)	1,463	1,369	1,463	1,369
New issued applications (thousands)	166	116	480	379
Average premium	$ 603	$ 574	$ 603	$ 570
Renewal ratio (%)	82.9	81.8	83.5	81.3
Approved rate changes [(1)]:				
# of locations [(2)]	14	16	25	34
Total brand (%) [(3)]	0.9	2.0	1.6	4.4
Location specific (%) [(4)] [(5)]	3.4	5.6	3.4	5.7

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

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

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

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

(5) Based on historical premiums written in the locations noted above, the annual impact of rate changes approved for auto totaled $13 million and $25 million in the three and nine months ended September 30, 2018, respectively, compared to $32 million and $71 million in the three and nine months ended September 30, 2017, respectively.

Auto insurance premiums written totaled $487 million in the third quarter of 2018, a 14.1% increase from $427 million in the third quarter of 2017 and $1.39 billion in the first nine months of 2018, a 10.8% increase from $1.25 billion in the first nine months of 2017. Factors impacting premiums written were the following:

- 6.9% or 94 thousand increase in PIF as of September 30, 2018 compared to September 30, 2017.
- 1.1 point and 2.2 point increase in the renewal ratio in the third quarter and first nine months of 2018, respectively, compared to the same periods of 2017, primarily due to improved customer experience.
- 43.1% and 26.6% increase in new issued applications in the third quarter and first nine months of 2018, respectively, compared to the same periods of 2017, primarily due to changes in the sales process as well as increases in quote volume driven in part by additional marketing spend.
- 5.1% and 5.8% increase in average premium in the third quarter and first nine months of 2018, respectively, compared to the same periods of 2017, primarily due to rate changes approved in 2017 as well as changes in business mix.

Homeowners premium measures and statistics

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
PIF (thousands)	92	76	92	76
New issued applications (thousands)	9	10	26	27
Average premium	$ 984	$ 924	$ 982	$ 919
Renewal ratio (%) [(1)]	85.9	85.8	85.6	85.3
Approved rate changes [(2)] :				
# of locations [(3)]	—	—	5	—
Total brand (%)	—	—	1.7	—
Location specific (%) [(4)]	—	—	6.4	—

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

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

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

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

Homeowners insurance premiums written totaled $30 million in the third quarter of 2018, a 25.0% increase from $24 million in the third quarter of 2017 and $78 million in the first nine months of 2018, a 30.0% increase from $60 million in the first nine months of 2017. Factors impacting premiums written were the following:

- 21.1% or 16 thousand increase in PIF as of September 30, 2018 compared to September 30, 2017.
- 10.0% and 3.7% decrease in new issued applications in the third quarter and first nine months of 2018, respectively, compared to the same periods of 2017.
- 6.5% and 6.9% increase in average premium in the third quarter and first nine months of 2018, respectively, compared to the same periods of 2017, primarily due to increased premium distribution in higher average premium states and rate increases. As of September 30, 2018, Esurance is writing homeowners insurance in 31 states with lower hurricane risk, contributing to lower average premium compared to the industry.

Other revenue increased $4 million and $11 million in the third quarter and first nine months of 2018, respectively, compared to the same periods of 2017, primarily due to increased revenues from sales of insurance leads that Esurance has chosen not to write.

Combined ratios by line of business

	Loss ratio		Expense ratio [(1)]		Combined ratio	
	2018	2017	2018	2017	2018	2017
Three months ended September 30,						
Auto	76.0	78.3	25.1	25.3	101.1	103.6
Homeowners	90.9	73.7	36.4	47.4	127.3	121.1
Total	**76.4**	**78.0**	**25.7**	**26.4**	**102.1**	**104.4**
Nine months ended September 30,						
Auto	75.8	77.2	24.1	25.4	99.9	102.6
Homeowners	92.2	98.0	35.9	51.0	128.1	149.0
Total	**76.5**	**77.9**	**24.7**	**26.4**	**101.2**	**104.3**

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

Loss ratios by line of business

	Loss ratio		Effect of catastrophe losses		Effect of prior year reserve reestimates		Effect of catastrophe losses included in prior year reserve reestimates	
	2018	2017	2018	2017	2018	2017	2018	2017
Three months ended September 30,								
Auto	76.0	78.3	1.8	3.6	—	—	—	—
Homeowners	90.9	73.7	27.3	10.5	4.5	(5.2)	4.5	—
Total	**76.4**	**78.0**	**2.9**	**3.9**	**—**	**(0.2)**	**0.2**	**—**
Nine months ended September 30,								
Auto	75.8	77.2	1.9	2.8	—	—	—	—
Homeowners	92.2	98.0	32.8	30.6	1.6	(4.1)	3.2	(2.1)
Total	**76.5**	**77.9**	**3.4**	**3.8**	**—**	**(0.2)**	**0.1**	**(0.1)**

Auto loss ratio decreased 2.3 points and 1.4 points in the third quarter and first nine months of 2018, respectively, compared to the same periods of 2017, primarily due to increased premiums earned and lower catastrophe losses.

Catastrophe losses were $14 million and $46 million in the third quarter and first nine months of 2018, respectively, compared to $17 million and $49 million in the third quarter and first nine months of 2017, respectively.

Expense ratios by line of business

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Auto	25.1	25.3	24.1	25.4
Homeowners	36.4	47.4	35.9	51.0
Total expense ratio (1)	**25.7**	**26.4**	**24.7**	**26.4**

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

Impact of specific costs and expenses on the expense ratio

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Amortization of DAC	2.1	2.5	2.2	2.4
Advertising expense	10.6	9.3	9.2	8.8
Amortization of purchased intangible assets	0.2	0.2	0.1	0.2
Other costs and expenses (1)	12.8	14.4	13.0	14.8
Restructuring and related charges	—	—	0.2	0.2
Total expense ratio	**25.7**	**26.4**	**24.7**	**26.4**

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

Expense ratio decreased 0.7 points and 1.7 points in the third quarter and first nine months of 2018, respectively, compared to the same periods of 2017. Other costs and expenses, including salaries of telephone sales personnel and other underwriting costs related to customer acquisition, were 1.6 points and 1.8 points lower in the third quarter and first nine months of 2018, respectively, compared to the same periods of 2017 due to the implementation of process efficiencies.

Esurance uses a direct distribution model, therefore its primary acquisition-related costs are advertising as opposed to commissions. Esurance advertising expense ratio increased 1.3 points and 0.4 points in the third quarter and first nine months of 2018 compared to the same periods of 2017, respectively, primarily due to a new marketing campaign launched during the third quarter of 2018.

Underwriting results

($ in millions)	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Premiums written	$ 271	$ 271	$ 769	$ 792
Premiums earned	$ 254	$ 269	$ 767	$ 826
Other revenue	1	1	4	4
Claims and claims expense	(162)	(158)	(494)	(590)
Amortization of DAC	(47)	(49)	(143)	(152)
Other costs and expenses	(35)	(34)	(110)	(99)
Restructuring and related charges	(1)	—	(6)	(5)
Underwriting income (loss)	**$ 10**	**$ 29**	**$ 18**	**$ (16)**
Catastrophe losses	$ 23	$ 12	$ 92	$ 131

Underwriting income (loss) by line of business				
Auto	$ 8	$ 6	$ 20	$ (3)
Homeowners	(3)	20	(10)	(18)
Other personal lines	5	3	8	5
Underwriting income (loss)	**$ 10**	**$ 29**	**$ 18**	**$ (16)**

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

($ in millions)	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Underwriting income (loss) - prior period	$ 29	$ 5	$ (16)	$ (28)
Changes in underwriting loss from:				
Increase (decrease) premiums earned	(15)	(30)	(59)	(86)
Increase (decrease) other revenue	—	(1)	—	(1)
(Increase) decrease incurred claims and claims expense (“losses”):				
Incurred losses, excluding catastrophe losses and reserve reestimates	4	33	47	97
Catastrophe losses, excluding reserve reestimates	(9)	14	51	(29)
Non-catastrophe reserve reestimates	3	2	10	20
Catastrophe reserve reestimates	(2)	1	(12)	—
Losses subtotal	(4)	50	96	88
(Increase) decrease expenses	—	5	(3)	11
Underwriting income (loss)	**$ 10**	**$ 29**	**$ 18**	**$ (16)**

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

Underwriting income was $10 million in the third quarter of 2018 compared to $29 million in the third quarter of 2017 and underwriting income was $18 million in the first nine months of 2018 compared to an underwriting loss of $16 million in the first nine months of 2017. The decrease in the three month period was primarily due to decreased premiums earned and higher catastrophe losses, partially offset by improved auto claim frequency. The improvement in the nine month period was primarily due to lower catastrophe losses and improved auto claim frequency, partially offset by decreased premiums earned.

Premiums written and earned by line of business

($ in millions)	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Premiums written				
Auto	$ 143	$ 141	$ 407	$ 414
Homeowners	106	108	300	311
Other personal lines	22	22	62	67
Total	**$ 271**	**$ 271**	**$ 769**	**$ 792**
Premiums earned				
Auto	$ 133	$ 140	$ 402	$ 429
Homeowners	100	106	301	327
Other personal lines	21	23	64	70
Total	**$ 254**	**$ 269**	**$ 767**	**$ 826**

Auto premium measures and statistics

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
PIF (thousands)	504	548	504	548
New issued applications (thousands)	21	13	57	38
Average premium	$ 1,115	$ 1,087	$ 1,112	$ 1,070
Renewal ratio (%) (1)	76.4	73.5	74.1	73.4
Approved rate changes (2):				
# of locations (3)	7	8	14	22
Total brand (%) (4)	0.6	0.8	1.9	4.5
Location specific (%) (5) (6)	4.6	4.5	5.9	7.1

(1) Encompass announced a plan to exit business in Massachusetts in the second quarter of 2017 and previously announced a plan to exit business in North Carolina in the first half of 2016, which impacted the renewal ratio. Excluding Massachusetts and North Carolina, the renewal ratio was 77.2 points and 76.2 points for the three and nine months ended September 30, 2018, respectively, compared to 75.3 points and 74.6 points for the three and nine months ended September 30, 2017, respectively.

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

(3) Encompass brand operates in 38 states and the District of Columbia.

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

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

(6) Based on historical premiums written in the locations noted above, the annual impact of rate changes approved for auto totaled $3 million and $10 million in the three and nine months ended September 30, 2018, respectively, compared to $5 million and $27 million in the three and nine months ended September 30, 2017, respectively.

Auto insurance premiums written totaled $143 million in the third quarter of 2018, a 1.4% increase from $141 million in the third quarter of 2017 and $407 million in the first nine months of 2018, a 1.7% decrease from $414 million in the first nine months of 2017. Factors impacting premiums written were the following:

- 8.0% or 44 thousand decrease in PIF as of September 30, 2018 compared to September 30, 2017.
- 2.9 point and 0.7 point increase in the renewal ratio in the third quarter and first nine months of 2018, respectively, compared to the same periods of 2017, as profit improvement actions have moderated.
- 61.5% and 50.0% increase in new issued applications in the third quarter and first nine months of 2018, respectively, compared to the same periods of 2017.
- 2.6% and 3.9% increase in average premium in the third quarter and first nine months of 2018, respectively, compared to the same periods of 2017, due to rate changes.

Homeowners premium measure and statistics

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
PIF (thousands)	240	262	240	262
New issued applications (thousands)	10	8	28	23
Average premium	$ 1,730	$ 1,703	$ 1,710	$ 1,677
Renewal ratio (%) [(1)]	80.9	78.7	79.5	78.5
Approved rate changes [(2)]:				
# of locations [(3)]	11	6	19	17
Total brand (%)	2.7	0.9	3.5	3.9
Location specific (%) [(4)]	7.8	6.0	7.5	8.0

(1) Encompass announced a plan to exit business in Massachusetts in the second quarter of 2017 and previously announced a plan to exit business in North Carolina in the first half of 2016, which has impacted the renewal ratio. Excluding Massachusetts and North Carolina, the renewal ratios were 81.4 points and 80.5 points for the three and nine months ended September 30, 2018, respectively, compared to 79.7 points and 79.2 points for the three and nine months ended September 30, 2017.

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

(3) Encompass brand operates in 38 states and the District of Columbia.

(4) Based on historical premiums written in the locations noted above, the annual impact of rate changes approved for homeowners totaled $12 million and $15 million in the three and nine months ended September 30, 2018, respectively, compared to $5 million and $19 million in the three and nine months ended September 30, 2017, respectively.

Homeowners insurance premiums written totaled $106 million in the third quarter of 2018, a 1.9% decrease from $108 million in the third quarter of 2017 and $300 million in the first nine months of 2018, a 3.5% decrease from $311 million in the first nine months of 2017. Factors impacting premiums written were the following:

- 8.4% or 22 thousand decrease in PIF as of September 30, 2018 compared to September 30, 2017.
- 2.2 point and 1.0 point increase in the renewal ratio in the third quarter and first nine months of 2018, respectively, compared to the same periods of 2017, as profit improvement actions have moderated.
- 25.0% and 21.7% increase in new issued applications in the third quarter and first nine months of 2018, respectively, compared to the same periods of 2017.
- 1.6% and 2.0% increase in average premium in the third quarter and first nine months of 2018, respectively, compared to the same periods of 2017, primarily due to rate changes.

Combined ratios by line of business

	Loss ratio		Expense ratio [(1)]		Combined ratio	
	2018	2017	2018	2017	2018	2017
Three months ended September 30,						
Auto	62.4	65.0	31.6	30.7	94.0	95.7
Homeowners	70.0	50.9	33.0	30.2	103.0	81.1
Other personal lines	42.9	56.5	33.3	30.5	76.2	87.0
Total	**63.8**	**58.7**	**32.3**	**30.5**	**96.1**	**89.2**
Nine months ended September 30,						
Auto	62.4	69.9	32.6	30.8	95.0	100.7
Homeowners	69.7	75.2	33.6	30.3	103.3	105.5
Other personal lines	51.6	62.9	35.9	30.0	87.5	92.9
Total	**64.4**	**71.4**	**33.3**	**30.5**	**97.7**	**101.9**

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

Loss ratios by line of business

	Loss ratio		Effect of catastrophe losses		Effect of prior year reserve reestimates		Effect of catastrophe losses included in prior year reserve reestimates	
	2018	2017	2018	2017	2018	2017	2018	2017
Three months ended September 30,								
Auto	62.4	65.0	1.5	0.7	(1.5)	—	(0.8)	—
Homeowners	70.0	50.9	20.0	10.3	3.0	0.9	3.0	0.9
Other personal lines	42.9	56.5	4.8	—	(19.1)	(13.0)	—	(4.3)
Total	**63.8**	**58.7**	**9.1**	**4.5**	**(1.2)**	**(0.8)**	**0.8**	**—**
Nine months ended September 30,								
Auto	62.4	69.9	1.7	2.8	(0.7)	(0.2)	(0.2)	(0.2)
Homeowners	69.7	75.2	26.6	34.9	3.6	0.6	4.0	0.3
Other personal lines	51.6	62.9	7.8	7.1	(15.6)	(7.1)	1.6	—
Total	**64.4**	**71.4**	**12.0**	**15.8**	**(0.3)**	**(0.5)**	**1.5**	**—**

Auto loss ratio decreased 2.6 points and 7.5 points in the third quarter and first nine months of 2018, respectively, compared to the same periods of 2017, primarily related to decreased loss costs due to lower claim frequency and a slower decline in premiums earned.

Homeowners loss ratio increased 19.1 points in the third quarter of 2018 compared to the same period of 2017, primarily due to higher catastrophe losses and decreased premiums earned. Homeowners loss ratio decreased 5.5 points in the first nine months of 2018 compared to the same period of 2017, primarily due to lower catastrophe losses, partially offset by decreased premiums earned.

Catastrophe losses were $23 million and $92 million in the third quarter and first nine months of 2018, respectively, compared to $12 million and $131 million in the third quarter and first nine months of 2017, respectively.

Expense ratios by line of business

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Auto	31.6	30.7	32.6	30.8
Homeowners	33.0	30.2	33.6	30.3
Other personal lines	33.3	30.5	35.9	30.0
Total expense ratio [(1)]	**32.3**	**30.5**	**33.3**	**30.5**

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

Impact of specific costs and expenses on the expense ratio

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Amortization of DAC	18.5	18.2	18.7	18.4
Advertising expense	—	0.4	0.1	0.1
Other costs and expenses [(1)]	13.4	11.9	13.7	11.4
Restructuring and related charges	0.4	—	0.8	0.6
Total expense ratio	**32.3**	**30.5**	**33.3**	**30.5**

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

Expense ratio increased 1.8 points and 2.8 points in the third quarter and first nine months of 2018, respectively, compared to the same periods of 2017, primarily due to decreased premiums earned, higher employee-related compensation costs and increased investment in technology.

Discontinued Lines and Coverages Segment

Underwriting results

($ in millions)	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Claims and claims expense	$ (80)	$ (88)	$ (85)	$ (93)
Operating costs and expenses	—	—	(1)	(2)
Underwriting loss	**$ (80)**	**$ (88)**	**$ (86)**	**$ (95)**

Underwriting loss totaled $80 million and $86 million in the third quarter and first nine months of 2018, respectively, compared to $88 million and $95 million in the third quarter and first nine months of 2017, respectively.

Claims and claims expense

($ in millions)	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Asbestos claims	$ 44	$ 61	$ 44	$ 61
Environmental claims	20	10	20	10
Other discontinued lines	16	17	21	22
Total	**$ 80**	**$ 88**	**$ 85**	**$ 93**

Our 2018 annual reserve review, using established industry and actuarial best practices, resulted in unfavorable reestimates of $76 million, including $44 million for asbestos exposures, primarily related to new reported information, changes in our projections of reported claims and settlement agreements, including bankruptcy proceedings; $20 million for environmental exposures; $13 million for other exposures, partially offset by a $1 million decrease in the allowance for future uncollectible reinsurance. Our 2017 annual reserve review resulted in unfavorable reestimates of $85 million, including $61 million for asbestos exposures, primarily related to new reported information and settlement agreements, including bankruptcy proceedings; $10 million for environmental exposures; $27 million for other exposures, partially offset by a $13 million decrease in the allowance for future uncollectible reinsurance.

The allowance for uncollectible reinsurance recoverables was $65 million and $70 million as of September 30, 2018 and December 31, 2017, respectively. The allowance represents 11.3% and 12.0% of the related reinsurance recoverable balances as of September 30, 2018 and December 31, 2017, respectively.

We believe that our reserves are appropriately established based on available facts, technology, laws, regulations, and assessments of other pertinent factors and characteristics of exposure (i.e. claim activity, potential liability, jurisdiction, products versus non-products exposure) presented by individual policyholders, assuming no change in the legal, legislative or economic environment. However, as we progress with the resolution of disputed claims in the courts and arbitrations and with negotiations and settlements, our reported losses may be more variable.

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

($ in millions)	September 30, 2018	December 31, 2017
Asbestos claims		
Gross reserves	$ 1,305	$ 1,296
Reinsurance	(423)	(412)
Net reserves	882	884
Environmental claims		
Gross reserves	214	199
Reinsurance	(40)	(33)
Net reserves	174	166
Other discontinued lines		
Gross reserves	394	398
Reinsurance	(38)	(41)
Net reserves	356	357
Total		
Gross reserves	1,913	1,893
Reinsurance	(501)	(486)
Net reserves	**$ 1,412**	**$ 1,407**

Reserves by type of exposure before and after the effects of reinsurance		
($ in millions)	September 30, 2018	December 31, 2017
Direct excess commercial insurance		
Gross reserves [(1)]	$ 1,004	$ 997
Reinsurance [(2)]	(378)	(378)
Net reserves	626	619
Assumed reinsurance coverage		
Gross reserves [(3)]	636	622
Reinsurance [(4)]	(54)	(38)
Net reserves	582	584
Direct primary commercial insurance		
Gross reserves [(5)]	177	177
Reinsurance [(6)]	(51)	(48)
Net reserves	126	129
Other run-off business		
Gross reserves	20	24
Reinsurance	(17)	(21)
Net reserves	3	3
Unallocated loss adjustment expenses		
Gross reserves	76	73
Reinsurance	(1)	(1)
Net reserves	75	72
Total		
Gross reserves	1,913	1,893
Reinsurance	(501)	(486)
Net reserves	**$ 1,412**	**$ 1,407**

(1) Gross reserves as of September 30, 2018, comprised 67% case reserves and 33% incurred but not reported (“IBNR”) reserves. Approximately 76% of the total gross case reserves are subject to settlement agreements. In the first nine months of 2018, total gross payments from case reserves were $72 million with approximately 90% attributable to settlements. Reserves as of December 31, 2017, comprised 65% case reserves and 35% IBNR reserves.

(2) Ceded reserves as of September 30, 2018, comprised 79% case reserves and 21% IBNR reserves. Approximately 83% of the total ceded case reserves are subject to settlement agreements. In the first nine months of 2018, reinsurance billings of ceded case reserves were $32 million with approximately 97% attributable to settlements. Reserves as of December 31, 2017, comprised 76% case reserves and 24% IBNR reserves.

(3) Gross reserves as of September 30, 2018, comprised 34% case reserves and 66% IBNR reserves. In the first nine months of 2018, total gross payments from case reserves were $28 million. Reserves as of December 31, 2017, comprised 31% case reserves and 69% IBNR reserves.

(4) Ceded reserves as of September 30, 2018, comprised 39% case reserves and 61% IBNR reserves. In the first nine months of 2018, reinsurance billings of ceded case reserves were $4 million. Reserves as of December 31, 2017, comprised 36% case reserves and 64% IBNR reserves.

(5) Gross reserves as of September 30, 2018, comprised 60% case reserves and 40% IBNR reserves. In the first nine months of 2018, total gross payments from case reserves were $6 million. Reserves as of December 31, 2017, comprised 54% case reserves and 46% IBNR reserves.

(6) Ceded reserves as of September 30, 2018, comprised 78% case reserves and 22% IBNR reserves. In the first nine months of 2018, reinsurance billings of ceded case reserves were $1 million. Reserves as of December 31, 2017, comprised 76% case reserves and 24% IBNR reserves.

Total net reserves were $1.41 billion including $696 million or 49% of estimated IBNR reserves as of September 30, 2018 compared to total net reserves of $1.41 billion including $733 million or 52% of estimated IBNR reserves as of December 31, 2017.

Total gross payments were $43 million and $110 million for the third quarter and first nine months of 2018, 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 $12 million and $40 million for the third quarter and first nine months of 2018, respectively.

Service Businesses Segment

Summarized financial information

	Three months ended September 30,		Nine months ended September 30,	
($ in millions)	**2018**	**2017**	**2018**	**2017**
Premiums written	$ 358	$ 272	$ 942	$ 785
Revenues				
Premiums	$ 275	$ 225	$ 813	$ 636
Intersegment insurance premiums and service fees [(1)]	31	26	89	82
Other revenue	16	17	48	50
Net investment income	7	4	18	11
Realized capital gains and losses	—	—	(6)	—
Total revenues	**329**	**272**	**962**	**779**
Costs and expenses				
Claims and claims expense	(90)	(106)	(272)	(279)
Amortization of DAC	(118)	(78)	(341)	(217)
Operating costs and expenses	(125)	(115)	(362)	(335)
Amortization of purchased intangible assets	(20)	(23)	(61)	(69)
Restructuring and related charges	—	(1)	(1)	(2)
Total costs and expenses	**(353)**	**(323)**	**(1,037)**	**(902)**
Income tax benefit	3	19	14	43
Net loss applicable to common shareholders	**$ (21)**	**$ (32)**	**$ (61)**	**$ (80)**
Adjusted net income (loss)	**$ —**	**$ (17)**	**$ (4)**	**$ (35)**
Realized capital gains and losses, after-tax	(1)	—	(5)	—
Amortization of purchased intangible assets, after-tax	(16)	(15)	(48)	(45)
Tax Legislation expense	(4)	—	(4)	—
Net loss applicable to common shareholders	**$ (21)**	**$ (32)**	**$ (61)**	**$ (80)**
SquareTrade	$ 7	$ (4)	$ 14	$ (11)
Allstate Roadside Services	(6)	(5)	(16)	(13)
Allstate Dealer Services	3	(4)	9	(2)
Arity	(4)	(4)	(11)	(9)
Adjusted net income (loss)	**$ —**	**$ (17)**	**$ (4)**	**$ (35)**
Policies in force as of September 30 (in thousands)			56,741	38,916

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

Net loss applicable to common shareholders was $21 million in the third quarter of 2018 compared to $32 million in the third quarter of 2017 and $61 million in the first nine months of 2018 compared to $80 million in the first nine months of 2017. 2018 results include $4 million of tax expense related to the Tax Legislation.

Adjusted net income was zero in the third quarter of 2018 compared to an adjusted net loss of $17 million in the third quarter of 2017. Adjusted net loss improved to $4 million in the first nine months of 2018 compared to $35 million in the first nine months of 2017. The improvement in both periods was primarily due to improved loss experience at SquareTrade and Allstate Dealer Services, partially offset by higher loss costs and investments in the provider network and technology at Allstate Roadside Services and investments in business expansion at Arity.

Total revenues increased 21.0% or $57 million to $329 million in the third quarter of 2018 from $272 million in the third quarter of 2017 and 23.5% or $183 million to $962 million in the first nine months of 2018 from $779 million in the first nine months of 2017. Included in these amounts are $24 million and $80 million in the third quarter and first nine months of 2018, respectively, recorded for SquareTrade protection plans sold directly to retailers prior to January 1, 2018 for which SquareTrade is deemed to be the principal. These amounts are due to the adoption of the revenue from contracts with customers

accounting standard and are offset by corresponding increases in amortization of DAC. The remaining increase of $33 million and $103 million in the third quarter and first nine months of 2018, respectively, were primarily due to SquareTrade's growth through its U.S. retail and international channels and increased premiums earned on Allstate Dealer Services' vehicle service contracts.

Premiums written were $358 million in the third quarter of 2018 compared to $272 million in the third quarter of 2017 and were $942 million in the first nine months of 2018 compared to $785 million in the first nine months of 2017. The increase in both periods was primarily due to continued growth at SquareTrade, including the addition of a leading U.S. retailer during the quarter.

PIF of 56.7 million as of September 30, 2018, increased by 45.8% compared to 38.9 million as of September 30, 2017, due to continued growth at SquareTrade, including the addition of a leading U.S. retailer during the quarter.

Intersegment premiums and service fees were $31 million in third quarter 2018 compared to $26 million in third quarter 2017 and $89 million in the first nine months of 2018 compared to $82 million in the first nine months of 2017. The increase in both periods relates to increased auto connections through Arity's device and mobile data collection services and analytic solutions used by Allstate brand, Esurance and Answer Financial.

Claims and claims expense decreased 15.1% to $90 million in third quarter 2018 compared to $106 million in third quarter 2017 and 2.5% to $272 million in the first nine months of 2018 compared to $279 million in the first nine months of 2017. The decrease in both periods was primarily due to improved loss experience at SquareTrade and Allstate Dealer Services, including a decrease in catastrophe losses as Allstate Dealer Services was impacted by Hurricane Harvey in 2017, partially offset by SquareTrade's growth.

Amortization of DAC increased 51.3% or $40 million to $118 million in the third quarter of 2018 from $78 million in the third quarter of 2017 and 57.1% or $124 million to $341 million in the first nine months of 2018 compared to $217 million in the first nine months of 2017, including $24 million and $80 million in the third quarter and first nine months of 2018, respectively, related to the adoption of the revenue from contracts with customers accounting standard. The remaining increase is in line with the growth we are experiencing in SquareTrade and Allstate Dealer Services.

Operating costs and expenses increased 8.7% to $125 million in the third quarter of 2018 compared to $115 million in the third quarter of 2017 and 8.1% to $362 million in the first nine months of 2018 compared to $335 million in the first nine months of 2017. The increase in both periods was primarily due to higher product development and advertising costs at SquareTrade and investments in research and business expansion at Arity.

Amortization of purchased intangible assets relates entirely to the acquisition of SquareTrade. We recognized $555 million of intangible assets for which we recorded amortization expense of $20 million and $61 million in the third quarter and first nine months of 2018, respectively, compared to $23 million and $69 million in the third quarter and first nine months of 2017, respectively.

Allstate Life Segment

Summarized financial information

($ in millions)	Three months ended September 30, 2018	Three months ended September 30, 2017	Nine months ended September 30, 2018	Nine months ended September 30, 2017
Revenues				
Premiums and contract charges	$ 322	$ 316	$ 975	$ 956
Other revenue	30	26	84	81
Net investment income	128	119	380	362
Realized capital gains and losses	(3)	2	(9)	4
Total revenues	**477**	**463**	**1,430**	**1,403**
Costs and expenses				
Contract benefits	(193)	(173)	(593)	(555)
Interest credited to contractholder funds	(72)	(71)	(213)	(211)
Amortization of DAC	(38)	(29)	(106)	(104)
Operating costs and expenses	(90)	(82)	(264)	(254)
Restructuring and related charges	(1)	(1)	(3)	(1)
Total costs and expenses	**(394)**	**(356)**	**(1,179)**	**(1,125)**
Income tax expense	(29)	(34)	(59)	(88)
Net income applicable to common shareholders	**$ 54**	**$ 73**	**$ 192**	**$ 190**
Adjusted net income	**$ 74**	**$ 74**	**$ 221**	**$ 196**
Realized capital gains and losses, after-tax	(3)	1	(7)	2
DAC and DSI amortization related to realized capital gains and losses, after-tax	(1)	(2)	(6)	(8)
Tax Legislation expense	(16)	—	(16)	—
Net income applicable to common shareholders	**$ 54**	**$ 73**	**$ 192**	**$ 190**
Reserve for life-contingent contract benefits as of September 30			$ 2,672	$ 2,604
Contractholder funds as of September 30			$ 7,650	$ 7,559
Policies in force as of September 30 by distribution channel (in thousands)				
Allstate agencies			1,820	1,808
Closed channels			198	211
Total			2,018	2,019

Net income applicable to common shareholders was $54 million in the third quarter of 2018 compared to $73 million in the third quarter of 2017 and was $192 million in the first nine months of 2018 compared to $190 million in the first nine months of 2017. 2018 results include $16 million of tax expense related to the Tax Legislation.

Adjusted net income was $74 million in both the third quarter of 2018 and 2017. Adjusted net income increased to $221 million in the first nine months of 2018 compared to $196 million in the first nine months of 2017, primarily due to a lower effective tax rate from the Tax Legislation, increased premiums and higher net investment income, partially offset by higher contract benefits.

Premiums and contract charges increased 1.9% or $6 million in the third quarter of 2018 and 2.0% or $19 million in the first nine months of 2018 compared to the same periods of 2017. The increase in both periods primarily relates to growth in traditional life insurance as well as lower reinsurance premiums ceded.

Premiums and contract charges by product

($ in millions)	Three months ended September 30, 2018	Three months ended September 30, 2017	Nine months ended September 30, 2018	Nine months ended September 30, 2017
Traditional life insurance premiums	$ 149	$ 141	$ 443	$ 420
Accident and health insurance premiums	—	—	1	1
Interest-sensitive life insurance contract charges	173	175	531	535
Premiums and contract charges [1]	**$ 322**	**$ 316**	**$ 975**	**$ 956**

[1] Contract charges related to the cost of insurance totaled $119 million and $121 million for the third quarter of 2018 and 2017, respectively, and $366 million and $368 million for the first nine months of 2018 and 2017, respectively.

Contract benefits increased 11.6% or $20 million in the third quarter of 2018 and 6.8% or $38 million in the first nine months of 2018 compared to the same periods of 2017, primarily due to higher claim experience on both traditional and interest-sensitive life insurance.

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

Benefit spread reflects our mortality and morbidity results using the difference between premiums and contract charges earned for the cost of insurance and contract benefits ("benefit spread"). Benefit spread decreased 15.7% to $75 million in the third quarter of 2018 compared to $89 million in third quarter of 2017 and 7.3% to $217 million in the first nine months of 2018 compared to $234 million in the first nine months of 2017, primarily due to higher claim experience, 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 increased 16.7% to $56 million in the third quarter of 2018 compared to $48 million in the third quarter of 2017 and 10.6% to $167 million in the first nine months of 2018 compared to $151 million in the first nine months of 2017, due to higher net investment income.

Amortization of DAC increased 31.0% or $9 million in the third quarter of 2018 and 1.9% or $2 million in the first nine months of 2018 compared to the same periods of 2017, primarily due to amortization acceleration in the third quarter of 2018 compared to amortization deceleration in the third quarter of 2017 for changes in assumptions, partially offset by lower gross profits on interest-sensitive life insurance.

Components of amortization of DAC

($ in millions)	Three months ended September 30, 2018	Three months ended September 30, 2017	Nine months ended September 30, 2018	Nine months ended September 30, 2017
Amortization of DAC before amortization relating to realized capital gains and losses and changes in assumptions	$ 31	$ 39	$ 93	$ 106
Amortization relating to realized capital gains and losses [(1)]	2	4	8	12
Amortization acceleration (deceleration) for changes in assumptions (''DAC unlocking'')	5	(14)	5	(14)
Total amortization of DAC	**$ 38**	**$ 29**	**$ 106**	**$ 104**

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

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

In third quarter 2018, the review resulted in an acceleration of DAC amortization (decrease to income) of $5 million. In third quarter 2017, the review resulted in a deceleration of DAC amortization (increase to income) of $14 million.

Effect on DAC amortization of changes in assumptions relating to gross profit components

($ in millions)	Nine months ended September 30, 2018	Nine months ended September 30, 2017
Investment margin	$ 11	$ 10
Benefit margin	(7)	(23)
Expense margin	1	(1)
Net acceleration (deceleration)	**$ 5**	**$ (14)**

In 2018, DAC amortization acceleration for changes in the investment margin component of estimated gross profits was due to lower projected investment returns. The deceleration related to benefit margin was due to a decrease in projected mortality.

In 2017, DAC amortization acceleration for changes in the investment margin component of estimated gross profits was due to continued low interest rates and lower projected investment returns. The deceleration related to benefit margin was due to a decrease in projected mortality.

Operating costs and expenses increased 9.8% or $8 million in the third quarter of 2018 compared to the same period of 2017, primarily due to higher commissions on non-proprietary product sales and higher marketing expenses. Operating costs and expenses increased 3.9% or $10 million in the first nine months of 2018 compared to the same period of 2017, primarily due to higher employee-related and technology costs and higher commissions on non-proprietary product sales.

Analysis of reserves and contractholder funds

Reserve for life-contingent contract benefits

($ in millions)	September 30, 2018	December 31, 2017
Traditional life insurance	$ 2,507	$ 2,460
Accident and health insurance	165	176
Reserve for life-contingent contract benefits	**$ 2,672**	**$ 2,636**

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

	Three months ended September 30,		Nine months ended September 30,	
($ in millions)	2018	2017	2018	2017
Contractholder funds, beginning balance	$ 7,630	$ 7,514	$ 7,608	$ 7,464
Deposits	237	236	715	730
Interest credited	71	71	212	211
Benefits, withdrawals and other adjustments				
Benefits	(59)	(54)	(174)	(183)
Surrenders and partial withdrawals	(64)	(62)	(196)	(190)
Contract charges	(176)	(175)	(527)	(527)
Net transfers from separate accounts	1	—	5	3
Other adjustments [1]	10	29	7	51
Total benefits, withdrawals and other adjustments	(288)	(262)	(885)	(846)
Contractholder funds, ending balance	**$ 7,650**	**$ 7,559**	**$ 7,650**	**$ 7,559**

[1] 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 September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Revenues				
Premiums and contract charges	$ 285	$ 273	$ 854	$ 811
Net investment income	19	18	57	54
Realized capital gains and losses	2	1	—	1
Total revenues	**306**	**292**	**911**	**866**
Costs and expenses				
Contract benefits	(159)	(142)	(451)	(421)
Interest credited to contractholder funds	(8)	(8)	(25)	(26)
Amortization of DAC	(26)	(31)	(103)	(105)
Operating costs and expenses	(70)	(65)	(212)	(196)
Restructuring and related charges	—	(1)	—	(1)
Total costs and expenses	**(263)**	**(247)**	**(791)**	**(749)**
Income tax expense	(9)	(16)	(26)	(41)
Net income applicable to common shareholders	**$ 34**	**$ 29**	**$ 94**	**$ 76**
Adjusted net income	**$ 32**	**$ 28**	**$ 94**	**$ 75**
Realized capital gains and losses, after-tax	2	1	—	1
Net income applicable to common shareholders	**$ 34**	**$ 29**	**$ 94**	**$ 76**
Benefit ratio (1)	55.8	52.0	52.8	51.9
Operating expense ratio (2)	24.6	23.8	24.8	24.2
Reserve for life-contingent contract benefits as of September 30			$ 1,007	$ 979
Contractholder funds as of September 30			$ 902	$ 887
Policies in force as of September 30 (in thousands)			4,241	4,035

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

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

Net income applicable to common shareholders was $34 million in the third quarter of 2018 compared to $29 million in the third quarter of 2017 and was $94 million in the first nine months of 2018 compared to $76 million in the first nine months of 2017.

Adjusted net income increased to $32 million in the third quarter of 2018 compared to $28 million in the third quarter of 2017 and $94 million in the first nine months of 2018 compared to $75 million in the first nine months of 2017, primarily due to higher premiums and a lower effective tax rate from the Tax Legislation, partially offset by higher contract benefits and operating costs and expenses.

Premiums and contract charges increased 4.4% or $12 million in the third quarter of 2018 and 5.3% or $43 million in the first nine months of 2018 compared to the same periods of 2017. The increase in both periods primarily related to growth in hospital indemnity (included in other health) and accident products.

Premiums and contract charges by product

($ in millions)	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Life	$ 39	$ 41	$ 115	$ 115
Accident	75	70	224	212
Critical illness	119	116	359	351
Short-term disability	27	27	81	76
Other health	25	19	75	57
Premiums and contract charges	**$ 285**	**$ 273**	**$ 854**	**$ 811**

PIF increased 5.1% as of September 30, 2018, compared to September 30, 2017.

Contract benefits increased 12.0% or $17 million in the third quarter of 2018 and 7.1% or $30 million in the first nine months of 2018 compared to the same periods of 2017, primarily due to higher claim experience and growth.

Benefit ratio increased to 55.8 in the third quarter of 2018 compared to 52.0 in the third quarter of 2017, due to higher mortality experience in life products, partially offset by improved claim experience in critical illness and hospital indemnity (included in other health) products. Benefit ratio increased to 52.8 in the first nine months of 2018 compared to 51.9 in the first nine months of 2017, due to higher mortality experience in life products.

Amortization of DAC decreased 16.1% or $5 million in the third quarter of 2018 and 1.9% or $2 million in the first nine months of 2018 compared to the same periods of 2017, primarily due to a favorable adjustment associated with our annual review of assumptions. Our annual comprehensive review of assumptions underlying estimated future gross profits for our interest-sensitive life contracts resulted in a deceleration of DAC amortization (increase to income) of $4 million in third quarter 2018 compared to a $1 million acceleration (decrease to income) in third quarter 2017. The deceleration in third quarter 2018 primarily relates to favorable projected mortality.

Operating expense ratio increased to 24.6 in the third quarter of 2018 compared to 23.8 in the third quarter of 2017 and increased to 24.8 in the first nine months of 2018 compared to 24.2 in the first nine months of 2017, primarily due to policy growth and investment in the business.

Operating costs and expenses

($ in millions)	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Non-deferrable commissions	$ 27	$ 24	$ 81	$ 73
General and administrative expenses	43	41	131	123
Total operating costs and expenses	**$ 70**	**$ 65**	**$ 212**	**$ 196**

Operating costs and expenses increased 7.7% or $5 million in the third quarter of 2018 and 8.2% or $16 million in the first nine months of 2018 compared to the same periods of 2017, primarily due to higher non-deferrable commissions (associated with growth in premiums and contract charges), employee-related costs consistent with growth and higher technology expenses.

Analysis of reserves and contractholder funds

Reserve for life-contingent contract benefits

($ in millions)	September 30, 2018	December 31, 2017
Traditional life insurance	$ 269	$ 262
Accident and health insurance	738	717
Reserve for life-contingent contract benefits	**$ 1,007**	**$ 979**

Contractholder funds relate to interest-sensitive life insurance and totaled $902 million as of September 30, 2018, compared to $890 million as of December 31, 2017.

Allstate Annuities Segment

Summarized financial information

($ in millions)	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Revenues				
Contract charges	$ 5	$ 4	$ 11	$ 10
Net investment income	260	324	843	967
Realized capital gains and losses	51	18	28	11
Total revenues	**316**	**346**	**882**	**988**
Costs and expenses				
Contract benefits	(146)	(141)	(441)	(440)
Interest credited to contractholder funds	(83)	(95)	(251)	(285)
Amortization of DAC	(2)	(2)	(5)	(5)
Operating costs and expenses	(8)	(9)	(26)	(26)
Restructuring and related charges	—	1	—	—
Total costs and expenses	**(239)**	**(246)**	**(723)**	**(756)**
Gain on disposition of operations	1	1	4	5
Income tax benefit (expense)	53	(35)	35	(81)
Net income applicable to common shareholders	**$ 131**	**$ 66**	**$ 198**	**$ 156**
Adjusted net income	**$ 20**	**$ 55**	**$ 99**	**$ 149**
Realized capital gains and losses, after-tax	40	11	22	6
Valuation changes on embedded derivatives not hedged, after-tax	1	(1)	5	(2)
Gain on disposition of operations, after-tax	1	1	3	3
Tax legislation benefit	69	—	69	—
Net income applicable to common shareholders	**$ 131**	**$ 66**	**$ 198**	**$ 156**
Reserve for life-contingent contract benefits as of September 30			$ 8,535	$ 8,644
Contractholder funds as of September 30			$ 10,098	$ 11,204
Policies in force as of September 30 (in thousands)				
Deferred annuities			130	145
Immediate annuities			85	91
Total			215	236

Net income applicable to common shareholders was $131 million in the third quarter of 2018 compared to $66 million in the third quarter of 2017 and was $198 million in the first nine months of 2018 compared to $156 million in the first nine months of 2017. 2018 results include a tax benefit of $69 million related to the Tax Legislation.

Adjusted net income decreased to $20 million in the third quarter of 2018 compared to $55 million in the third quarter of 2017 and to $99 million in the first nine months of 2018 compared to $149 million in the first nine months of 2017. The decrease in both periods was primarily due to decreased net investment income, driven by lower performance-based investment results and average investment balances, partially offset by a lower effective tax rate from the Tax Legislation and decreased interest credited to contractholder funds.

Net investment income decreased 19.8% or $64 million in the third quarter of 2018 and 12.8% or $124 million in the first nine months of 2018 compared to the same periods of 2017, primarily due to lower performance-based investment results, mainly from limited partnership interests, and lower average investment balances.

Net realized capital gains in the third quarter of 2018 primarily related to increased valuation of equity investments. Net realized capital gains in the first nine months of 2018 primarily related to increased valuation of equity investments, partially offset by losses on sales of fixed income securities.

Contract benefits increased 3.5% or $5 million in the third quarter of 2018 and 0.2% or $1 million in the first nine months of 2018 compared to the same periods of 2017. The increase in third quarter 2018 was primarily due to worse immediate annuity mortality experience.

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

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 $123 million and $370 million in the third quarter and first nine months of 2018, respectively, compared to $124 million and $376 million in the third quarter and first nine months of 2017, respectively. Total benefit spread was $(20) million in third quarter 2018 compared to $(14) million in third quarter 2017 and $(65) million in the first nine months of 2018 compared to $(58) million in the first nine months of 2017.

Interest credited to contractholder funds decreased 12.6% or $12 million in the third quarter of 2018 and 11.9% or $34 million in the first nine months of 2018 compared to the same periods of 2017, primarily due to lower average contractholder funds. Valuation changes on derivatives embedded in equity-indexed annuity contracts that are not hedged decreased interest credited to contractholder funds by zero and $6 million in the third quarter and first nine months of 2018, respectively, compared to increases of $2 million and $3 million in the third quarter and first nine months of 2017, 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 September 30, 2018	Three months ended September 30, 2017	Nine months ended September 30, 2018	Nine months ended September 30, 2017
Investment spread before valuation changes on embedded derivatives not hedged	$ 54	$ 107	$ 216	$ 309
Valuation changes on derivatives embedded in equity-indexed annuity contracts that are not hedged	—	(2)	6	(3)
Total investment spread	**$ 54**	**$ 105**	**$ 222**	**$ 306**

Investment spread before valuation changes on embedded derivatives not hedged decreased 49.5% to $54 million in the third quarter of 2018 and 30.1% to $216 million in the first nine months of 2018 compared to $107 million and $309 million in the third quarter and first nine months of 2017, respectively, primarily due to lower investment income, mainly from limited partnership interests, partially offset by lower credited interest.

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

Analysis of investment spread

	Three months ended September 30,					
	Weighted average investment yield		Weighted average interest crediting rate		Weighted average investment spreads	
	2018	2017	2018	2017	2018	2017
Deferred fixed annuities	4.1%	4.4%	2.8%	2.9%	1.3%	1.5%
Immediate fixed annuities with and without life contingencies	6.0	7.8	6.0	6.0	—	1.8

	Nine months ended September 30,					
	Weighted average investment yield		Weighted average interest crediting rate		Weighted average investment spreads	
	2018	2017	2018	2017	2018	2017
Deferred fixed annuities	4.1%	4.3%	2.8%	2.8%	1.3%	1.5%
Immediate fixed annuities with and without life contingencies	6.6	7.7	6.0	6.0	0.6	1.7

Operating costs and expenses decreased by $1 million in the third quarter of 2018 compared to the same period of 2017. Operating costs and expenses in the first nine months of 2018, were comparable to the same period of 2017.

Analysis of reserves and contractholder funds

Product Liabilities

($ in millions)	September 30, 2018	December 31, 2017
Immediate fixed annuities with life contingencies		
Sub-standard structured settlements and group pension terminations (1)	$ 5,010	$ 5,284
Standard structured settlements and SPIA (2)	3,443	3,565
Other	82	85
Reserve for life-contingent contract benefits	**$ 8,535**	**$ 8,934**
Deferred fixed annuities	$ 7,423	$ 8,128
Immediate fixed annuities without life contingencies	2,568	2,700
Other	107	108
Contractholder funds	**$ 10,098**	**$ 10,936**

(1) 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.

(2) 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.

Changes in contractholder funds

($ in millions)	Three months ended September 30, 2018	Three months ended September 30, 2017	Nine months ended September 30, 2018	Nine months ended September 30, 2017
Contractholder funds, beginning balance	$ 10,359	$ 11,428	$ 10,936	$ 11,915
Deposits	3	6	12	23
Interest credited	82	94	248	282
Benefits, withdrawals and other adjustments				
Benefits	(148)	(163)	(452)	(489)
Surrenders and partial withdrawals	(197)	(165)	(625)	(526)
Contract charges	(3)	(3)	(6)	(6)
Net transfers from separate accounts	—	—	—	1
Other adjustments (1)	2	7	(15)	4
Total benefits, withdrawals and other adjustments	(346)	(324)	(1,098)	(1,016)
Contractholder funds, ending balance	**$ 10,098**	**$ 11,204**	**$ 10,098**	**$ 11,204**

(1) 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 2.5% and 7.7% in the third quarter and first nine months of 2018, respectively, primarily due to the continued runoff of our deferred fixed annuity business. We discontinued the sale of annuities over an eight year period from 2006 to 2014 but still accept additional deposits on existing contracts.

Contractholder deposits decreased $3 million and $11 million in the third quarter and first nine months of 2018, respectively, compared to the same periods of 2017, primarily due to lower additional deposits on fixed annuities.

Surrenders and partial withdrawals increased 19.4% to $197 million in the third quarter of 2018 from $165 million in the third quarter of 2017. Surrenders and partial withdrawals increased 18.8% to $625 million in the first nine months of 2018 from $526 million in the first nine months of 2017. 2018 had elevated surrenders on fixed annuities resulting from a large number of contracts reaching the 30-45 day period (typically at their 5, 7 or 10 year anniversary) during which there is no surrender charge. The annualized surrender and partial withdrawal rate on deferred fixed annuities, based on the beginning of year contractholder funds, was 11.1% in the first nine months of 2018 compared to 8.5% in the first nine months of 2017.

Investments

Portfolio composition and strategy by reporting segment [(1)]

($ in millions)	Property-Liability	Service Businesses	Allstate Life	Allstate Benefits	Allstate Annuities	Corporate and Other	Total
	As of September 30, 2018						
Fixed income securities [(2)]	$ 30,911	$ 983	$ 7,823	$ 1,212	$ 14,191	$ 2,543	$ 57,663
Equity securities [(3)]	5,124	90	74	96	1,444	137	6,965
Mortgage loans	397	—	1,798	196	2,201	—	4,592
Limited partnership interests	4,216	—	—	—	3,385	1	7,602
Short-term investments [(4)]	1,548	53	327	20	606	517	3,071
Other	1,800	—	1,258	307	710	—	4,075
Total	**$ 43,996**	**$ 1,126**	**$ 11,280**	**$ 1,831**	**$ 22,537**	**$ 3,198**	**$ 83,968**
Market-based core	$ 31,037	$ 1,126	$ 11,280	$ 1,831	$ 17,703	$ 3,198	$ 66,175
Market-based active	8,505	—	—	—	1,250	—	9,755
Performance-based	4,454	—	—	—	3,584	—	8,038
Total	**$ 43,996**	**$ 1,126**	**$ 11,280**	**$ 1,831**	**$ 22,537**	**$ 3,198**	**$ 83,968**

(1) Balances reflect the elimination of related party investments between segments.

(2) Fixed income securities are carried at fair value. Amortized cost basis for these securities was $31.29 billion, $996 million, $7.66 billion, $1.22 billion, $13.89 billion, $2.56 billion and $57.62 billion for Property-Liability, Service Businesses, Allstate Life, Allstate Benefits, Allstate Annuities, Corporate and Other, and in Total, respectively.

(3) Equity securities are carried at fair value. The fair value of equity securities held as of September 30, 2018, was $1.22 billion in excess of cost. These net gains were primarily concentrated in the consumer goods and technology sectors and in domestic equity index funds. Beginning January 1, 2018, the periodic changes in fair value are reflected in realized capital gains and losses.

(4) Short-term investments are carried at fair value.

Investments totaled $83.97 billion as of September 30, 2018, increasing from $82.80 billion as of December 31, 2017, primarily due to the proceeds from the issuance of preferred stock and senior debt and positive operating cash flows, partially offset by lower fixed income valuations, common share repurchases, net reductions in contractholder funds, dividends paid to shareholders and redemption and maturity of senior debt.

Adopted Recognition and Measurement of Financial Assets and Financial Liabilities Beginning January 1, 2018, equity securities are reported at fair value with changes in fair value recognized in realized capital gains and losses.

Limited partnerships previously reported using the cost method are now reported at fair value with changes in fair value recognized in net investment income.

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

	As of September 30, 2018			
($ in millions)	Market-based core	Market-based active	Performance-based	Total
Fixed income securities	$ 49,585	$ 7,999	$ 79	$ 57,663
Equity securities	5,750	975	240	6,965
Mortgage loans	4,592	—	—	4,592
Limited partnership interests	617	103	6,882	7,602
Short-term investments	2,555	516	—	3,071
Other	3,076	162	837	4,075
Total	**$ 66,175**	**$ 9,755**	**$ 8,038**	**$ 83,968**
% of total	79%	12%	9%	
Unrealized net capital gains and losses				
Fixed income securities	$ 138	$ (92)	$ (1)	$ 45
Limited partnership interests	—	—	2	2
Other	(3)	—	—	(3)
Total	**$ 135**	**$ (92)**	**$ 1**	**$ 44**

Fixed income securities by type

	Fair value as of	
($ in millions)	September 30, 2018	December 31, 2017
U.S. government and agencies	$ 3,151	$ 3,616
Municipal	9,415	8,328
Corporate	42,662	44,026
Foreign government	854	1,021
Asset-backed securities (“ABS”)	979	1,272
Residential mortgage-backed securities (“RMBS”)	500	578
Commercial mortgage-backed securities (“CMBS”)	80	128
Redeemable preferred stock	22	23
Total fixed income securities	**$ 57,663**	**$ 58,992**

Fixed income securities are rated by third party credit rating agencies and/or are internally rated. As of September 30, 2018, 89.9% 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 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. 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

	As of September 30, 2018					
	Investment grade		Below investment grade		Total	
($ in millions)	Fair value	Unrealized gain/(loss)	Fair value	Unrealized gain/(loss)	Fair value	Unrealized gain/(loss)
U.S. government and agencies	$ 3,151	$ 9	$ —	$ —	$ 3,151	$ 9
Municipal						
Tax exempt	7,220	(89)	32	1	7,252	(88)
Taxable	2,125	185	38	2	2,163	187
Corporate						
Public	27,793	(150)	3,057	(6)	30,850	(156)
Privately placed	9,606	3	2,206	(13)	11,812	(10)
Foreign government	845	—	9	—	854	—
ABS						
Collateralized debt obligations (“CDO”)	311	(1)	28	3	339	2
Consumer and other asset-backed securities (“Consumer and other ABS”)	613	(2)	27	—	640	(2)
RMBS						
U.S. government sponsored entities (“U.S. Agency”)	87	—	—	—	87	—
Non-agency	19	1	394	95	413	96
CMBS	31	—	49	6	80	6
Redeemable preferred stock	22	1	—	—	22	1
Total fixed income securities	**$ 51,823**	**$ (43)**	**$ 5,840**	**$ 88**	**$ 57,663**	**$ 45**

Municipal bonds, including tax exempt and taxable securities, totaled $9.42 billion as of September 30, 2018, with 99.3% rated investment grade and an unrealized net capital gain of $99 million. The municipal bond portfolio includes general obligations of state and local issuers and revenue bonds (including pre-refunded bonds, which are bonds for which an irrevocable trust has been established to fund the remaining payments of principal and interest).

Corporate bonds, including publicly traded and privately placed, totaled $42.66 billion as of September 30, 2018, with 87.7% rated investment grade and an unrealized net capital loss of $166 million. Privately placed securities primarily consist of corporate issued senior debt securities that are directly negotiated with the borrower or are in unregistered form.

ABS, including CDO and Consumer and other ABS, totaled $979 million as of September 30, 2018, with 94.4% rated investment grade and an unrealized net capital gain of zero. Credit risk is managed by monitoring the performance of the underlying collateral. Many of the securities in the ABS portfolio have credit enhancement with features such as overcollateralization, subordinated structures, reserve funds, guarantees and/or insurance.

CDO totaled $339 million as of September 30, 2018, with 91.7% rated investment grade and an unrealized net capital gain of $2 million. CDO consist of obligations collateralized by cash flow CDO, which are structures collateralized primarily by below investment grade senior secured corporate loans.

Consumer and other ABS totaled $640 million as of September 30, 2018, with 95.8% rated investment grade. Consumer and other ABS consists of $230 million of consumer auto, $128 million of credit card and $282 million of other ABS with unrealized net capital losses of $2 million and $1 million and an unrealized net capital gain of $1 million, respectively.

RMBS totaled $500 million as of September 30, 2018, with 21.2% rated investment grade and an unrealized net capital gain of $96 million. The RMBS portfolio is subject to interest rate risk, but unlike other fixed income securities, is additionally subject to prepayment risk from the underlying residential mortgage loans. RMBS consists of a U.S. Agency portfolio having collateral issued or guaranteed by U.S. government agencies and a non-agency portfolio consisting of securities collateralized by Prime, Alt-A and Subprime loans. The non-agency portfolio totaled $413 million as of September 30, 2018, with 4.6% rated investment grade and an unrealized net capital gain of $96 million.

CMBS totaled $80 million as of September 30, 2018, with 38.8% rated investment grade and an unrealized net capital gain of $6 million. The CMBS investments are primarily traditional conduit transactions collateralized by commercial mortgage loans, broadly diversified across property types and geographical area.

Equity securities primarily include common stocks, exchange traded and mutual funds, non-redeemable preferred stocks and real estate investment trust equity investments. Certain exchange traded and mutual funds have fixed income securities as their underlying investments. The equity securities portfolio was $6.97 billion as of September 30, 2018.

Mortgage loans, which are primarily held in the life and annuity portfolios, totaled $4.59 billion as of September 30, 2018, 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 September 30, 2018			
	Limited partnership interests (1) (2)	Number of managers	Number of individual investments	Largest exposure to single investment
Private equity	$ 5,712	140	277	$ 186
Real estate	1,170	37	78	105
Other	720	13	14	302
Total	**$ 7,602**	**190**	**369**	

(1) Due to the adoption of the recognition and measurement accounting standard, limited partnerships previously reported using the cost method are now reported at fair value. See Note 1 of the condensed consolidated financial statements.

(2) We have commitments to invest in additional limited partnership interests totaling $3.03 billion.

Unrealized net capital gains totaled $44 million as of September 30, 2018 compared to $2.63 billion as of December 31, 2017.

Unrealized net capital gains and losses

($ in millions)	September 30, 2018	December 31, 2017
U.S. government and agencies	$ 9	$ 36
Municipal	99	275
Corporate	(166)	1,030
Foreign government	—	16
ABS	—	6
RMBS	96	98
CMBS	6	4
Redeemable preferred stock	1	2
Fixed income securities	**45**	**1,467**
Equity securities (1)	—	1,160
Derivatives	(3)	(1)
EMA limited partnerships	2	1
Unrealized net capital gains and losses, pre-tax	**$ 44**	**$ 2,627**

(1) Due to the adoption of the recognition and measurement accounting standard, equity securities are reported at fair value with changes in fair value recognized in realized capital gains and losses and are no longer included in the table above. Upon adoption of the new guidance on January 1, 2018, $1.16 billion of pre-tax unrealized net capital gains for equity securities were reclassified from accumulated other comprehensive income to retained income. See Note 1 of the condensed consolidated financial statements.

The unrealized net capital gain for the fixed income portfolio totaled $45 million, comprised of $923 million of gross unrealized gains and $878 million of gross unrealized losses as of September 30, 2018. This compares to an unrealized net capital gain for the fixed income portfolio totaling $1.47 billion, comprised of $1.75 billion of gross unrealized gains and $283 million of gross unrealized losses as of December 31, 2017. Fixed income valuations decreased primarily due to an increase in risk-free interest rates and wider credit spreads.

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

($ in millions)	As of September 30, 2018			
	Amortized cost	Gross unrealized		Fair value
		Gains	Losses	
Corporate:				
Consumer goods (cyclical and non-cyclical)	$ 12,950	$ 88	$ (233)	$ 12,805
Capital goods	4,877	40	(104)	4,813
Utilities	5,702	220	(103)	5,819
Banking	4,254	9	(66)	4,197
Communications	2,820	26	(48)	2,798
Technology	2,885	12	(47)	2,850
Financial services	3,005	31	(38)	2,998
Transportation	1,812	42	(30)	1,824
Basic industry	1,911	33	(28)	1,916
Energy	2,331	53	(22)	2,362
Other	281	3	(4)	280
Total corporate fixed income portfolio	**42,828**	**557**	**(723)**	**42,662**
U.S. government and agencies	3,142	36	(27)	3,151
Municipal	9,316	204	(105)	9,415
Foreign government	854	12	(12)	854
ABS	979	8	(8)	979
RMBS	404	98	(2)	500
CMBS	74	7	(1)	80
Redeemable preferred stock	21	1	—	22
Total fixed income securities	**$ 57,618**	**$ 923**	**$ (878)**	**$ 57,663**

The consumer goods, utilities and capital goods sectors comprise 30%, 14% and 11%, respectively, of the fair value of our corporate fixed income securities portfolio as of September 30, 2018. The consumer goods, capital goods and utilities sectors had the highest concentration of gross unrealized losses in our corporate fixed income securities portfolio as of September 30, 2018.

In general, the gross unrealized losses are related to an increase in market yields which may include increased risk-free interest rates and/or wider credit spreads since the time of initial purchase. Similarly, gross unrealized gains reflect a decrease in market yields since the time of initial purchase.

Net investment income

($ in millions)	Three months ended September 30, 2018	Three months ended September 30, 2017	Nine months ended September 30, 2018	Nine months ended September 30, 2017
Fixed income securities	$ 527	$ 519	$ 1,544	$ 1,564
Equity securities	35	37	130	130
Mortgage loans	52	52	163	157
Limited partnership interests (1)	210	223	563	596
Short-term investments	19	9	50	21
Other	71	58	205	174
Investment income, before expense	914	898	2,655	2,642
Investment expense (2) (3)	(70)	(55)	(201)	(154)
Net investment income	**$ 844**	**$ 843**	**$ 2,454**	**$ 2,488**
Market-based core	$ 609	$ 586	$ 1,814	$ 1,772
Market-based active	76	77	222	224
Performance-based	229	235	619	646
Investment income, before expense	**$ 914**	**$ 898**	**$ 2,655**	**$ 2,642**

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

(2) Investment expense includes $17 million and $9 million of investee level expenses in the third quarter of 2018 and 2017, respectively, and $53 million and $29 million in the first nine months of 2018 and 2017, respectively. Investee level expenses include depreciation and asset level operating expenses on directly held real estate and other consolidated investments.

(3) Investment expense includes $8 million and $3 million related to the portion of reinvestment income on securities lending collateral paid to the counterparties in the third quarter of 2018 and 2017, respectively, and $19 million and $7 million in the first nine months of 2018 and 2017, respectively.

Net investment income was flat in the third quarter of 2018 compared to the same period of 2017. Net investment income decreased 1.4% or $34 million in the first nine months of 2018 compared to the same period of 2017 primarily due to lower performance-based investment results, mainly from limited partnerships.

Performance-based investment income

($ in millions)	Three months ended September 30, 2018	Three months ended September 30, 2017	Nine months ended September 30, 2018	Nine months ended September 30, 2017
Limited partnerships				
Private equity	$ 123	$ 183	$ 452	$ 506
Real estate	87	40	111	90
Performance-based - limited partnerships	**210**	**223**	**563**	**596**
Non-limited partnerships				
Private equity	1	2	7	16
Real estate	18	10	49	34
Performance-based - non-limited partnerships	**19**	**12**	**56**	**50**
Total				
Private equity	124	185	459	522
Real estate	105	50	160	124
Total performance-based	**$ 229**	**$ 235**	**$ 619**	**$ 646**
Investee level expenses (1)	$ (15)	$ (8)	$ (48)	$ (25)

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

Performance-based investment income decreased 2.6% or $6 million in the third quarter of 2018 and 4.2% or $27 million in the first nine months of 2018 compared to the same periods of 2017. While performance-based investment income has decreased modestly in 2018, both 2018 and 2017 reflected strong equity market appreciation and gains on sales of underlying investments held by limited partnerships. The five highest contributing performance-based investments in each period generated investment income of $149 million and $134 million in the first nine months of 2018 and 2017, 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 and losses and the related tax effect

($ in millions)	Three months ended September 30, 2018	Three months ended September 30, 2017	Nine months ended September 30, 2018	Nine months ended September 30, 2017
Impairment write-downs				
Fixed income securities	$ (3)	$ (3)	$ (6)	$ (23)
Equity securities [1]	—	(3)	—	(34)
Mortgage Loans	—	(1)	—	(1)
Limited partnership interests	(2)	(16)	(3)	(32)
Other investments	—	—	(1)	(4)
Total impairment write-downs	**(5)**	**(23)**	**(10)**	**(94)**
Change in intent write-downs [1]	—	(5)	—	(43)
Net OTTI losses recognized in earnings	**(5)**	**(28)**	**(10)**	**(137)**
Sales [1]	(22)	148	(139)	495
Valuation of equity investments [1]	198	—	149	—
Valuation and settlements of derivative instruments	5	(17)	17	(40)
Realized capital gains and losses, pre-tax	**176**	**103**	**17**	**318**
Income tax expense	(35)	(36)	(1)	(110)
Realized capital gains and losses, after-tax	**$ 141**	**$ 67**	**$ 16**	**$ 208**
Market-based core	$ 121	$ 68	$ (6)	$ 199
Market-based active	42	56	(18)	158
Performance-based	13	(21)	41	(39)
Realized capital gains and losses, pre-tax	**$ 176**	**$ 103**	**$ 17**	**$ 318**

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

Realized capital gains in the third quarter of 2018, related primarily to increased valuation of equity investments, partially offset by losses on sales of fixed income securities. Realized capital gains in the first nine months of 2018, were primarily related to increased valuation of equity investments and gains on valuation and settlements of derivative instruments, partially offset by sales of fixed income securities.

Sales resulted in $22 million and $139 million of net realized capital losses in the three and nine months ended September 30, 2018, respectively. Sales related primarily to fixed income securities in connection with ongoing portfolio management.

Valuation of equity investments resulted in gains of $198 million for the three months ended September 30, 2018, which included $223 million of appreciation in the valuation of equity securities and $25 million in declines in value primarily for certain limited partnerships where the underlying assets are predominately public equity securities. Valuation of equity investments resulted in gains of $149 million for the nine months ended September 30, 2018, which included $204 million of appreciation in the valuation of equity securities and $55 million of declines in value primarily for certain limited partnerships where the underlying assets are predominately public equity securities.

Valuation and settlements of derivative instruments generated gains of $5 million and $17 million for the three months and nine months ended September 30, 2018, respectively, and were primarily comprised of gains on foreign currency contracts due to the strengthening of the U.S. Dollar and gains on total return swaps, partially offset by losses on equity options and futures used for risk management due to increases in equity indices.

Realized capital gains and losses for performance-based investments

($ in millions)	Three months ended September 30, 2018	Three months ended September 30, 2017	Nine months ended September 30, 2018	Nine months ended September 30, 2017
Impairment write-downs	$ (2)	$ (16)	$ (3)	$ (32)
Change in intent write-downs	—	—	—	—
Net OTTI losses recognized in earnings	**(2)**	**(16)**	**(3)**	**(32)**
Sales	3	—	2	10
Valuation of equity investments	4	—	23	—
Valuation and settlements of derivative instruments	8	(5)	19	(17)
Total performance-based	**$ 13**	**$ (21)**	**$ 41**	**$ (39)**

Realized capital gains on performance-based investments were $13 million in the third quarter of 2018 and $41 million in the first nine months of 2018 primarily related to increased valuation of equity investments and gains on valuation and settlements of derivative instruments.

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.

Capital resources

($ in millions)	September 30, 2018		December 31, 2017	
Preferred stock, common stock, treasury stock, retained income and other shareholders' equity items	$	24,917	$	22,245
Accumulated other comprehensive (loss) income		(1,284)		306
Total shareholders' equity		**23,633**		**22,551**
Debt		6,450		6,350
Total capital resources	**$**	**30,083**	**$**	**28,901**
Ratio of debt to shareholders' equity		27.3%		28.2%
Ratio of debt to capital resources		21.4%		22.0%

Shareholders' equity increased in the first nine months of 2018, primarily due to net income and issuance of preferred stock, partially offset by decreased unrealized capital gains on investments, common share repurchases and dividends paid to shareholders. In the nine months ended September 30, 2018, we paid dividends of $455 million and $97 million related to our common and preferred shares, respectively.

Preferred stock and debt issuances On March 29, 2018, we issued 23,000 shares of 5.625% Fixed Rate Noncumulative Perpetual Preferred Stock, Series G, for aggregate proceeds of $575 million, $250 million of Floating Rate Senior Notes due 2021 and $250 million of Floating Rate Senior Notes due 2023. The proceeds of these issuances were for general corporate purposes, including the redemption, repayment or repurchase of certain preferred stock or debt.

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

On May 15, 2018, we repaid $176 million of 6.75% Senior Debentures at maturity. There are no other debt maturities until May 2019.

On October 15, 2018, we redeemed all 15,400 shares of our Fixed Rate Noncumulative Perpetual Preferred Stock, Series C and the corresponding depository shares for $385 million.

For additional details on these transactions, see Note 10 of the condensed consolidated financial statements.

Common share repurchases As of September 30, 2018, there was $151 million remaining on the $2.00 billion common share repurchase program that is expected to be completed by November 2018.

During the first nine months of 2018, we repurchased 11.7 million common shares for $1.12 billion in the market and under accelerated share repurchase agreements.

On October 31, 2018, the Board authorized a new $3.00 billion common share repurchase program that is expected to be completed by April 2020. Funding for the repurchase program may include potential preferred stock issuances of up to $1.00 billion.

Common shareholder dividends On January 2, 2018, April 2, 2018, July 2, 2018 and October 1, 2018, we paid common shareholder dividends of $0.37, $0.46, $0.46 and $0.46, respectively.

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. Our 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 April 2018, A.M. Best upgraded The Allstate Corporation's debt and short-term issuer ratings of a- and AMB-1 to a and AMB-1+, respectively, and affirmed the insurance financial strength ratings of A+ for Allstate Insurance Company ("AIC"), Allstate Life Insurance Company ("ALIC") and Allstate Assurance Company. The outlook for the ratings is stable. In August 2018, S&P affirmed The Allstate Corporation's debt and short-term issuer ratings of A- and A-2, respectively, and the insurance financial strength ratings of AA- for AIC and A+ for ALIC. The outlook for the ratings is stable. In August 2018, Moody's affirmed The Allstate Corporation's debt and short-term issuer ratings of A3 and P-2, respectively, and the insurance financial strength ratings of Aa3 for AIC and A1 for ALIC. 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 At the parent holding company level, we have deployable assets totaling $3.38 billion as of September 30, 2018, comprising cash and investments that are generally saleable within one quarter. The substantial earnings capacity of the operating subsidiaries is the primary source of capital generation for the Corporation and provides funds for the parent company’s fixed charges and other corporate purposes.

In the first nine months of 2018, AIC paid dividends totaling $2.27 billion to its parent, Allstate Insurance Holdings, LLC, which then paid $2.27 billion of dividends to the Corporation.

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 September 30, 2018, 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 nine months of 2018, 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 September 30, 2018, there were no balances outstanding and therefore the remaining borrowing capacity was $1.00 billion; however, the outstanding balance can fluctuate daily.
- The Corporation, AIC and ALIC have access to a $1.00 billion unsecured revolving credit facility that is available for short-term liquidity requirements. The maturity date of this facility is April 2021. The facility is fully subscribed among 11 lenders with the largest commitment being $115 million. The commitments of the lenders are several and no lender is responsible for any other lender’s commitment if such lender fails to make a loan under the facility. This facility contains an increase provision that would allow up to an additional $500 million of borrowing. This facility has a financial covenant requiring that we not exceed a 37.5% debt to capitalization ratio as defined in the agreement. This ratio was 15.0% as of September 30, 2018. Although the right to borrow under the facility is not subject to a minimum rating requirement, the costs of maintaining the facility and borrowing under it are based on the ratings of our senior unsecured, unguaranteed long-term debt. There were no borrowings under the credit facility during the third quarter or the first nine months of 2018.
- The Corporation has access to a universal shelf registration statement that was filed with the Securities and Exchange Commission on April 30, 2018. We can use this shelf registration to issue an unspecified amount of debt securities, common stock (including 555 million shares of treasury stock as of September 30, 2018), preferred stock, depositary shares, warrants, stock purchase contracts, stock purchase units and securities of trust subsidiaries. The specific terms of any securities we issue under this registration statement will be provided in the applicable prospectus supplements.

Liquidity exposure Contractholder funds were $18.65 billion as of September 30, 2018.

Contractholder funds by contractual withdrawal provisions

($ in millions)		Percent to total
Not subject to discretionary withdrawal	$ 2,884	15.5%
Subject to discretionary withdrawal with adjustments:		
Specified surrender charges [(1)]	4,819	25.8
Market value adjustments [(2)]	1,098	5.9
Subject to discretionary withdrawal without adjustments [(3)]	9,849	52.8
Total contractholder funds [(4)]	**$ 18,650**	**100.0%**

(1) Includes $895 million of liabilities with a contractual surrender charge of less than 5% of the account balance.

(2) $603 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.

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

(4) Includes $712 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 7.1% and 6.0% in the first nine months of 2018 and 2017, respectively. We strive to promptly pay customers who request cash surrenders; however, statutory regulations generally provide up to six months in most states to fulfill surrender requests.

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. However, 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 business; (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 our 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, including those impacting personal transportation, on our business; (22) failure in cyber or other information security, as well as the occurrence of events unanticipated in our disaster recovery systems and management continuity planning; (23) the impact of a large scale pandemic, the threat or occurrence of terrorism or military action; (24) loss of key vendor relationships or failure of a vendor to protect confidential, proprietary and personal information; (25) intellectual property infringement, misappropriation and third party claims

Regulatory and Legal Risks (26) regulatory changes, including limitations on rate increases and requirements to underwrite business and participate in loss sharing arrangements; (27) regulatory reforms and restrictive regulations; (28) changes in tax laws; (29) our ability to mitigate the capital impact associated with statutory reserving and capital requirements; (30) changes in accounting standards; (31) losses from legal and regulatory actions; (32) our participation in state industry pools and facilities; (33) impacts from the Covered Agreement, including changes in state insurance laws

Strategic Risks (34) competition in the insurance industry; (35) market convergence and regulatory changes on our risk segmentation and pricing; (36) acquisitions and divestitures of businesses; and (37) 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 are 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 September 30, 2018, there have been no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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, 2017.

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

Issuer Purchases of Equity Securities

Period	Total number of shares (or units) purchased (1)	Average price paid per share (or unit)	Total number of shares (or units) purchased as part of publicly announced plans or programs (2)	Maximum number (or approximate dollar value) of shares (or units) that may yet be purchased under the plans or programs (3) (4)
July 1, 2018 - July 31, 2018				
Open Market Purchases	753,257	$ 93.3742	752,191	
August 1, 2018 - August 31, 2018				
Open Market Purchases	766,417	$ 99.2493	766,188	
September 1, 2018 - September 30, 2018				
Open Market Purchases	785,953	$ 99.8314	785,412	
Total	**2,305,627**	**$ 97.5283**	**2,303,791**	**$151 million**

(1) 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.

July: 1,066
August: 229
September: 541

(2) 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.

(3) On August 1, 2017, we announced the approval of a common share repurchase program for $2 billion, which is expected to be completed by November 2018.

(4) 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	The Allstate Corporation 2013 Equity Incentive Plan, as amended and restated effective July 24, 2018					X
15	Acknowledgment of awareness from Deloitte & Touche LLP, dated October 31, 2018, concerning unaudited interim financial information					X
31(i)	Rule 13a-14(a) Certification of Principal Executive Officer					X
31(i)	Rule 13a-14(a) Certification of Principal Financial Officer					X
32	Section 1350 Certifications					X
101.INS	XBRL Instance Document					X
101.SCH	XBRL Taxonomy Extension Schema					X
101.CAL	XBRL Taxonomy Extension Calculation Linkbase					X
101.DEF	XBRL Taxonomy Extension Definition Linkbase					X
101.LAB	XBRL Taxonomy Extension Label Linkbase					X
101.PRE	XBRL Taxonomy Extension Presentation Linkbase					X

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)

October 31, 2018

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
2013 EQUITY INCENTIVE PLAN
As amended and restated July 24, 2018

Article 1. Establishment, Purpose and Duration

1.1 *Establishment of the Plan*. The Allstate Corporation, a Delaware corporation (hereinafter, together with any successor as provided in Article 18 herein, referred to as the "Company"), hereby establishes an incentive compensation plan for employees, as set forth in this document. The Plan permits the grant of nonqualified stock options (NQSOs), incentive stock options (ISOs), stock appreciation rights (SARs), unrestricted stock, restricted stock, restricted stock units, performance units, performance stock, and other awards.

The Plan was formerly known as “The Allstate Corporation 2001 Equity Incentive Plan.” The Plan was approved by the Board of Directors on March 13, 2001, and became effective when approved by the Company's stockholders on May 15, 2001 (the "Effective Date"). The Plan was amended by the Board of Directors on March 9, 2004. On March 14, 2006 the Plan was amended and restated effective upon approval by stockholders at the 2006 Annual Meeting of Stockholders on May 16, 2006. The Plan was further amended and restated by the Board at meetings held on September 10, 2006, February 20, 2007, and September 15, 2008. On March 10, 2009, the Plan was amended, restated, and renamed as “The Allstate Corporation 2009 Equity Incentive Plan,” effective upon approval by stockholders at the 2009 Annual Meeting of Stockholders on May 19, 2009. The Plan was further amended and restated on February 22, 2011, and February 21, 2012. On February 18, 2013, the Plan was amended, restated, and renamed The Allstate Corporation 2013 Equity Incentive Plan and was effective upon approval by stockholders at the Company’s 2013 annual stockholders meeting. The Plan was further amended and restated on February 19, 2014, and July 24, 2018, as set forth herein.

1.2 *Purpose of the Plan*. The primary purpose of the Plan is to provide a means by which employees of the Company and its Subsidiaries can acquire and maintain stock ownership, thereby strengthening their commitment to the success of the Company and its Subsidiaries and their desire to remain employed by the Company and its Subsidiaries. The Plan also is intended to attract and retain employees and to provide such employees with additional incentive and reward opportunities designed to encourage them to enhance the profitable growth of the Company and its Subsidiaries.

1.3 *Duration of the Plan*. The Plan shall commence on the Effective Date, as described in Section 1.1 herein, and shall remain in effect subject to the right of the Board of Directors to terminate the Plan at any time pursuant to Article 15 herein, until all Stock subject to it shall have been purchased or acquired according to the Plan's provisions.

Article 2. Definitions

Whenever used in the Plan, the following terms shall have the meanings set forth below and, when such meaning is intended, the initial letter of the word is capitalized:

2.1 *Award* means, individually or collectively, an award under the Plan of NQSOs, ISOs, SARs, Unrestricted Stock, Restricted Stock, Restricted Stock Units, Performance Units, Performance Stock, or any other type of award permitted under Article 10 of the Plan.

2.2 *Award Agreement* means an agreement setting forth the terms and provisions applicable to an Award granted to a Participant under the Plan.

2.3 *Base Value* of an SAR means the Fair Market Value of a share of Stock on the date the SAR is granted.

2.4 *Beneficiary* means a person or entity designated as a beneficiary in accordance with Section 6.6 or other applicable Section of the Plan.

2.5 *Beneficiary Designation Form* means a form provided by the Company for the purpose of designating a beneficiary in accordance with Section 6.6 or other applicable Section of the Plan.

2.6 *Board* or *Board of Directors* means the Board of Directors of the Company.

2.7 *Code* means the Internal Revenue Code of 1986, as amended from time to time, or any successor code thereto.

2.8 *Committee* means the committee, as specified in Article 3, appointed by the Board to administer the Plan.

2.9 *Company* has the meaning provided in Section 1.1 herein.

2.10 *Covered Employee* means any Participant who would be considered a "covered employee" for purposes of Section 162(m) of the Code.

2.11 *Disability* means an impairment which renders a Participant disabled within the meaning of Code Section 409A(a)(2)(C).

2.12 *Dividend Equivalent* means, with respect to Stock subject to an Award (other than an Option or SAR), a right to be paid an amount equal to cash dividends, other than large, nonrecurring cash dividends, declared on an equal number of outstanding shares of Stock.

2.13 *Eligible Person* means a Person who is eligible to participate in the Plan, as set forth in Section 5.1 herein.

2.14 *Employee* means any individual designated by the Company or any Subsidiary as an employee, who is on the local payroll records thereof and who is not covered by any collective bargaining agreement to which the Company or any Subsidiary is a party. An Employee shall not include any individual during any period he or she is classified or treated by the Company or any Subsidiary as an independent contractor, a consultant, or any employee of an employment, consulting, or temporary agency, or any other entity other than the Company or any Subsidiary, without regard to whether such individual is subsequently determined to have been, or is

subsequently retroactively reclassified as a common-law employee of the Company or any Subsidiary during such period.

2.15 *Exchange Act* means the Securities Exchange Act of 1934, as amended from time to time, or any successor act thereto.

2.16 *Exercise Period* means the period during which an SAR or Option is exercisable, as set forth in the related Award Agreement.

2.17 *Fair Market Value* means the price at which a share of the Stock was last sold in the principal United States market for the Stock as of the date for which fair market value is being determined. Notwithstanding anything herein to the contrary, with respect to any Award that constitutes deferred compensation for purposes of Section 409A, Fair Market Value shall be determined in accordance with Treasury Regulation Section 1.409A-1(b)(5)(iv).

2.18 *Family Member* means any child, stepchild, grandchild, parent, stepparent, grandparent, spouse, domestic partner, or sibling, including adoptive relationships, a trust in which these persons have more than fifty (50) percent of the beneficial interest, a foundation in which these persons (or the Employee) control the management of assets, and any other entity in which these persons (or the Employee) own more than fifty (50) percent of the voting interests.

2.19 *Freestanding SAR* means an SAR that is not a Tandem SAR.

2.20 *Full-Value Award* means an Award granted on or after May 19, 2009, other than an Option or a SAR.

2.21 *Incentive Stock Option* or *ISO* means an option to purchase Stock, granted under Article 6 herein, which is designated as an Incentive Stock Option and satisfies the requirements of Section 422 of the Code.

2.22 *Minimum Consideration* means the $.01 par value per share or such larger amount determined pursuant to resolution of the Board to be capital within the meaning of Section 154 of the Delaware General Corporation Law.

2.23 *Nonqualified Stock Option* or *NQSO* means an option to purchase Stock, granted under Article 6 herein, which is not intended to be an Incentive Stock Option under Section 422 of the Code.

2.24 *Option* means an Incentive Stock Option or a Nonqualified Stock Option.

2.25 *Option Exercise Price* means the price at which a share of Stock may be purchased by a Participant pursuant to an Option, as determined by the Committee and set forth in the Option Award Agreement.

2.26 *Participant* means an Eligible Person who has outstanding an Award granted under the Plan.

2.27 *Performance-Based Compensation* means an Award intended to qualify for the exemption from the limitation on deductibility imposed by Section 162(m) of the Code as set forth in Section 162(m)(4)(C) of the Code.

2.28 *Performance Goals* means the performance goals established by the Committee, which shall be based on one or more of the following measures: sales, revenues, premiums, financial product sales, earnings per share, stockholder return and/or value, funds from operations, operating income, gross income, net income, combined ratio, underwriting income, cash flow, return on equity, return on capital, return on assets, values of assets, market share, net earnings, earnings before interest, operating ratios, stock price, customer satisfaction, customer retention, customer loyalty, strategic business criteria based on meeting specified revenue goals, market penetration goals, investment performance goals, business expansion goals or cost targets, accomplishment of mergers, acquisitions, dispositions, or similar extraordinary business transactions, profit returns and margins, financial return ratios, market performance and/or risk-based capital goals or returns. Performance Goals may be based solely on a corporate, subsidiary, business unit, or other grouping basis, or a combination thereof. Performance Goals may reflect absolute entity performance or a relative comparison of entity performance to the performance of a peer group of entities or other external measure.

2.29 *Performance Period* means the time period during which Performance Unit/Performance Stock Performance Goals must be met.

2.30 *Performance Stock* means an Award described in Article 9 herein.

2.31 *Performance Unit* means an Award described in Article 9 herein.

2.32 *Period of Restriction* means the period during which the transfer of Restricted Stock or Restricted Stock Units is limited in some way, as provided in Article 8 herein.

2.33 *Person* means any individual, sole proprietorship, partnership, joint venture, limited liability company, trust, unincorporated organization, association, corporation, institution, public benefit corporation, entity, or government instrumentality, division, agency, body, or department.

2.34 *Plan* means The Allstate Corporation 2013 Equity Incentive Plan.

2.35 *Qualified Restricted Stock* means an Award of Restricted Stock designated as Qualified Restricted Stock by the Committee at the time of grant and intended to qualify as Performance-Based Compensation.

2.36 *Qualified Restricted Stock Unit* means an Award of Restricted Stock Units designated as Qualified Restricted Stock Units by the Committee at the time of grant and intended to qualify as Performance-Based Compensation.

2.37 *Restricted Stock* means an Award described in Article 8 herein.

2.38 *Restricted Stock Unit* means an Award described in Article 8 herein.

2.39 *Retirement*, unless otherwise provided by the Committee or in the Award Agreement, means a Participant's termination from employment with the Company or a Subsidiary at the Participant's Early or Normal Retirement Date, as applicable. An Early Retirement Date may only occur in conjunction with an Award granted before February 21, 2012.

(a) *Early Retirement Date* --

(i) For Awards granted before February 22, 2011, shall mean the date prior to the Participant's Normal Retirement Date on which a Participant terminates employment, if such termination date occurs on or after the Participant attains age fifty-five (55) with twenty (20) years of service and such retirement is in accordance with the voluntary early retirement policy of the Company or the Subsidiary with which the Participant is employed on the date of termination of employment.

(ii) For Awards granted on or after February 22, 2011, but before February 21, 2012, shall mean the date prior to the Participant's Normal Retirement Date on which a Participant terminates employment, if such termination date occurs on or after the Participant attains age fifty-five (55) with ten (10) years of service.

(b) *Normal Retirement Date*

(i) For awards granted before February 21, 2012, shall have the meaning given to it by the Company or the Subsidiary with which the Participant is employed on the date of termination of employment, provided that such termination is voluntary and occurs on or after the Participant attains age sixty (60) with at least one (1) year of service at termination of employment.

(ii) For awards granted on or after February 21, 2012, shall mean the date on which a Participant terminates employment, if such termination date occurs on or after the Participant attains age fifty-five (55) with ten (10) years of service, or age sixty (60) with five (5) years of service.

2.40 *Section 409A* shall have the meaning set forth in Section 19.5 herein.

2.41 *Section 16 Officer* means any Participant who was designated by the Board as an "executive officer" or as an officer for purposes of Section 16 of the Exchange Act.

2.42 *Securities Act* means the Securities Act of 1933, as amended.

2.43 *Stock* means the common stock, $.01 par value, of the Company.

2.44 *Stock Appreciation Right* or *SAR* means a right, granted alone or in connection with a related Option, designated as an SAR, to receive a payment on the day the right is exercised, pursuant to the terms of Article 7 herein. Each SAR shall be denominated in terms of one share of Stock.

2.45 *Subsidiary* means any corporation, business trust, limited liability company, or partnership with respect to which the Company owns, directly or indirectly, (a) more than 50% of the equity interests or partnership interests or (b) Voting Securities representing more than 50% of the aggregate Voting Power of the then-outstanding Voting Securities.

2.46 *Tandem SAR* means an SAR that is granted in connection with a related Option, the exercise of which shall require forfeiture of the right to purchase Stock under the related Option (and when Stock is purchased under the Option, the Tandem SAR shall be similarly canceled).

2.47 *Termination of Employment* occurs the first day on which an individual is for any reason no longer employed by the Company or any of its Subsidiaries, or with respect to an individual who is an Employee of a Subsidiary, the first day on which the Company no longer owns, directly or indirectly, at least 50% of the equity interests or partnership interests in, or Voting Securities possessing at least 50% of the Voting Power of, such Subsidiary. For purposes of the Plan, transfer of employment of a Participant between the Company and any one of its Subsidiaries (or between Subsidiaries) shall not be deemed a termination of employment. Notwithstanding anything herein to the contrary, no issuance of Stock or payment of cash shall be made upon a Termination of Employment with respect to any Award that constitutes deferred compensation for purposes of Section 409A unless the Termination of Employment constitutes a "separation from service" as that term is used in Section 409A(a)(2)(A)(i) of the Code.

2.48 *Unrestricted Stock* means an Award of Stock not subject to restrictions described in Article 8 herein.

2.49 *Voting Power* means the combined voting power of the then-outstanding Voting Securities entitled to vote generally in the election of directors.

2.50 *Voting Securities* of a corporation means securities of such corporation that are entitled to vote generally in the election of directors of such corporation.

Article 3. Administration

3.1 *The Committee*. The Plan shall be administered by the Compensation and Succession Committee or such other committee (the "Committee") as the Board of Directors shall select, consisting solely of two or more nonemployee members of the Board. The members of the Committee shall be appointed from time to time by, and shall serve at the discretion of, the Board of Directors.

3.2 *Authority of the Committee*. The Committee shall have full power except as limited by law or the articles of incorporation or the bylaws of the Company, subject to such other restricting

limitations or directions as may be imposed by the Board and subject to the provisions herein, to determine the Eligible Persons to receive Awards; to determine when Awards may be granted and to grant Awards under the Plan; to determine the size and types of Awards; to determine the terms and conditions of such Awards; to assess whether Performance Goals have been met; to construe and interpret the Plan and any agreement or instrument entered into under the Plan; to establish, amend, or waive rules and regulations for the Plan's administration; to amend the terms and conditions of any outstanding Award, including but not limited to amendments with respect to exercisability and non-forfeitability of Awards upon a Termination of Employment; to make such adjustments or modifications to Awards to Participants working outside the United States as are necessary or advisable to fulfill the purposes of the Plan; to accelerate the exercisability of, and to accelerate or waive any or all of the restrictions and conditions applicable to, any Award; and to authorize any action of or make any determination by the Company as the Committee shall deem necessary or advisable for carrying out the purposes of the Plan; provided, however, that the Committee may not amend the terms and conditions of any outstanding Award so as to adversely affect in any material way such Award without the written consent of the Participant holding such Award (or if the Participant is not then living, the Participant's Beneficiary, personal representative or estate, as applicable), unless such amendment is required by applicable law; and provided, further, that any discretion exercised by the Committee pursuant to Section 4.2 shall not be deemed to adversely affect in any material way an Award. The Committee may designate which Subsidiaries participate in the Plan and may authorize foreign Subsidiaries to adopt plans as provided in Article 14. Further, the Committee shall interpret and make all other determinations which may be necessary or advisable for the administration of the Plan. As permitted by law, the Committee may delegate its authorities as identified hereunder.

3.3 *Delegation of Authority.* Notwithstanding the general authority of the Committee to grant Awards under the Plan, the Board may, by resolution, expressly delegate to another committee, established by the Board and consisting of one or more employee or non-employee directors, the authority, within parameters specified by the Board, to determine the Eligible Persons to receive Awards; to determine when Awards may be granted and to grant Awards under the Plan; to determine the size and types of Awards; and to determine the terms and conditions of such Awards; provided, however that such committee may not grant Awards to Eligible Persons who (i) are subject to Section 16 of the Exchange Act at the time of grant, or (ii) are at the time of grant, or are anticipated to become during the term of the Award, "covered employees" as defined in Section 162(m)(3) of the Code. Such committee shall report regularly to the Committee, who shall report to the Board, regarding any Awards so granted.

3.4 *Delivery of Stock by Company; Restrictions on Stock*. Notwithstanding any other provision of the Plan, the Company shall have no liability to deliver any Stock or benefits under the Plan unless the Participant's tax obligations have been satisfied as set forth in Article 16 and unless such delivery would comply with all applicable laws (including, without limitation, the Code, the Securities Act, and the Exchange Act) and applicable requirements of any securities exchange or similar entity; provided, however, that if the Company cannot deliver any Stock or benefits under the Plan due to such laws or requirements, the Company shall provide equivalent value to any affected Participant.

The Committee may impose such restrictions on any Stock acquired pursuant to Awards under the Plan as it may deem advisable, including, without limitation, restrictions to comply with

applicable Federal securities laws, with the requirements of any stock exchange or market upon which such Stock is then listed and/or traded, and with any blue sky or state securities laws applicable to such Stock.

3.5 *Vesting and Post-Vesting Holding Requirements.* Notwithstanding anything in the Plan to the contrary, no portion of any Full-Value Awards, Options and SARs granted after July 24, 2018, shall vest based on employment with the Company or its Subsidiaries prior to the first anniversary of the date on which such Award is granted, except in connection with death, Disability, Retirement, Termination of Employment without cause or a change of control as defined in the applicable Award Agreement, and except that up to five percent (5%) of the aggregate number of shares of Stock authorized for issuance under the Plan may be issued pursuant to Full-Value Awards, Options and SARs without regard to the employment vesting requirements of this Section 3.5. In addition, the Committee may impose a mandatory post-vesting holding period on any Awards or shares of Stock received pursuant to Awards made under the Plan, according to the terms and conditions it determines in its sole discretion, and sets forth in the applicable Award Agreement. Any post-vesting holding periods shall lapse in the event of the Participant’s death, Disability, Termination of Employment without cause or a change of control as defined in the applicable Award Agreement.

3.6 *Decisions Binding*. All determinations and decisions made by the Committee pursuant to the provisions of the Plan and all related orders or resolutions of the Board shall be final, conclusive, and binding on all persons, including the Company, its stockholders, Eligible Persons, Employees, Participants, and their Beneficiaries and estates. No member of the Committee shall be liable for any action or determination made in good faith with respect to the Plan or any Award.

3.7 *Costs*. The Company shall pay all costs of administration of the Plan.

Article 4. Stock Subject to the Plan

4.1 *Number of Shares*. Subject to Section 4.2 herein, the maximum number of shares of Stock available for awards under the Plan shall be 90,230,000 shares (which includes 37,000,000 shares originally provided in the Plan as approved by stockholders in 2001, 12,000,000 shares as approved by stockholders in 2006, 21,380,000 shares as approved by stockholders in 2009, and 19,850,000 additional shares approved by stockholders in 2013), plus 6,815,597 shares of Stock remaining for awards pursuant to the terms of The Allstate Corporation Equity Incentive Plan. The number of shares of Stock to which an Award pertains shall be counted against the maximum share limitation of this Section 4.1 as two and one-tenth (2.1) shares of Stock for each Full Value Award and as one (1) share of Stock for each other type of Award. Shares of Stock underlying lapsed or forfeited Awards of Restricted Stock shall not be treated as having been issued pursuant to an Award under the Plan. Shares of Stock that are potentially deliverable under an Award that expires or is cancelled, forfeited, settled in cash or otherwise settled without delivery of shares of Stock shall not be treated as having been issued under the Plan. With respect to an SAR that is settled in Stock, the full number of shares underlying the exercised portion of the SAR shall be treated as having been issued under the Plan, regardless of the number of shares used to settle the SAR upon exercise. Shares of Stock that are tendered or withheld to satisfy tax withholding obligations related to an Award or to satisfy the Option Exercise Price related to an Option or other Award shall be deemed

to be shares of Stock issued under the Plan. If, before June 30, 2003, the Option Exercise Price is satisfied by tendering Stock, only the number of shares issued net of the shares tendered shall be deemed issued under the Plan. For avoidance of doubt, if a share of Stock that underlies an Award other than a Full-Value Award was counted against the maximum share limitation of this Section 4.1 and pursuant to this Section 4.1 subsequently is treated as having not been issued under the Plan, the maximum share limitation of this Section 4.1 shall be credited with one share of Stock, and if a share of Stock pertaining to a Full-Value Award was counted against the maximum share limitation of this Section 4.1 and pursuant to this Section 4.1 subsequently is treated as having not been issued under the Plan, the maximum share limitation of this Section 4.1 shall be credited with 2.1 shares of Stock. Stock granted pursuant to the Plan may be (i) authorized but unissued shares of common stock or (ii) treasury stock.

4.2 *Adjustments in Authorized Stock and Awards*. In the event of any equity restructuring (within the meaning of Financial Accounting Standards Board Accounting Standards Codification (ASC) Topic 718) that causes the per share value of shares of Stock to change, such as a stock dividend, stock split, spin off, rights offering, or recapitalization through a large, nonrecurring cash dividend, the Committee shall cause there to be made an equitable adjustment to (i) the number and kind of shares available for grant under the Plan, (ii) the number of shares or Awards that may be granted to any individual under the Plan or that may be granted pursuant to any Articles or types of Awards, and (iii) the number and kind of shares or units subject to and the Option Exercise Price or Base Value (if applicable) of any then outstanding Awards of or related to shares of Stock. In the event of any other change in corporate capitalization, such as a merger, consolidation, any reorganization (whether or not such reorganization comes within the definition of such term in Section 368 of the Code) or any partial or complete liquidation of the Company, such equitable adjustments described in the foregoing sentence shall be made as may be determined to be appropriate and equitable by the Committee, in its sole discretion, to prevent dilution or enlargement of rights. In either case, any such adjustment shall be conclusive and binding for all purposes of the Plan. Unless otherwise determined by the Board upon recommendation of the Committee, the number of shares of Stock subject to an Award shall always be a whole number. Notwithstanding the foregoing, (i) each such adjustment with respect to an Incentive Stock Option shall comply with the rules of Section 424(a) of the Code and (ii) in no event shall any adjustment be made which would render any Incentive Stock Option granted hereunder to be other than an incentive stock option for purposes of Section 422 of the Code.

Notwithstanding any provision of the Plan to the contrary, except in connection with a corporate transaction involving the Company (including, without limitation, a Change in Control as defined in the applicable Award Agreement or the transactions or events described in this Section 4.2), the Committee shall not, without the approval of the Company’s stockholders, (i) reduce the Option Exercise Price of an Option or reduce the Base Value of a SAR after it is granted, (ii) cancel outstanding Options or SARs in exchange for other Awards or Options or SARs with an Option Exercise Price or Base Value, as applicable, that is less than the Option Exercise Price or Base Value of the original Options or SARs, (iii) cancel an outstanding Option or SAR when the Option Exercise Price or Base Value, as applicable, exceeds the Fair Market Value of a share of the Stock in exchange for cash or other securities, or (iv) take any other action with respect to an Option or SAR that would be treated as a repricing under the rules and regulations of the New York Stock Exchange.

4.3 *Award Limitations*. Subject to Section 4.2 above, the following limitations shall apply to Awards intended to qualify as Performance-Based Compensation: (i) the total number of shares of Stock with respect to which Options or SARs may be granted in any calendar year to any Eligible Person shall not exceed 4,000,000 shares; (ii) the total number of shares of Qualified Restricted Stock or Qualified Restricted Stock Units that may be granted in any calendar year to any Eligible Person shall not exceed 3,000,000 shares or Units, as the case may be; (iii) the total number of shares of Performance Stock that may be granted in any calendar year to any Eligible Person shall not exceed 4,000,000 shares and the maximum amount that may be paid pursuant to Performance Units granted in any one calendar year to any Eligible Person shall not exceed $10,000,000; (iv) the total number of shares of Stock granted pursuant to Article 10 herein in any calendar year to any Eligible Person shall not exceed 4,000,000 shares; (v) the total cash Award that may be paid pursuant to an Award granted under Article 10 herein in any calendar year to any Eligible Person shall not exceed $10,000,000; and (vi) the aggregate value of cash dividends (other than large, nonrecurring cash dividends) or Dividend Equivalents that a Participant may receive in any calendar year shall not exceed $11,500,000.

Subject to Section 4.2 above, the maximum number of shares of Stock that may be issued pursuant to Incentive Stock Options shall be 5,500,000 shares.

Article 5. Eligibility and Participation

5.1 *Eligibility*. Persons eligible to participate in the Plan ("Eligible Persons") are all Employees of the Company and its Subsidiaries, as determined by the Committee.

5.2 *Actual Participation*. Subject to the provisions of the Plan, the Committee may, from time to time, select from all Eligible Persons those to whom Awards shall be granted.

Article 6. Stock Options

6.1 *Grant of Options*. Subject to the terms and conditions of the Plan, Options may be granted to an Eligible Person at any time and from time to time, as shall be determined by the Committee.

The Committee shall have complete discretion in determining the number of shares of Stock subject to Options granted to each Eligible Person (subject to Article 4 herein) and, consistent with the provisions of the Plan, in determining the terms and conditions pertaining to such Options. The Committee may grant ISOs, NQSOs, or a combination thereof.

6.2 *Option Award Agreement*. Each Option grant shall be evidenced by an Option Award Agreement that shall specify the Option Exercise Price, the term of the Option (which shall not be greater than ten (10) years), the number of shares of Stock to which the Option pertains, the Exercise Period, and such other provisions as the Committee shall determine, including but not limited to special provisions relating to a change of control. The Option Award Agreement shall also specify whether the Option is intended to be an ISO or NQSO. The Option Exercise Price shall not be less than 100% of the Fair Market Value of the Stock on the date of grant. No Dividend Equivalents shall be provided with respect to Options.

6.3 *Exercise of and Payment for Options*. Options granted under the Plan shall be exercisable at such times and shall be subject to such restrictions and conditions as the Committee shall in each instance approve.

A Participant may exercise an Option at any time during the Exercise Period. Options shall be exercised by the delivery of a written notice of exercise to the Company, or such method acceptable to the Company, setting forth the number of shares of Stock with respect to which the Option is to be exercised, accompanied by provision for full payment of the Stock.

The Option Exercise Price shall be payable in the discretion of the Committee: (i) in cash or its equivalent, (ii) by tendering (by actual delivery of shares or by attestation) previously acquired Stock (owned for at least six months) having an aggregate Fair Market Value at the time of exercise equal to the total Option Exercise Price, (iii) by broker-assisted cashless exercise, (iv) with respect to Options granted on and after May 16, 2006, by share withholding, or (v) by a combination of (i), (ii), (iii) and/or (iv).

Options may not be exercised for less than 25 shares of Stock unless the exercise represents the entire remaining balance of the Award.

Stock received upon exercise of an Option may be granted subject to restrictions deemed appropriate by the Committee.

6.4 *Termination*. Each Option Award Agreement shall set forth the extent to which the Participant shall have the right to exercise the Option upon Termination of Employment. Such provisions shall be determined in the sole discretion of the Committee (subject to applicable law), shall be included in the Option Award Agreement entered into with Participants, need not be uniform among all Options granted pursuant to the Plan or among Participants and may reflect distinctions based on the reasons for termination.

To the extent the Option Award Agreement does not set forth termination provisions, the provisions of Article 13 shall control.

6.5 *Transferability of Options*. Except as otherwise determined by the Committee, all Options granted to a Participant under the Plan shall be exercisable during his or her lifetime only by such Participant or his or her legal representative, and no Option granted under the Plan may be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated, other than by will or by the laws of descent and distribution. ISOs are not transferable other than by will or by the laws of descent and distribution. The Committee shall have the authority, in its discretion, to grant (or to sanction by way of amendment to an existing Award) Nonqualified Stock Options, the vested portions of which may be transferred by the Participant during his lifetime to any Family Member or pursuant to a domestic relations order. A transfer of an Option pursuant hereto may only be effected by the Company at the written request of a Participant and shall become effective only when recorded in the Company's record of outstanding Options. A transferred Option shall continue to be governed by and subject to the terms and limitations of the Plan and the relevant Award Agreement, and the transferee shall be entitled to the same rights as the Participant, as if no transfer had taken place. In no event shall an Option be transferred for consideration.

6.6 *Designation of Beneficiary.*

(a) Each Participant may designate a Beneficiary who shall have the right to exercise the Option in the event of the Participant's death. Participants shall designate a Beneficiary by executing a Beneficiary Designation Form. A Beneficiary designation is not binding on the Company unless it receives a properly completed Beneficiary Designation Form prior to the Participant's death. If no designation is made or no designated Beneficiary is alive (or in the case of an entity designated as a Beneficiary, in existence) at the time of the Participant's death, the Participant's spouse or, if no spouse exists, the executor or personal representative of the Participant's estate shall have the right to exercise the Option. If there is any question as to the legal right of any Beneficiary to exercise the Option under the Plan, the Company may determine in its sole discretion whether to provide the right of exercise to the executor or personal representative of the Participant's estate. The Company's determination shall be binding and conclusive on all persons, and it will have no further liability to anyone with respect to such Option.

(b) *Change of Beneficiary Designation*. A Participant may change an earlier Beneficiary designation by executing a later Beneficiary Designation Form. The execution of a Beneficiary Designation Form revokes and rescinds any prior Beneficiary Designation Form.

6.7 *Automatic Exercise.* Any unexercised Option granted on or after May 21, 2013, and before February 19, 2014 will be exercised automatically on behalf of the Participant using broker-assisted cashless exercise or other payment method provided under the Plan at the discretion of the Committee on the business day immediately preceding the expiration date of the original term as stated in the Option Award Agreement if:

(i) the Fair Market Value of a share of Stock exceeds the Option Exercise Price in the applicable Option Award Agreement on that business day, and

(ii) the exercise would result in the payment to Participant of at least $.01 or delivery of at least one share of Stock after payment of the exercise price, any applicable fees and commissions, and all applicable withholding taxes (assuming the appropriate minimum statutory withholding rate).

A Participant may elect not to have automatic exercise apply by written notice to the Committee at any time within the six-month period before the automatic exercise day above.

Article 7. Stock Appreciation Rights

7.1 *Grant of SARs*. Subject to the terms and conditions of the Plan, an SAR may be granted to an Eligible Person at any time and from time to time as shall be determined by the Committee. The Committee may grant Freestanding SARs, Tandem SARs, or any combination of these forms of SARs.

The Committee shall have complete discretion in determining the number of SARs granted to each Eligible Person (subject to Article 4 herein) and, consistent with the provisions of the Plan, in determining the terms and conditions pertaining to such SARs.

7.2 *SAR Award Agreement*. Each SAR award shall be evidenced by an SAR Award Agreement that shall specify the number of SARs granted, the Base Value (which shall not be less than one hundred percent (100%) of the Fair Market Value of a share of Stock on the date of grant), the term of the SAR (which shall not be greater than ten (10) years), the Exercise Period, and such other provisions as the Committee shall determine, including but not limited to special provisions relating to a change of control. No Dividend Equivalents shall be provided with respect to SARs.

7.3 *Exercise and Payment of SARs*. Tandem SARs may be exercised for all or part of the Stock subject to the related Option upon the surrender of the right to exercise the equivalent portion of the related Option. A Tandem SAR may be exercised only with respect to the shares of Stock for which its related Option is then exercisable.

Notwithstanding any other provision of the Plan to the contrary, with respect to a Tandem SAR granted in connection with an ISO: (i) the Tandem SAR will expire no later than the expiration of the underlying ISO; (ii) the value of the payout with respect to the Tandem SAR may be for no more than one hundred percent (100%) of the difference between the Option Exercise Price of the underlying ISO and the Fair Market Value of the shares of Stock subject to the underlying ISO at the time the Tandem SAR is exercised; (iii) the Tandem SAR may be exercised only when the Fair Market Value of the shares of Stock subject to the ISO exceeds the Option Exercise Price of the ISO; and (iv) the Tandem SAR may be transferred only when the underlying ISO is transferable, and under the same conditions.

Freestanding SARs may be exercised upon whatever terms and conditions the Committee, in its sole discretion, imposes upon them.

A Participant may exercise an SAR at any time during the Exercise Period. SARs shall be exercised by the delivery of a written notice of exercise to the Company, or such method acceptable to the Company, setting forth the number of SARs being exercised. Upon exercise of an SAR, a Participant shall be entitled to receive payment from the Company in an amount equal to the product of:

(a) the excess of (i) the Fair Market Value of a share of Stock on the date of exercise over (ii) the Base Value multiplied by

(b) the number of shares of Stock with respect to which the SAR is exercised.

At the sole discretion of the Committee, the payment to the Participant upon SAR exercise may be in cash, in shares of Stock of equivalent value, or in some combination thereof.

7.4 *Termination*. Each SAR Award Agreement shall set forth the extent to which the Participant shall have the right to exercise the SAR upon Termination of Employment. Such provisions shall be determined in the sole discretion of the Committee (subject to applicable law), shall be included in the SAR Award Agreement entered into with Participants, need not be uniform among all SARs granted pursuant to the Plan or among Participants, and may reflect distinctions based on the reasons for termination.

To the extent the SAR Award Agreement does not set forth termination provisions, the provisions of Article 13 shall control.

7.5 *Transferability of SARs*. Except as otherwise determined by the Committee, all SARs granted to a Participant under the Plan shall be exercisable during his or her lifetime only by such Participant or his or her legal representative, and no SAR granted under the Plan may be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated, other than by will or by the laws of descent and distribution. To the extent the Committee permits the transfer of an SAR, in no event shall an SAR be transferred for consideration.

7.6 *Designation of Beneficiary.*

(a) Each Participant may designate a Beneficiary who shall have the right to exercise the SARs in the event of the Participant's death. Participants shall designate a Beneficiary by executing a Beneficiary Designation Form. A Beneficiary designation is not binding on the Company unless it receives a properly completed Beneficiary Designation Form prior to the Participant's death. If no designation is made or no designated Beneficiary is alive (or in the case of an entity designated as a Beneficiary, in existence) at the time of the Participant's death, the Participant's spouse, or if no spouse exists, the executor or personal representative of the Participant's estate shall have the right to exercise the SARs. If there is any question as to the legal right of any Beneficiary to exercise the SARs under the Plan, the Company may determine in its sole discretion whether to provide the right of exercise to the executor or personal representative of the Participant's estate. The Company's determination shall be binding and conclusive on all persons, and it will have no further liability to anyone with respect to such SARs.

(b) A Participant may change an earlier Beneficiary designation by executing a later Beneficiary Designation Form. The execution of a Beneficiary Designation Form revokes and rescinds any prior Beneficiary Designation Form.

Article 8. Unrestricted Stock, Restricted Stock, and Restricted Stock Units

8.1 *Grant of Unrestricted Stock, Restricted Stock, and Restricted Stock Units*. Subject to the terms and conditions of the Plan, Unrestricted Stock, Restricted Stock, and/or Restricted Stock Units may be granted to an Eligible Person at any time and from time to time, as shall be determined by the Committee.

The Committee shall have complete discretion in determining the number of shares of Unrestricted Stock, Restricted Stock, and/or Restricted Stock Units granted to each Eligible Person (subject to Article 4 herein) and, consistent with the provisions of the Plan, in determining the terms and conditions pertaining to such Awards.

In addition, the Committee may, prior to or at the time of grant, designate an Award of Restricted Stock or Restricted Stock Units as Qualified Restricted Stock or Qualified Restricted Stock Units, as the case may be, in which event it will condition the granting or vesting, as applicable, of such Qualified Restricted Stock or Qualified Restricted Stock Units, as the case may be, upon

the attainment of the Performance Goals selected by the Committee and such other conditions as the Committee may determine based on employment with the Company and its Subsidiaries.

8.2 *Unrestricted Stock, Restricted Stock/Restricted Stock Unit Award Agreement*. Each grant of Unrestricted Stock, Restricted Stock, and/or Restricted Stock Units shall be evidenced by an Award Agreement that shall specify the number of shares of Unrestricted Stock, Restricted Stock, and/or Restricted Stock Units granted, the initial value (if applicable), the Period or Periods of Restriction (if applicable), and such other provisions as the Committee shall determine, including but not limited to special provisions relating to a change of control.

8.3 *Transferability*. Except pursuant to a domestic relations order or as otherwise determined by the Committee, Restricted Stock and Restricted Stock Units granted hereunder may not be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated until the end of the applicable Period of Restriction established by the Committee and specified in the Award Agreement. During the applicable Period of Restriction, all rights with respect to the Restricted Stock and Restricted Stock Units granted to a Participant under the Plan shall be available during his or her lifetime only to such Participant or his or her legal representative.

8.4 *Certificates*. No certificates representing Stock shall be delivered to a Participant, and no book entry representing delivery of Stock to a Participant shall be made, until such time as all restrictions applicable to such shares have been satisfied.

8.5 *Removal of Restrictions*. Restricted Stock shall become freely transferable by the Participant after the last day of the Period of Restriction applicable thereto. Once Restricted Stock is released from the restrictions, the Participant shall be entitled to receive a certificate representing such Stock or shall be entitled to book entry delivery of such Stock.

Payment of Restricted Stock Units shall be made after the last day of the Period of Restriction applicable thereto. The Committee, in its sole discretion, may pay Restricted Stock Units in cash or in shares of Stock of equivalent value (or in some combination thereof).

8.6 *Voting Rights*. During the Period of Restriction, Participants may exercise full voting rights with respect to the Restricted Stock.

8.7 *Dividends and Other Distributions*. Subject to the Committee's right to determine otherwise at the time of grant, during the Period of Restriction, Participants shall receive all cash dividends, other than large, nonrecurring cash dividends, paid with respect to the Restricted Stock while they are so held. All other distributions paid with respect to such Restricted Stock shall be credited to Participants subject to the same restrictions on transferability and forfeitability as the Restricted Stock with respect to which they were paid and shall be paid to the Participant promptly after the full vesting of the Restricted Stock with respect to which such distributions were made.

Rights, if any, to Dividend Equivalents on Restricted Stock Units shall be established by the Committee at the time of grant and set forth in the Award Agreement. In addition, with respect to both Restricted Stock or Restricted Stock Units with performance-based vesting, any dividends or Dividend Equivalents that are based on dividends paid prior to the vesting of such Restricted Stock or Restricted Stock Units, as applicable, shall only be paid out to the Participant to the extent

that the performance-based vesting conditions are subsequently satisfied and the Restricted Stock or Restricted Stock Units vest.

8.8 *Termination*. Each Restricted Stock/Restricted Stock Unit Award Agreement shall set forth the extent to which the Participant shall have the right to receive Restricted Stock and/or a Restricted Stock Unit payment following termination of the Participant's employment with the Company and its Subsidiaries. Such provisions shall be determined in the sole discretion of the Committee, shall be included in the Award Agreement entered into with Participants, need not be uniform among all grants of Restricted Stock/Restricted Stock Units or among Participants and may reflect distinctions based on the reasons for termination.

8.9 *Participant's Death*. In the event of the Participant's death, any vested Restricted Stock or Restricted Stock Units, including Restricted Stock or Restricted Stock Units that vest because of the Participant's death, shall be paid or delivered on behalf of the Participant.

To the extent the Restricted Stock/Restricted Stock Unit Award Agreement does not set forth termination provisions, the provisions of Article 13 shall control.

Article 9. Performance Units and Performance Stock

9.1 *Grant of Performance Units and Performance Stock*. Subject to the terms and conditions of the Plan, Performance Units and/or Performance Stock may be granted to an Eligible Person at any time and from time to time, as shall be determined by the Committee.

The Committee shall have complete discretion in determining the number of Performance Units and/or shares of Performance Stock granted to each Eligible Person (subject to Article 4 herein) and, consistent with the provisions of the Plan, in determining the terms and conditions pertaining to such Awards.

9.2 *Performance Unit/Performance Stock Award Agreement*. Each grant of Performance Units and/or shares of Performance Stock shall be evidenced by a Performance Unit and/or Performance Stock Award Agreement that shall specify the number of Performance Units and/or shares of Performance Stock granted, the initial value (if applicable), the Performance Period, the Performance Goals, and such other provisions as the Committee shall determine, including but not limited to special provisions relating to a change of control and any rights to Dividend Equivalents.

9.3 *Value of Performance Units/Performance Stock*. Each Performance Unit shall have an initial value that is established by the Committee at the time of grant. The value of a share of Performance Stock shall be equal to the Fair Market Value of the Stock. The Committee shall set Performance Goals in its discretion which, depending on the extent to which they are met, will determine the number and/or value of Performance Units/Performance Stock that will be paid out to the Participants.

9.4 *Earning of Performance Units/Performance Stock*. After the applicable Performance Period has ended, the Participant shall be entitled to receive a payout with respect to the Performance Units/Performance Stock and any Dividend Equivalents earned by the Participant

over the Performance Period, to be determined as a function of the extent to which the Committee determines that the corresponding Performance Goals have been achieved.

9.5 *Form and Timing of Payment of Performance Units/Performance Stock*. Payment of earned Performance Units/Performance Stock shall be made following the close of the applicable Performance Period. The Committee, in its sole discretion, may pay earned Performance Units/Performance Stock in cash or in Stock (or in a combination thereof), which has an aggregate Fair Market Value equal to the value of the earned Performance Units/Performance Stock at the close of the applicable Performance Period. Such Stock may be granted subject to any restrictions deemed appropriate by the Committee.

9.6 *Termination*. Each Performance Unit/Performance Stock Award Agreement shall set forth the extent (if any) to which the Participant shall have the right to receive a Performance Unit/Performance Stock payment upon Termination of Employment during a Performance Period. Such provisions shall be determined in the sole discretion of the Committee (subject to applicable law), shall be included in the Award Agreement entered into with Participants, need not be uniform among all grants of Performance Units/Performance Stock or among Participants, and may reflect distinctions based on reasons for termination.

To the extent the Performance Unit/Performance Stock Award Agreement does not set forth termination provisions, the provisions of Article 13 shall control.

9.7 *Transferability*. Except pursuant to a domestic relations order or as otherwise determined by the Committee, a Participant's rights with respect to Performance Units/Performance Stock granted under the Plan shall be available during the Participant's lifetime only to such Participant or the Participant's legal representative and Performance Units/Performance Stock may not be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated, other than by will or by the laws of descent and distribution. To the extent the Committee permits the transfer of Performance Units/Performance Stock, in no event shall Performance Units/Performance Stock be transferred for consideration.

9.8 *Participant’s Death*. In the event of the Participant’s death, any vested Performance Units/Performance Stock, including Performance Units/Performance Stock that vest because of the Participant’s death, shall be paid or delivered on behalf of the Participant.

Article 10. Other Awards

The Committee shall have the right to grant other Awards which may include, without limitation, the payment of Stock in lieu of cash, the payment of cash based on attainment of Performance Goals established by the Committee, and the payment of Stock in lieu of cash under other Company incentive or bonus programs. Payment under or settlement of any such Awards shall be made in such manner and at such times as the Committee may determine.

Article 11. Deferrals

The Committee may, in its sole discretion, permit a Participant to defer the Participant's receipt of the payment of cash or the delivery of Stock that would otherwise be due to such Participant under the Plan. If any such deferral election is permitted, the Committee shall, in its sole discretion, establish rules and procedures for such payment deferrals consistent with Section 409A to the extent applicable.

Article 12. Rights of Participants

12.1 *Termination*. Nothing in the Plan shall interfere with or limit in any way the right of the Company or any Subsidiary to terminate any Participant's employment or other relationship with the Company or any Subsidiary at any time, for any reason or no reason in the Company's or the Subsidiary's sole discretion, nor confer upon any Participant any right to continue in the employ of, or otherwise in any relationship with, the Company or any Subsidiary.

12.2 *Participation*. No Eligible Person shall have the right to be selected to receive an Award under the Plan, or, having been so selected, to be selected to receive a future Award.

12.3 *Limitation of Implied Rights*. Neither a Participant nor any other Person shall, by reason of the Plan, acquire any right in or title to any assets, funds or property of the Company or any Subsidiary whatsoever, including, without limitation, any specific funds, assets or other property which the Company or any Subsidiary, in its sole discretion, may set aside in anticipation of a liability under the Plan. A Participant shall have only a contractual right to the Stock or amounts, if any, payable under the Plan, unsecured by any assets of the Company or any Subsidiary. Nothing contained in the Plan shall constitute a guarantee that the assets of such companies shall be sufficient to pay any benefits to any Person.

Except as otherwise provided in the Plan, no Award under the Plan shall confer upon the holder thereof any right as a stockholder of the Company prior to the date on which the individual fulfills all conditions for receipt of such rights.

12.4 *Waiver.* Each Participant, by acceptance of an Award, waives all rights to specific performance or injunctive or other equitable relief and acknowledges that he has an adequate remedy at law in the form of damages.

Article 13. Termination of Employment

If a Participant has a Termination of Employment, then, unless otherwise provided by the Committee or in the Award Agreement, all Awards shall terminate and be forfeited on the date of such Termination of Employment.

Article 14. Equity Incentive Plans of Foreign Subsidiaries

The Committee may authorize any foreign Subsidiary to adopt a plan for granting Awards ("Foreign Equity Incentive Plan”), and awards granted under such Foreign Equity Incentive Plans may be treated as awards under the Plan, if the Committee so determines. Such Foreign Equity

Incentive Plans shall have such terms and provisions as the Committee permits not inconsistent with the provisions of the Plan and which may be more restrictive than those contained in the Plan. Awards granted under such Foreign Equity Incentive Plans shall be governed by the terms of the Plan except to the extent that the provisions of the Foreign Equity Incentive Plans are more restrictive than the terms of the Plan, in which case such terms of the Foreign Equity Incentive Plans shall control.

Article 15. Amendment, Modification, and Termination

The Board may, at any time and from time to time, alter, amend, suspend, or terminate the Plan in whole or in part, provided that no amendment shall be made which shall increase the total number of shares of Stock that may be issued under the Plan, materially modify the requirements for participation in the Plan, or materially increase the benefits accruing to Participants under the Plan, in each case unless such amendment is approved by the stockholders of the Company.

No termination, amendment, or modification of the Plan shall adversely affect in any material way any Award previously granted under the Plan, without the written consent of the Participant holding such Award, unless such termination, modification, or amendment is required by applicable law and except as otherwise provided herein.

Article 16. Payment for Awards and Withholding

16.1 *Payment for Awards*. In the event a Participant elects to pay the Option Exercise Price or make payment for any other Award through tender of previously acquired Stock, (i) only a whole number of share(s) of Stock (and not fractional shares of Stock) may be tendered in payment, (ii) such Participant must present evidence acceptable to the Company that he has owned any such shares of Stock tendered in payment (and that such shares of Stock tendered have not been subject to any substantial risk of forfeiture) for at least six months prior to the date of exercise, and (iii) Stock must be tendered to the Company, either by actual delivery of the shares or by attestation. When payment is made by tender of Stock, the difference, if any, between the aggregate amount payable and the Fair Market Value of the share(s) of Stock tendered in payment (plus any applicable taxes) shall be paid by check. No Participant may tender shares of Stock having a Fair Market Value exceeding the aggregate Option Exercise Price or other payment due.

16.2 *Notification under Section 83(b)*. If the Participant, in connection with the exercise of any Option, or the grant of any share of Restricted Stock, makes the election permitted under Section 83(b) of the Code (i.e., an election to include in such Participant's gross income in the year of transfer the amounts specified in Section 83(b) of the Code), such Participant shall notify the Company of such election within 10 days of filing notice of the election with the Internal Revenue Service, in addition to any filing and notification required pursuant to regulations issued under the authority of Section 83(b) of the Code.

16.3 *Tax Withholding*. The Company shall have the power and the right to deduct or withhold, or require a Participant to remit to the Company, an amount (including any Stock withheld as provided below) sufficient to satisfy Federal, state, and local taxes (including the Participant's FICA obligation) required by law to be withheld with respect to an Award made under the Plan.

16.4 *Stock Withholding*. With respect to tax withholding required upon the exercise of Options or SARs, upon the lapse of restrictions on Restricted Stock or Restricted Stock Units, or upon any other taxable event arising out of or as a result of Awards granted hereunder, Participants may elect to satisfy the withholding requirement, in whole or in part, by tendering Stock held by the Participant (by actual delivery of the shares or by attestation) or by having the Company withhold Stock having a Fair Market Value equal to the minimum statutory total tax which could be imposed on the transaction. All elections shall be irrevocable, made in writing (or other method acceptable to the Company) and signed by the Participant. In the event a Participant fails to make an election by the date required, the Participant will be deemed to have made an election to have the Company withhold Stock having a Fair Market Value equal to the minimum statutory total tax which could be imposed on the transaction.

Article 17. Repayment of Awards, Non-Solicitation, and Non-Competition

17.1 *Restatements*. In the event of a restatement of the Company's financial results to correct a material error or inaccuracy resulting in whole or in part from the fraud or intentional misconduct of a Section 16 Officer, as determined by the Board or a committee thereof, the Board or the Committee shall have the authority, to the extent permitted by applicable law, to

(i) cancel or cause to be cancelled any or all of such Section 16 Officer's outstanding Awards granted after May 19, 2009;

(ii) recover or cause to be recovered any or all "Proceeds" (as defined below) resulting from any sale or other disposition (including to the Company) of shares of Stock issued or issuable upon vesting, settlement, or exercise, as the case may be, of any Award granted to such Section 16 Officer after May 19, 2009, plus a reasonable rate of interest; and/or

(iii) recover or cause to be recovered any cash paid or shares of Stock issued to such Section 16 Officer in connection with any vesting, settlement, or exercise of an Award granted after May 19, 2009, plus a reasonable rate of interest.

The term "Proceeds" means, with respect to any sale or other disposition (including to the Company) of shares of Stock acquired pursuant to an Award, an amount determined by the Committee, (a) in the case of an Award other than an Option or SAR, up to the amount equal to the Fair Market Value per share of Stock at the time of such sale or other disposition multiplied by the number of shares sold or disposed of, or (b) in the case of an Option or SAR, up to the amount equal to the number of shares of Stock sold or disposed of multiplied by the excess of the Fair Market Value per share of Stock at the time of such sale or disposition over the Option Exercise Price or Base Value, as applicable. The return of Proceeds is in addition to and separate from any other relief available to the Company or any other actions as may be taken by the Committee in its sole discretion. Any determination by the Committee with respect to the foregoing shall be final, conclusive, and binding on all interested parties.

17.2 *Non-Solicitation*. While employed and for the one-year period starting on the date of Termination of Employment, any Participant who has received an Award under the Plan shall not, directly or indirectly:

(i) other than in connection with the good-faith performance of his or her normal duties and responsibilities as an employee of the Company or any Subsidiary, encourage any employee or agent of the Company or any Subsidiary to terminate his or her relationship with the Company or any Subsidiary;

(ii) employ, engage as a consultant or adviser, or solicit the employment or engagement as a consultant or adviser of, any employee or agent of the Company or Subsidiary (other than by the Company or its Subsidiaries), or cause or encourage any Person to do any of the foregoing;

(iii) establish (or take preliminary steps to establish) a business with, or encourage others to establish (or take preliminary steps to establish) a business with, any employee or exclusive agent independent contractor of the Company or its Subsidiaries that would interfere with the relationship between the Company or its Subsidiaries and the employee or agent; or

(iv) interfere with the relationship of the Company or its Subsidiaries with, or endeavor to entice away from the Company or its Subsidiaries, any Person who or which at any time since the Participant's hire date was or is a material customer or material supplier of, or maintained a material business relationship with, the Company or its Subsidiaries.

If a Participant violates any of the non-solicitation provisions set forth above, to the extent permitted by applicable law, the Board or the Committee may, to the extent permitted by applicable law,

(i) cancel or cause to be cancelled any or all of the Participant's outstanding Awards granted after May 19, 2009;

(ii) recover or cause to be recovered any or all Proceeds resulting from any sale or other disposition (including to the Company) of shares of Stock issued or issuable upon vesting, settlement, or exercise, as the case may be, of any Award granted after May 19, 2009, if the sale or disposition was effected on or after the date that is one year prior to the date on which the Participant first violated any such non-solicitation provisions; and/or

(iii) recover or cause to be recovered any cash paid or shares of Stock issued to the Participant in connection with any vesting, settlement, or exercise of an Award granted after May 19, 2009, if the vesting, settlement, or exercise occurred on or after the date that is one year prior to the date on which the Participant first violated any such the non-solicitation provisions.

17.3 *Non-Competition*. Any Participant who has received an Award under the Plan:

(i) between February 21, 2012, and May 20, 2013, that remains subject to a Period of Restriction or other performance or vesting condition, shall not, for the two-year period following the date of Termination of Employment; or

(ii) on and after May 21, 2013, that remains subject to a Period of Restriction or other performance or vesting condition, shall not, for the one-year period following the date

of Termination of Employment, directly or indirectly engage in, own or control an interest in, or act as principal, director, officer, or employee of, or consultant to, any firm or company that is a Competitive Business. “Competitive Business” is defined as a business that designs, develops, markets, or sells a product, product line, or service that competes with any product, product line, or service of the division in which Participant works. This section is not meant to prevent Participant from earning a living, but rather to protect the Company’s legitimate business interests. A Participant is not subject to this non-competition provision if:

(i) employed in any jurisdiction where the applicable law prohibits such non-competition provision; or

(ii) Termination of Employment occurs during a Post-Change Period (as defined in the applicable Award Agreement) and:

(A) the Participant’s Termination of Employment is initiated by the Employer other than for Cause (as defined in the applicable Award Agreement), death, or Disability, or

(B) the Participant is a participant in The Allstate Corporation Change in Control Severance Plan and the Participant’s Termination of Employment is initiated by the Participant for Good Reason (as defined in the applicable Award Agreement).

If a Participant violates the non-competition provision set forth above, the Board or the Committee may, to the extent permitted by applicable law, cancel or cause to be cancelled any or all of the Participant's outstanding Awards granted on or after February 21, 2012, that remain subject to a Period of Restriction or other performance or vesting condition as of the date on which the Participant first violated the non-competition provision.

17.4 *No Limitation on Other Rights; Blue Pencil*. Nothing contained in this Article 17 shall be deemed to (i) limit any additional legal or equitable rights or remedies the Company may have under applicable law with respect to any Participant who may have caused or contributed to the Company's need to restate its financial results or who may have violated the non-solicitation or non-competition provisions in the Plan or in any other plan, policy, agreement, or arrangement or (ii) affect any other non-solicitation, non-competition, or other restrictive covenants to which a Participant is subject. If any of the covenants contained in Article 17.2 and 17.3 or any part thereof, are held to be unenforceable, the court making such determination shall have the power to revise or modify such provision to make it enforceable to the maximum extent permitted by applicable law and, in its revised or modified form, said provision shall then be enforceable.

Article 18. Successors

All obligations of the Company under the Plan, with respect to Awards granted hereunder, shall be binding on any successor to the Company, whether the existence of such successor is the result of a direct or indirect purchase, merger, consolidation, or otherwise of all or substantially all of the business and/or assets of the Company.

Article 19. Legal Construction

19.1 *Gender and Number*. Except where otherwise indicated by the context, any masculine term used herein also shall include the feminine, the plural shall include the singular and the singular shall include the plural.

19.2 *Severability*. In the event any provision of the Plan shall be held illegal or invalid for any reason, the illegality or invalidity shall not affect the remaining parts of the Plan, and the Plan shall be construed and enforced as if the illegal or invalid provision had not been included.

19.3 *Requirements of Law*. The granting of Awards and the issuance of Stock under the Plan shall be subject to all applicable laws, rules, and regulations, and to such approvals by any governmental agencies or national securities exchanges as may be required.

19.4 *Governing Law*. To the extent not preempted by Federal law, the Plan, and all agreements hereunder, shall be construed in accordance with, and governed by, the laws of the State of Delaware, except with regard to conflicts of law provisions.

19.5 *Code Section 409A Compliance*. To the extent applicable, it is intended that this Plan and any Awards granted hereunder comply with the requirements of Section 409A of the Code and any related regulations or other guidance promulgated with respect to such Section by the U.S. Department of the Treasury or the Internal Revenue Service ("Section 409A"), and the Plan and any Awards granted under the Plan shall be interpreted and construed in a manner consistent with such intent. Notwithstanding any provision of the Plan to the contrary, in the event that following the Effective Date the Committee determines that any Award may be subject to Section 409A, the Committee may adopt such amendments to the Plan and the applicable Award Agreement or adopt other policies and procedures (including amendments, policies, and procedures with retroactive effect), or take any other actions, that the Committee determines are necessary or appropriate to (i) exempt the Award from Section 409A and/or preserve the intended tax treatment of the benefits provided with respect to the Award, or (ii) comply with the requirements of Section 409A and thereby avoid the application of any penalty taxes under such Section. In the event that it is reasonably determined by the Committee that, as a result of Section 409A, payments in respect of any Award under the Plan may not be made at the time contemplated by the terms of the Plan or the applicable Award Agreement, as the case may be, without causing the Participant holding such Award to be subject to taxation under Section 409A, the Company will make such payment on the first day that would not result in the Participant incurring any tax liability under Section 409A, which action may include, but is not limited to, delaying payment to a Participant who is a “specified employee” within the meaning of Section 409A until the first day following the six-month period beginning on the date of the Participant’s Termination of Employment No action or failure by the Committee or the Company in good faith to act, pursuant to this Section 19.5 shall subject the Committee, the Company, or any of the Company’s employees, directors, or representatives to any claim, liability, or expense, and the Company shall not have any obligation to indemnify or otherwise protect any Participant from the obligation to pay any taxes pursuant to Section 409A.

Exhibit 15

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 September 30, 2018 and 2017, as indicated in our report dated October 31, 2018; 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 September 30, 2018, is incorporated by reference in the following Registration Statements:

Form S-3 Registration Statement Nos.	Form S-8 Registration Statement Nos.
333-34583	333-04919
333-224541	333-16129
	333-40283
	333-134242
	333-134243
	333-144691
	333-159343
	333-175526
	333-188821
	333-200390
	333-218343

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
October 31, 2018

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: October 31, 2018

/s/ Thomas J. Wilson

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: October 31, 2018

/s/ Mario Rizzo

Mario Rizzo

Executive Vice President and Chief Financial Officer

Exhibit 32

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 September 30, 2018 of The Allstate Corporation filed with the Securities and Exchange Commission fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in such report fairly presents, in all material respects, the financial condition and result of operations of The Allstate Corporation.

Date: October 31, 2018

/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