UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2020

OR

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

For the transition period from ______ to ______

Commission file number 1-11840

THE ALLSTATE CORPORATION

(Exact name of registrant as specified in its charter)

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

2775 Sanders Road, Northbrook, Illinois 60062

(Address of principal executive offices) (Zip Code)

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

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

Title of each class	**Trading Symbols**	**Name of each exchange on which registered**
Common Stock, par value $.01 per share	ALL	New York Stock Exchange Chicago Stock Exchange
5.100% Fixed-to-Floating Rate Subordinated Debentures due 2053	ALL.PR.B	New York Stock Exchange
Depositary Shares represent 1/1,000th of a share of 5.625% Noncumulative Preferred Stock, Series G	ALL PR G	New York Stock Exchange
Depositary Shares represent 1/1,000th of a share of 5.100% Noncumulative Preferred Stock, Series H	ALL PR H	New York Stock Exchange
Depositary Shares represent 1/1,000th of a share of 4.750% Noncumulative Preferred Stock, Series I	ALL PR I	New York Stock Exchange

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒No ☐

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

Large accelerated filer	☒	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 ☒

As of October 19, 2020, the registrant had 304,068,026 common shares, $.01 par value, outstanding.

The Allstate Corporation
Index to Quarterly Report on Form 10-Q
September 30, 2020

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Part I. Financial Information
Item 1. Financial Statements

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

($ in millions, except per share data)	Three months ended September 30, 2020	Three months ended September 30, 2019	Nine months ended September 30, 2020	Nine months ended September 30, 2019
Revenues				
Property and casualty insurance premiums	$ 9,336	$ 9,094	$ 27,794	$ 26,882
Life premiums and contract charges	620	625	1,841	1,874
Other revenue	272	273	794	794
Net investment income	832	880	1,662	2,470
Realized capital gains (losses)	440	197	682	1,183
Total revenues	**11,500**	**11,069**	**32,773**	**33,203**
Costs and expenses				
Property and casualty insurance claims and claims expense	6,072	6,051	16,635	18,227
Shelter-in-Place Payback expense	—	—	948	—
Life contract benefits	727	513	1,725	1,521
Interest credited to contractholder funds	150	169	482	487
Amortization of deferred policy acquisition costs	1,492	1,425	4,242	4,151
Operating costs and expenses	1,380	1,414	4,230	4,174
Pension and other postretirement remeasurement (gains) losses	(71)	225	320	365
Restructuring and related charges	200	—	219	27
Amortization of purchased intangibles	31	32	88	96
Impairment of purchased intangibles	—	—	—	55
Interest expense	78	80	238	245
Total costs and expenses	**10,059**	**9,909**	**29,127**	**29,348**
Gain on disposition of operations	1	—	3	3
Income from operations before income tax expense	**1,442**	**1,160**	**3,649**	**3,858**
Income tax expense	289	229	697	784
Net income	**1,153**	**931**	**2,952**	**3,074**
Preferred stock dividends	27	42	89	103
Net income applicable to common shareholders	**$ 1,126**	**$ 889**	**$ 2,863**	**$ 2,971**
Earnings per common share				
Net income applicable to common shareholders per common share - Basic	$ 3.62	$ 2.71	$ 9.11	$ 8.98
Weighted average common shares - Basic	311.2	327.7	314.1	330.8
Net income applicable to common shareholders per common share - Diluted	$ 3.58	$ 2.67	$ 9.01	$ 8.85
Weighted average common shares - Diluted	314.1	333.0	317.9	335.7

See notes to condensed consolidated financial statements.

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

($ in millions)	Three months ended September 30, 2020	Three months ended September 30, 2019	Nine months ended September 30, 2020	Nine months ended September 30, 2019
Net income	$ 1,153	$ 931	$ 2,952	$ 3,074
Other comprehensive income, after-tax				
Changes in:				
Unrealized net capital gains and losses	142	369	857	2,025
Unrealized foreign currency translation adjustments	25	(10)	(5)	(1)
Unamortized pension and other postretirement prior service credit	38	(12)	31	(35)
Other comprehensive income, after-tax	**205**	**347**	**883**	**1,989**
Comprehensive income	**$ 1,358**	**$ 1,278**	**$ 3,835**	**$ 5,063**

See notes to condensed consolidated financial statements.

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

($ in millions, except par value data)	September 30, 2020	December 31, 2019
Assets		
Investments		
Fixed income securities, at fair value (amortized cost, net $62,267 and $56,293)	$ 66,551	$ 59,044
Equity securities, at fair value (cost $3,867 and $6,568)	4,395	8,162
Mortgage loans, net	4,655	4,817
Limited partnership interests	7,232	8,078
Short-term, at fair value (amortized cost $4,559 and $4,256)	4,559	4,256
Other, net	3,805	4,005
Total investments	**91,197**	**88,362**
Cash	370	338
Premium installment receivables, net	6,609	6,472
Deferred policy acquisition costs	4,661	4,699
Reinsurance and indemnification recoverables, net	9,097	9,211
Accrued investment income	616	600
Property and equipment, net	1,076	1,145
Goodwill	2,544	2,545
Other assets, net	3,516	3,534
Separate Accounts	3,064	3,044
Total assets	**$ 122,750**	**$ 119,950**
Liabilities		
Reserve for property and casualty insurance claims and claims expense	$ 27,987	$ 27,712
Reserve for life-contingent contract benefits	12,759	12,300
Contractholder funds	17,288	17,692
Unearned premiums	16,029	15,343
Claim payments outstanding	1,013	929
Deferred income taxes	905	1,154
Other liabilities and accrued expenses	9,807	9,147
Long-term debt	6,635	6,631
Separate Accounts	3,064	3,044
Total liabilities	**95,487**	**93,952**
Commitments and Contingent Liabilities (Note 12)		
Shareholders' equity		
Preferred stock and additional capital paid-in, $1 par value, 25 million shares authorized, 81.0 thousand and 92.5 thousand shares issued and outstanding, $2,025 and $2,313 aggregate liquidation preference	1,970	2,248
Common stock, $.01 par value, 3.0 billion shares authorized and 900 million issued, 304 million and 319 million shares outstanding	9	9
Additional capital paid-in	3,453	3,463
Retained income	50,336	48,074
Treasury stock, at cost (596 million and 581 million shares)	(31,338)	(29,746)
Accumulated other comprehensive income:		
Unrealized net capital gains and losses on fixed income securities with credit losses	(1)	70
Other unrealized net capital gains and losses	3,373	2,094
Unrealized adjustment to DAC, DSI and insurance reserves	(628)	(277)
Total unrealized net capital gains and losses	**2,744**	**1,887**
Unrealized foreign currency translation adjustments	(64)	(59)
Unamortized pension and other postretirement prior service credit	153	122
Total accumulated other comprehensive income ("AOCI")	**2,833**	**1,950**
Total shareholders' equity	**27,263**	**25,998**
Total liabilities and shareholders' equity	**$ 122,750**	**$ 119,950**

See notes to condensed consolidated financial statements.

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

($ in millions, except per share data)	Three months ended September 30, 2020	Three months ended September 30, 2019	Nine months ended September 30, 2020	Nine months ended September 30, 2019
Preferred stock par value	$ —	$ —	$ —	$ —
Preferred stock additional capital paid-in				
Balance, beginning of period	1,970	1,930	2,248	1,930
Preferred stock issuance, net of issuance costs	—	1,122	—	1,122
Preferred stock redemption	—	—	(278)	—
Balance, end of period	**1,970**	**3,052**	**1,970**	**3,052**
Common stock par value	**9**	**9**	**9**	**9**
Common stock additional capital paid-in				
Balance, beginning of period	3,541	3,477	3,463	3,310
Forward contract on accelerated share repurchase agreement	(113)	—	(38)	150
Equity incentive plans activity	25	34	28	51
Balance, end of period	**3,453**	**3,511**	**3,453**	**3,511**
Retained income				
Balance, beginning of period	49,380	45,803	48,074	44,033
Cumulative effect of change in accounting principle	—	—	(88)	21
Net income	1,153	931	2,952	3,074
Dividends on common stock (declared per share of $0.54, $0.50, $1.62 and $1.50)	(170)	(165)	(513)	(498)
Dividends on preferred stock	(27)	(42)	(89)	(103)
Balance, end of period	**50,336**	**46,527**	**50,336**	**46,527**
Deferred ESOP expense	**—**	**(3)**	**—**	**(3)**
Treasury stock				
Balance, beginning of period	(30,542)	(28,500)	(29,746)	(28,085)
Shares acquired	(798)	(609)	(1,700)	(1,107)
Shares reissued under equity incentive plans, net	2	46	108	129
Balance, end of period	**(31,338)**	**(29,063)**	**(31,338)**	**(29,063)**
Accumulated other comprehensive income				
Balance, beginning of period	2,628	1,760	1,950	118
Change in unrealized net capital gains and losses	142	369	857	2,025
Change in unrealized foreign currency translation adjustments	25	(10)	(5)	(1)
Change in unamortized pension and other postretirement prior service credit	38	(12)	31	(35)
Balance, end of period	**2,833**	**2,107**	**2,833**	**2,107**
Total shareholders' equity	**$ 27,263**	**$ 26,140**	**$ 27,263**	**$ 26,140**

See notes to condensed consolidated financial statements.

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

($ in millions)	Nine months ended September 30, 2020	2019
Cash flows from operating activities		
Net income	$ 2,952	$ 3,074
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and other non-cash items	500	476
Realized capital (gains) losses	(682)	(1,183)
Pension and other postretirement remeasurement (gains) losses	320	365
Gain on disposition of operations	(3)	(3)
Interest credited to contractholder funds	482	487
Impairment of purchased intangibles	—	55
Changes in:		
Policy benefits and other insurance reserves	(73)	29
Unearned premiums	710	813
Deferred policy acquisition costs	(55)	(66)
Premium installment receivables, net	(153)	(392)
Reinsurance recoverables, net	121	167
Income taxes	(617)	254
Other operating assets and liabilities	670	(181)
Net cash provided by operating activities	**4,172**	**3,895**
Cash flows from investing activities		
Proceeds from sales		
Fixed income securities	25,567	23,075
Equity securities	7,544	3,735
Limited partnership interests	991	557
Other investments	209	279
Investment collections		
Fixed income securities	1,676	1,847
Mortgage loans	278	451
Other investments	158	203
Investment purchases		
Fixed income securities	(31,743)	(23,536)
Equity securities	(3,882)	(6,080)
Limited partnership interests	(796)	(989)
Mortgage loans	(197)	(475)
Other investments	(299)	(548)
Change in short-term and other investments, net	(515)	(1,443)
Purchases of property and equipment, net	(235)	(293)
Acquisition of operations	1	(18)
Net cash used in investing activities	**(1,243)**	**(3,235)**
Cash flows from financing activities		
Proceeds from issuance of long-term debt	—	491
Redemption and repayment of long-term debt	—	(317)
(Redemption) issuance of preferred stock	(288)	1,122
Contractholder fund deposits	749	751
Contractholder fund withdrawals	(1,151)	(1,278)
Dividends paid on common stock	(500)	(490)
Dividends paid on preferred stock	(82)	(92)
Treasury stock purchases	(1,737)	(936)
Shares reissued under equity incentive plans, net	54	98
Other	58	79
Net cash used in financing activities	**(2,897)**	**(572)**
Net increase in cash	**32**	**88**
Cash at beginning of period	338	499
Cash at end of period	**$ 370**	**$ 587**

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, 2020 and for the three and nine month periods ended September 30, 2020 and 2019 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, 2019. 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.

Recent development

The Novel Coronavirus Pandemic or COVID-19 ("Coronavirus") resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which have included the implementation of travel restrictions, government-imposed shelter-in-place orders, quarantine periods, social distancing, and restrictions on large gatherings, have caused material disruption to businesses globally, resulting in increased unemployment, a recession and increased economic uncertainty. Some of the restrictions implemented to contain the pandemic have been relaxed, but reduced economic activity, limits on large gatherings and events and higher unemployment continue. Additionally, there is no way of predicting with certainty how long the pandemic might last, including the potential for restrictions being restored or new restrictions being implemented that could result in further economic volatility.

Depending on its length and severity, the Coronavirus and the related containment actions may significantly affect the Company's results of operations, financial condition and liquidity, including sales of new and retention of existing policies, driving behavior and auto frequency, shared economy demand, severity costs, life insurance mortality and hospital and outpatient claim costs, annuity reserves, investment valuations and returns and increases in bad debt and credit allowance exposure.

The magnitude and duration of the global pandemic and the impact of actions taken by governmental authorities, businesses and consumers to mitigate health risks create significant uncertainty. The Company will continue to closely monitor and proactively adapt to developments and changing conditions. Currently, it is not possible to reliably estimate the length and severity of the pandemic or its impact to the Company's operations, but the effects could be material and may continue, emerge, evolve or accelerate into 2021.

Adopted accounting standard

Measurement of Credit Losses on Financial Instruments Effective January 1, 2020 the Company adopted new Financial Accounting Standards Board ("FASB") guidance related to the measurement of credit losses on financial instruments that primarily affected mortgage loans, bank loans and reinsurance recoverables.

Upon adoption of the guidance, the Company recorded a total allowance for expected credit losses of $289 million, pre-tax. After consideration of existing valuation allowances maintained prior to adopting the new guidance, the Company increased its valuation allowances for credit losses to conform to the new requirements which resulted in recognizing a cumulative effect decrease in retained income of $88 million, after-tax, at the date of adoption. The measurement of credit losses for available-for-sale fixed income 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 credit loss adjustment is recognized through a valuation allowance which may change over time but once recorded cannot subsequently be reduced to an amount below zero. Previously these credit loss adjustments were recorded as other-than-temporary impairments and were not reversed once recorded.

Changes to significant accounting policies

NEW *Measurement of credit losses* The Company carries an allowance for expected credit losses for all financial assets measured at amortized cost and considers past events, current conditions, and reasonable and supportable forecasts and reports the financial assets on the Condensed Consolidated Statements of Financial Position at amortized cost, net of credit loss allowances ("amortized cost, net"). The

Company also carries a credit loss allowance for fixed income securities where applicable and, when amortized cost is reported, it is net of credit loss allowances. For additional information, refer to the Investments, Reinsurance recoverables, Indemnification recoverables and Premium installment receivable topics of this section.

The Company also estimates a credit loss allowance for commitments to fund mortgage loans, bank loans and agent loans unless they are unconditionally cancellable by the Company. The related allowance is reported in other liabilities and accrued expenses.

Allowance for credit losses

($ in millions)	September 30, 2020	June 30, 2020	March 31, 2020	January 1, 2020
Fixed income securities	$ 8	$ 7	$ 4	$ —
Mortgage loans	85	86	85	45
Other investments				
Bank loans	61	76	79	53
Agent loans	5	5	5	5
Investments	**159**	**174**	**173**	**103**
Premium installment receivables	153	139	96	91
Reinsurance recoverables	75	74	74	74
Other assets	22	23	18	18
Assets	**409**	**410**	**361**	**286**
Commitments to fund mortgage loans, bank loans and agent loans	2	3	4	3
Liabilities	**2**	**3**	**4**	**3**
Total	**$ 411**	**$ 413**	**$ 365**	**$ 289**

Investments Fixed income securities include bonds, asset-backed securities (“ABS”) and mortgage-backed securities (“MBS”). MBS includes residential and commercial mortgage-backed securities. Fixed income securities, which may be sold prior to their contractual maturity, are designated as available-for-sale (“AFS”) and are carried at fair value. The difference between amortized cost, net and fair value, net of deferred income taxes and related life and annuity deferred policy acquisition costs (“DAC”), deferred sales inducement costs (“DSI”) and reserves for life-contingent contract benefits, is reflected as a component of AOCI. The Company excludes accrued interest receivable from the amortized cost basis of its AFS fixed income securities. Net investment income for AFS fixed income securities includes the impact of accreting the credit loss allowance for the time value of money.

Mortgage loans, bank loans and agent loans are carried at amortized cost, net, which represent the amount expected to be collected. The Company excludes accrued interest receivable from the amortized cost basis of its mortgage, bank and agent loans. Credit loss allowances are estimates of expected credit losses, established for loans upon origination or purchase, and are established considering all relevant information available, including past events, current conditions, and reasonable and supportable forecasts over the life of the loans. Loans are evaluated on a pooled basis when they share similar risk characteristics; otherwise, they are evaluated individually.

The changes in the credit loss allowances related to fixed income securities, mortgage loans, bank loans and agent loans are reported in realized capital gains and losses. Realized capital gains and losses on investment sales are determined on a specific identification basis and exclude credit losses already recognized through an allowance.

Reinsurance recoverables The Company evaluates reinsurer counterparty credit risk and records reinsurance recoverables net of credit loss allowances. The Company assesses counterparty credit risk for individual reinsurers separately when more relevant or on a pooled basis when shared risk characteristics exist. The evaluation considers the credit quality of the reinsurer and the period over which the recoverable balances are expected to be collected. The Company considers factors including past events, current conditions and reasonable and supportable forecasts in the development of the estimate of credit loss allowances.

Allowances for property and casualty and life reinsurance recoverables are established primarily through risk-based evaluations.

The property and casualty recoverable evaluation considers the credit rating of the reinsurer, the period over which the reinsurance recoverable balances are expected to be recovered and other relevant factors including historical experience of reinsurer failures. Reinsurers in liquidation or in default status are evaluated individually using the Company’s historical liquidation recovery assumptions and any other relevant information available including the most recent public information related to the financial condition or liquidation status of the reinsurer.

For life reinsurance recoverables, the Company uses a probability of default and loss given default model developed independently of the Company to estimate current expected credit losses. The life reinsurance recoverable evaluation utilizes factors including historical industry factors based on the probability of liquidation, and incorporates current loss given default factors reflective of the industry.

The Company monitors the credit ratings of reinsurer counterparties and evaluates the circumstances surrounding credit rating changes as inputs into its credit loss assessments. Uncollectible reinsurance recoverable balances are written off against the allowances when there is no reasonable expectation of recovery.

The changes in the allowances are reported in property and casualty insurance claims and claims expense and life contract benefits.

Indemnification recoverables The Company participates in various indemnification programs, including industry pools and facilities, which are reimbursement mechanisms that assess participating insurers for expected insured claims, reimburse participating insurers for qualifying paid claims and permit participating insurers to recoup amounts assessed directly from insureds. The amounts reported as indemnification recoverables include amounts paid and due from indemnitors as well as estimates of amounts expected to be recovered from indemnitors on insurance liabilities that have been incurred but not yet paid. The design and function of these indemnification programs does not result in the retention of insurance or reinsurance risk by the indemnitor. Based on the Company's evaluation of these programs on an individual basis, the establishment of credit loss allowances is not warranted at this time. The Company has not experienced any historical credit losses related to its indemnification programs. The Company continues to monitor these programs to determine whether any changes from historical experience have emerged or are expected to emerge or whether there have been any changes in the design or administration of the programs that would require establishment of credit loss allowances.

Premium installment receivables Premium installment receivables represent premiums written and not yet collected, net of the credit loss allowance for uncollectible premiums. These receivables are primarily outstanding for one year or less. The Company utilizes historical internal data including aging analyses to estimate allowances under current conditions and for the forecast period. The Company regularly evaluates and updates the data and adjusts its allowance as appropriate.

The increase in the provision for credit losses primarily related to customer enrollment in the Allstate Special Payment plan implemented in response to the Coronavirus, starting in March 2020.

Rollforward of credit loss allowance for premium installment receivables

($ in millions)	Three months ended September 30, 2020	Nine months ended September 30, 2020
Beginning balance	$ 139	$ 91
Increase in the provision for credit losses	65	201
Write-off of uncollectible premium installment receivable amounts	(51)	(139)
Ending balance	**$ 153**	**$ 153**

Pending accounting standards

Changes to the Disclosure Requirements for Defined Benefit Plans In August 2018, the FASB issued amendments to modify certain disclosure requirements for defined benefit plans. New disclosures include the weighted-average interest crediting rates for cash balance plans and other plans with interest crediting rates and explanations for significant gains and losses related to changes in the benefit obligation during the reporting period. Disclosures to be eliminated include amounts 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 the assumed health care cost trend rate on service and interest cost and on the accumulated benefit obligation. The amendments are effective for annual reporting periods beginning after December 15, 2020. The impacts of adoption are to the Company's disclosures only.

Accounting for Long-Duration Insurance Contracts In August 2018, the FASB issued guidance revising the accounting for certain long-duration insurance contracts. The new guidance introduces material changes to the measurement of the Company's reserves for traditional life, life-contingent immediate annuities and certain voluntary accident and health insurance products.

Under the new guidance, measurement assumptions, including those for mortality, morbidity and policy terminations, will be required to be reviewed and updated at least annually. The effect of updating measurement assumptions other than the discount rate are required to be measured on a retrospective basis and reported in net income. In addition, reserves 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. Current GAAP requires the measurement of reserves to utilize assumptions set at policy issuance unless updated current assumptions indicate that recorded reserves are deficient.

The new guidance also requires DAC and other capitalized balances currently amortized in proportion to premiums or gross profits to be amortized on a constant level basis over the expected term for all long-duration insurance contracts. DAC will not be subject to loss recognition testing but will be reduced when actual lapse experience exceeds expected experience. The new guidance will no longer require adjustments to DAC and DSI related to unrealized gains and losses on investment securities supporting the related business.

All market risk benefit product features will be measured at fair value with changes in fair value recorded in net income with the exception of changes in the fair value attributable to changes in the reporting entity's own credit risk, which are required to be recognized in OCI. Substantially all of the Company's market risk benefits relate to variable annuities that are reinsured, and therefore these impacts are not expected to be material to the Company.

The new guidance is effective for financial statements issued for reporting periods beginning after December 15, 2021, thereby requiring restatement of prior periods presented. Early adoption is permitted. The FASB decided to defer the effective date to periods beginning after December 15, 2022 and require restatement of only one prior period if early adoption is elected. The FASB decision is final but pending publication. The new guidance will be applied to affected contracts and DAC on the basis of existing carrying amounts at the earliest period presented or retrospectively using actual historical experience as of contract inception. The new guidance for market risk benefits is required to be adopted retrospectively.

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

Simplifications to the Accounting for Income Taxes In December 2019, the FASB issued amendments to simplify the accounting for income taxes. The amendments eliminate certain exceptions in the existing guidance including those related to intraperiod tax allocation and deferred tax liability recognition when a subsidiary meets the criteria to apply the equity method of accounting. The amendments require recognition of the effect of an enacted change in tax laws or rates in the interim period that includes the enactment date, provide an option to not allocate taxes to a legal entity that is not subject to tax as well as other minor changes. The amendments are effective for interim and annual reporting periods beginning after December 15, 2020. The new guidance specifies which amendments should be applied prospectively, retrospectively, or on a modified retrospective basis through a cumulative-effect adjustment to retained income as of the beginning of the year of adoption. The impact of adoption is not expected to be material to the Company's results of operations or financial position.

Note 2 Earnings per Common Share

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

For the Company, dilutive potential common shares consist of outstanding stock options and unvested non-participating restricted stock units and contingently issuable performance stock awards. The effect of dilutive potential common shares does not include the effect of options with an anti-dilutive effect on earnings per common share because their exercise prices exceed the average market price of Allstate common shares during the period or for which the unrecognized compensation cost would have an anti-dilutive effect.

Computation of basic and diluted earnings per common share

(In millions, except per share data)	Three months ended September 30, 2020	Three months ended September 30, 2019	Nine months ended September 30, 2020	Nine months ended September 30, 2019
Numerator:				
Net income	$ 1,153	$ 931	$ 2,952	$ 3,074
Less: Preferred stock dividends	27	42	89	103
Net income applicable to common shareholders	**$ 1,126**	**$ 889**	**$ 2,863**	**$ 2,971**
Denominator:				
Weighted average common shares outstanding	311.2	327.7	314.1	330.8
Effect of dilutive potential common shares:				
Stock options	1.6	3.4	2.3	3.2
Restricted stock units (non-participating) and performance stock awards	1.3	1.9	1.5	1.7
Weighted average common and dilutive potential common shares outstanding	**314.1**	**333.0**	**317.9**	**335.7**
Earnings per common share - Basic	$ 3.62	$ 2.71	$ 9.11	$ 8.98
Earnings per common share - Diluted	3.58	2.67	9.01	8.85
Anti-dilutive options excluded from diluted earnings per common share	4.2	1.8	3.0	3.7

Note 3 Acquisitions

iCracked On February 12, 2019, the Company acquired iCracked Inc. (“iCracked”) which offers on-site, on-demand repair services for smartphones and tablets in North America, supporting Allstate Protection Plans' (formerly known as SquareTrade) operations. In conjunction with the iCracked acquisition, the Company recorded goodwill of $17 million.

National General On July 7, 2020, the Company entered into a definitive agreement to acquire National General Holdings Corp. (“National General”), an insurance holding company serving customers through independent agents for property and casualty and accident and health products for approximately $4 billion in cash.

On September 30, 2020, National General's shareholders voted to approve the definitive agreement. The transaction is expected to close in early 2021, subject to regulatory approvals and other customary closing conditions.

National General shareholders will receive $32.00 per share in cash from the Company, plus closing dividends expected to be $2.50 per share, providing $34.50 in total value per share. The Company originally announced it would fund the acquisition by deploying $2.2 billion in combined cash resources at the Company and National General and issuing $1.5 billion of new senior debt. The Company continues to assess the optimal acquisition funding mix, and as a result, the final allocation between cash and senior debt may change. The Company expects to continue executing its current $3.00 billion share repurchase program.

National General provides personal and commercial automobile, homeowners, umbrella, recreational vehicle, motorcycle, lender-placed property, supplemental health and other niche insurance products. Upon completion of the transaction, this acquisition will increase the Company’s market share in personal property-liability and expand its independent agent distribution. In December 2019, the Company announced the combination of the Allstate Independent Agency and Encompass organizations. These businesses will be integrated into National General over time.

Note 4 Reportable Segments

Measuring segment profit or loss

The measure of segment profit or loss used in evaluating performance is underwriting income for the Allstate Protection and Discontinued Lines and Coverages segments and adjusted net income for the Service Businesses, Allstate Life, Allstate Benefits, Allstate Annuities, and Corporate and Other segments. A reconciliation of these measures to net income applicable to common shareholders is provided below.

Underwriting income is calculated as premiums earned and other revenue, less claims and claims expenses ("losses"), Shelter-in-Place Payback expense, amortization of DAC, operating costs and expenses, amortization of purchased intangibles and restructuring and related charges as determined using GAAP.

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

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

Reportable segments revenue information

($ in millions)	Three months ended September 30, 2020	Three months ended September 30, 2019	Nine months ended September 30, 2020	Nine months ended September 30, 2019
Property-Liability				
Insurance premiums				
Auto	$ 6,210	$ 6,080	$ 18,537	$ 18,045
Homeowners	2,073	1,997	6,164	5,890
Other personal lines	486	469	1,435	1,390
Commercial lines	183	236	560	645
Allstate Protection	8,952	8,782	26,696	25,970
Discontinued Lines and Coverages	—	—	—	—
Total Property-Liability insurance premiums	8,952	8,782	26,696	25,970
Other revenue	192	195	555	561
Net investment income	422	448	802	1,210
Realized capital gains (losses)	292	163	571	916
Total Property-Liability	**9,858**	**9,588**	**28,624**	**28,657**
Service Businesses				
Consumer product protection plans	236	163	661	461
Roadside assistance	48	57	143	183
Finance and insurance products	100	92	294	268
Intersegment premiums and service fees (1)	36	44	109	110
Other revenue (2)	52	47	155	142
Net investment income	12	11	33	30
Realized capital gains (losses)	14	4	9	21
Total Service Businesses	**498**	**418**	**1,404**	**1,215**
Allstate Life				
Traditional life insurance premiums	154	155	471	465
Accident and health insurance premiums	—	—	1	1
Interest-sensitive life insurance contract charges	176	176	530	535
Other revenue	28	31	84	91
Net investment income	123	128	374	380
Realized capital gains (losses)	9	5	(3)	1
Total Allstate Life	**490**	**495**	**1,457**	**1,473**
Allstate Benefits				
Traditional life insurance premiums	12	12	33	31
Accident and health insurance premiums	235	250	704	746
Interest-sensitive life insurance contract charges	40	29	95	86
Net investment income	18	21	58	61
Realized capital gains (losses)	3	2	—	8
Total Allstate Benefits	**308**	**314**	**890**	**932**
Allstate Annuities				
Fixed annuities contract charges	3	3	7	10
Net investment income	245	251	358	737
Realized capital gains (losses)	112	20	88	224
Total Allstate Annuities	**360**	**274**	**453**	**971**
Corporate and Other				
Net investment income	12	21	37	52
Realized capital gains (losses)	10	3	17	13
Total Corporate and Other	**22**	**24**	**54**	**65**
Intersegment eliminations (1)	(36)	(44)	(109)	(110)
Consolidated revenues	**$ 11,500**	**$ 11,069**	**$ 32,773**	**$ 33,203**

(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.

(2) Other revenue is primarily related to Allstate Identity Protection, Allstate Dealer Services, and Allstate Protection Plans.

Reportable segments financial performance

($ in millions)	Three months ended September 30, 2020	Three months ended September 30, 2019	Nine months ended September 30, 2020	Nine months ended September 30, 2019
Property-Liability				
Allstate Protection	$ 888	$ 836	$ 3,143	$ 1,909
Discontinued Lines and Coverages	(135)	(99)	(141)	(105)
Total underwriting income	**753**	**737**	**3,002**	**1,804**
Net investment income	422	448	802	1,210
Income tax expense on operations	(240)	(236)	(752)	(617)
Realized capital gains (losses), after-tax	230	127	447	724
Property-Liability net income applicable to common shareholders	**1,165**	**1,076**	**3,499**	**3,121**
Service Businesses				
Adjusted net income	40	8	115	35
Realized capital gains (losses), after-tax	11	4	7	17
Amortization of purchased intangibles, after-tax	(21)	(25)	(63)	(74)
Impairment of purchased intangibles, after-tax	—	—	—	(43)
Service Businesses net income (loss) applicable to common shareholders	**30**	**(13)**	**59**	**(65)**
Allstate Life				
Adjusted net (loss) income	(14)	44	138	185
Realized capital gains (losses), after-tax	6	4	(3)	—
Valuation changes on embedded derivatives not hedged, after-tax	(1)	(9)	(24)	(9)
DAC and DSI amortization related to realized capital gains and losses, after-tax	(4)	1	4	(2)
Allstate Life net (loss) income applicable to common shareholders	**(13)**	**40**	**115**	**174**
Allstate Benefits				
Adjusted net income	33	31	62	99
Realized capital gains (losses), after-tax	3	2	—	7
Allstate Benefits net income applicable to common shareholders	**36**	**33**	**62**	**106**
Allstate Annuities				
Adjusted net income (loss)	37	16	(213)	43
Realized capital gains (losses), after-tax	89	16	70	177
Valuation changes on embedded derivatives not hedged, after-tax	1	(1)	(3)	(6)
Premium deficiency for immediate annuities, after-tax (1)	(178)	—	(178)	—
Gain on disposition of operations, after-tax	—	—	2	2
Allstate Annuities net (loss) income applicable to common shareholders	**(51)**	**31**	**(322)**	**216**
Corporate and Other				
Adjusted net loss	(111)	(101)	(317)	(302)
Realized capital gains (losses), after-tax	7	2	13	10
Pension and other postretirement remeasurement gains (losses), after-tax	56	(179)	(253)	(289)
Curtailment gain, after-tax	7	—	7	—
Corporate and Other net loss applicable to common shareholders	**(41)**	**(278)**	**(550)**	**(581)**
Consolidated net income applicable to common shareholders	**$ 1,126**	**$ 889**	**$ 2,863**	**$ 2,971**

(1) Contract benefits increased by $225 million, pre-tax, for premium deficiency on immediate annuities with life contingencies due to updated investment and actuarial assumptions in the third quarter of 2020.

Note 5 Investments

Portfolio composition

($ in millions)	September 30, 2020	December 31, 2019
Fixed income securities, at fair value	$ 66,551	$ 59,044
Equity securities, at fair value	4,395	8,162
Mortgage loans, net	4,655	4,817
Limited partnership interests	7,232	8,078
Short-term investments, at fair value	4,559	4,256
Other, net	3,805	4,005
Total	**$ 91,197**	**$ 88,362**

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

($ in millions)	Amortized cost, net	Gross unrealized Gains	Gross unrealized Losses	Fair value
September 30, 2020				
U.S. government and agencies	$ 2,737	$ 114	$ (1)	$ 2,850
Municipal	8,948	769	(8)	9,709
Corporate	48,317	3,554	(194)	51,677
Foreign government	972	45	—	1,017
ABS	1,211	9	(14)	1,206
MBS	82	10	—	92
Total fixed income securities	**$ 62,267**	**$ 4,501**	**$ (217)**	**$ 66,551**
December 31, 2019				
U.S. government and agencies	$ 4,971	$ 141	$ (26)	$ 5,086
Municipal	8,080	551	(11)	8,620
Corporate	41,090	2,035	(47)	43,078
Foreign government	968	16	(5)	979
ABS	860	8	(6)	862
MBS	324	96	(1)	419
Total fixed income securities	**$ 56,293**	**$ 2,847**	**$ (96)**	**$ 59,044**

Scheduled maturities for fixed income securities

($ in millions)	September 30, 2020 Amortized cost, net	September 30, 2020 Fair value
Due in one year or less	$ 3,288	$ 3,333
Due after one year through five years	25,165	26,373
Due after five years through ten years	21,960	23,717
Due after ten years	10,561	11,830
	60,974	**65,253**
ABS and MBS	1,293	1,298
Total	**$ 62,267**	**$ 66,551**

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

Net investment income

($ in millions)	Three months ended September 30, 2020	Three months ended September 30, 2019	Nine months ended September 30, 2020	Nine months ended September 30, 2019
Fixed income securities	$ 541	$ 546	$ 1,597	$ 1,627
Equity securities	24	57	61	155
Mortgage loans	54	54	165	161
Limited partnership interests	200	197	(212)	460
Short-term investments	2	28	21	80
Other	59	66	184	196
Investment income, before expense	**880**	**948**	**1,816**	**2,679**
Investment expense	(48)	(68)	(154)	(209)
Net investment income	**$ 832**	**$ 880**	**$ 1,662**	**$ 2,470**

Realized capital gains (losses) by asset type

($ in millions)	Three months ended September 30, 2020	Three months ended September 30, 2019	Nine months ended September 30, 2020	Nine months ended September 30, 2019
Fixed income securities	$ 236	$ 147	$ 798	$ 290
Equity securities	202	40	(68)	771
Mortgage loans	1	—	(40)	—
Limited partnership interests	30	(18)	(53)	75
Derivatives	(34)	40	72	16
Other	5	(12)	(27)	31
Realized capital gains (losses)	**$ 440**	**$ 197**	**$ 682**	**$ 1,183**

Realized capital gains (losses) by transaction type

($ in millions)	Three months ended September 30, 2020	Three months ended September 30, 2019	Nine months ended September 30, 2020	Nine months ended September 30, 2019
Sales	$ 233	$ 147	$ 800	$ 359
Credit losses (1)	10	(14)	(79)	(43)
Valuation of equity investments (2)	231	24	(111)	851
Valuation and settlements of derivative instruments	(34)	40	72	16
Realized capital gains (losses)	**$ 440**	**$ 197**	**$ 682**	**$ 1,183**

(1) Due to the adoption of the measurement of credit losses on financial instruments accounting standard, prior period other-than-temporary impairment write-downs are now presented as credit losses.

(2) Includes valuation of equity securities and certain limited partnership interests where the underlying assets are predominately public equity securities.

Gross realized gains (losses) on sales of fixed income securities

($ in millions)	Three months ended September 30, 2020	Three months ended September 30, 2019	Nine months ended September 30, 2020	Nine months ended September 30, 2019
Gross realized gains	$ 251	$ 168	$ 1,011	$ 409
Gross realized losses	(13)	(20)	(203)	(107)

The following table presents the net pre-tax appreciation (decline) recognized in net income of equity securities and limited partnership interests carried at fair value that are still held as of September 30, 2020 and 2019, respectively.

Net appreciation (decline) recognized in net income

($ in millions)	Three months ended September 30, 2020	Three months ended September 30, 2019	Nine months ended September 30, 2020	Nine months ended September 30, 2019
Equity securities	$ 184	$ 107	$ 116	$ 736
Limited partnership interests carried at fair value	128	49	20	109
Total	**$ 312**	**$ 156**	**$ 136**	**$ 845**

Credit losses recognized in net income (1)

($ in millions)	Three months ended September 30, 2020	Three months ended September 30, 2019	Nine months ended September 30, 2020	Nine months ended September 30, 2019
Assets				
Fixed income securities:				
Municipal	$ —	$ —	$ (3)	$ —
Corporate	(1)	—	(2)	(7)
ABS	—	—	(2)	(3)
MBS	(1)	(1)	(3)	(2)
Total fixed income securities	**(2)**	**(1)**	**(10)**	**(12)**
Mortgage loans	1	—	(40)	—
Limited partnership interests	—	(1)	(10)	(4)
Other investments				
Bank loans	10	(11)	(20)	(26)
Agent loans	—	(1)	—	(1)
Total credit losses by asset type	**$ 9**	**$ (14)**	**$ (80)**	**$ (43)**
Liabilities				
Commitments to fund commercial mortgage loans, bank loans and agent loans	1	—	1	—
Total	**$ 10**	**$ (14)**	**$ (79)**	**$ (43)**

(1) Due to the adoption of the measurement of credit losses on financial instruments accounting standard, realized capital losses previously reported as other-than-temporary impairment write-downs are now presented as credit losses.

Unrealized net capital gains and losses included in AOCI

($ in millions)	Fair value	Gross unrealized Gains	Gross unrealized Losses	Unrealized net gains (losses)
September 30, 2020				
Fixed income securities	$ 66,551	$ 4,501	$ (217)	$ 4,284
Short-term investments	4,559	—	—	—
Derivative instruments	—	—	(3)	(3)
Equity method of accounting (“EMA”) limited partnerships (1)				(4)
Unrealized net capital gains and losses, pre-tax				**4,277**
Amounts recognized for:				
Insurance reserves (2)				(469)
DAC and DSI (3)				(326)
Amounts recognized				**(795)**
Deferred income taxes				(738)
Unrealized net capital gains and losses, after-tax				**$ 2,744**
December 31, 2019				
Fixed income securities	$ 59,044	$ 2,847	$ (96)	$ 2,751
Short-term investments	4,256	—	—	—
Derivative instruments	—	—	(3)	(3)
EMA limited partnerships				(4)
Unrealized net capital gains and losses, pre-tax				**2,744**
Amounts recognized for:				
Insurance reserves				(126)
DAC and DSI				(224)
Amounts recognized				**(350)**
Deferred income taxes				(507)
Unrealized net capital gains and losses, after-tax				**$ 1,887**

(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 annuity).

(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.

Change in unrealized net capital gains (losses)

($ in millions)	Nine months ended September 30, 2020
Fixed income securities	$ 1,533
Short-term investments	—
Derivative instruments	—
EMA limited partnerships	—
Total	**1,533**
Amounts recognized for:	
Insurance reserves	(343)
DAC and DSI	(102)
Amounts recognized	**(445)**
Deferred income taxes	(231)
Increase in unrealized net capital gains and losses, after-tax	**$ 857**

Carrying value for limited partnership interests

	September 30, 2020			December 31, 2019		
($ in millions)	EMA	Fair Value	Total	EMA	Fair Value	Total
Private equity	$ 4,180	$ 1,648	$ 5,828	$ 4,463	$ 1,668	$ 6,131
Real estate	997	120	1,117	899	142	1,041
Other (1)	287	—	287	902	4	906
Total	**$ 5,464**	**$ 1,768**	**$ 7,232**	**$ 6,264**	**$ 1,814**	**$ 8,078**

(1) Other consists of certain limited partnership interests where the underlying assets are predominately public equity securities.

Short-term investments Short-term investments, including money market funds, commercial paper, U.S. Treasury bills and other short-term investments, are carried at fair value. As of September 30, 2020 and December 31, 2019, the fair value of short-term investments totaled $4.56 billion and $4.26 billion, respectively.

Other investments Other investments primarily consist of bank loans, real estate, policy loans, agent loans and derivatives. Bank loans are primarily senior secured corporate loans and are carried at amortized cost, net. 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 amortized cost, net. Derivatives are carried at fair value.

Other investments by asset type

($ in millions)	September 30, 2020	December 31, 2019
Bank loans, net	$ 1,040	$ 1,204
Real estate	1,027	1,005
Policy loans	856	894
Agent loans, net	643	666
Derivatives and other	239	236
Total	**$ 3,805**	**$ 4,005**

Portfolio monitoring and credit losses

Fixed income securities The Company has a comprehensive portfolio monitoring process to identify and evaluate each fixed income security that may require a credit loss allowance.

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, any existing credit loss allowance would be written-off against the amortized cost basis of the asset along with any remaining unrealized losses, with incremental losses 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 based on the best estimate of future cash flows considering past events, current conditions and reasonable and supportable forecasts. The estimated future cash flows are discounted at the security's current effective rate and is compared to the amortized cost of the security.

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 is considered when developing the estimate of cash flows expected to be collected. That information generally includes, but is not limited to, the remaining payment terms of the security, prepayment speeds, the financial condition and future earnings potential of the issue or issuer, expected defaults, expected recoveries, the value of underlying collateral, origination vintage year, 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, 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 Company does not expect to receive cash flows sufficient to recover the entire amortized cost basis of the fixed income security, a credit loss allowance is recorded in earnings for the shortfall in expected cash flows; however, the amortized cost, net of the credit loss allowance, may not be lower than the fair value of the security. 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.

When a security is sold or otherwise disposed or when the security is deemed uncollectible and written off, the Company removes amounts previously recognized in the credit loss allowance. Recoveries after write-offs are recognized when received. Accrued interest excluded from the amortized cost of fixed income securities totaled $558 million as of September 30, 2020 and is reported within the accrued investment income line of the Condensed Consolidated Statements of Financial Position. The Company monitors accrued interest and writes off amounts when they are not expected to be received.

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 internally established thresholds. The process also includes the monitoring of other credit loss 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 credit losses using all reasonably available information relevant to the collectability or recovery of the security. Inherent in the Company's evaluation of credit losses 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 requires a credit loss allowance 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 extent to which the fair value has been less than amortized cost.

Rollforward of credit loss allowance for fixed income securities

($ in millions)	Three months ended September 30, 2020	Nine months ended September 30, 2020
Beginning balance	$ (7)	$ —
Credit losses on securities for which credit losses not previously reported	(1)	(10)
Net increases related to credit losses previously reported	(1)	—
Reduction of allowance related to sales	1	2
Ending balance [1]	**$ (8)**	**$ (8)**

[1] Allowance for fixed income securities as of September 30, 2020 comprised $3 million, $2 million, $2 million and $1 million of municipal bonds, corporate bonds, ABS and MBS, respectively.

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

($ in millions)	Less than 12 months: Number of issues	Less than 12 months: Fair value	Less than 12 months: Unrealized losses	12 months or more: Number of issues	12 months or more: Fair value	12 months or more: Unrealized losses	Total unrealized losses
September 30, 2020							
Fixed income securities							
U.S. government and agencies	17	$ 350	$ (1)	—	$ —	$ —	$ (1)
Municipal	246	511	(8)	—	—	—	(8)
Corporate	428	3,969	(155)	33	200	(39)	(194)
Foreign government	7	14	—	—	—	—	—
ABS	36	392	(7)	17	67	(7)	(14)
MBS	12	1	—	80	—	—	—
Total fixed income securities	**746**	**$ 5,237**	**$ (171)**	**130**	**$ 267**	**$ (46)**	**$ (217)**
Investment grade fixed income securities	508	$ 3,485	$ (63)	99	$ 119	$ (20)	$ (83)
Below investment grade fixed income securities	238	1,752	(108)	31	148	(26)	(134)
Total fixed income securities	**746**	**$ 5,237**	**$ (171)**	**130**	**$ 267**	**$ (46)**	**$ (217)**
December 31, 2019							
Fixed income securities							
U.S. government and agencies	31	$ 1,713	$ (26)	10	$ 26	$ —	$ (26)
Municipal	307	576	(9)	1	14	(2)	(11)
Corporate	186	1,392	(20)	65	485	(27)	(47)
Foreign government	55	412	(4)	6	102	(1)	(5)
ABS	36	193	(2)	23	160	(4)	(6)
MBS	27	15	—	123	14	(1)	(1)
Total fixed income securities	**642**	**$ 4,301**	**$ (61)**	**228**	**$ 801**	**$ (35)**	**$ (96)**
Investment grade fixed income securities	581	$ 3,878	$ (41)	185	$ 594	$ (20)	$ (61)
Below investment grade fixed income securities	61	423	(20)	43	207	(15)	(35)
Total fixed income securities	**642**	**$ 4,301**	**$ (61)**	**228**	**$ 801**	**$ (35)**	**$ (96)**

Gross unrealized losses by unrealized loss position and credit quality as of September 30, 2020

($ in millions)	Investment grade	Below investment grade	Total
Fixed income securities with unrealized loss position less than 20% of amortized cost, net [1] [2]	$ (66)	$ (70)	$ (136)
Fixed income securities with unrealized loss position greater than or equal to 20% of amortized cost, net [3] [4]	(17)	(64)	(81)
Total unrealized losses	**$ (83)**	**$ (134)**	**$ (217)**

(1) Below investment grade fixed income securities include $53 million that have been in an unrealized loss position for less than twelve months.

(2) Related to securities with an unrealized loss position less than 20% of amortized cost, net, the degree of which suggests that these securities do not pose a high risk of having credit losses.

(3) No below investment grade fixed income securities have been in an unrealized loss position for a period of twelve or more consecutive months.

(4) Evaluated based on factors such as discounted cash flows and the financial condition and near-term and long-term prospects of the issue or issuer and were determined to have adequate resources to fulfill contractual obligations.

Investment grade is defined as a security having a rating of Aaa, Aa, A or Baa from Moody's, a rating of AAA, AA, A or BBB from S&P Global Ratings ("S&P"), a comparable rating from another nationally recognized rating agency, or a comparable internal rating if an externally provided rating is not available. Market prices for certain securities may have credit spreads which imply higher or lower credit quality than the current third-party rating. Unrealized losses on investment grade securities are principally related to an increase in market yields which may include increased risk-free interest rates and/or wider credit spreads since the time of initial purchase. The unrealized losses are expected to reverse as the securities approach maturity.

ABS and MBS 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, 2020, 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.

Loans The Company establishes a credit loss allowance for mortgage loans, bank loans and agent loans when they are originated or purchased, and for unfunded commitments unless they are unconditionally cancellable by the Company. The Company uses a probability of default and loss given default model for mortgage loans and bank loans to estimate current expected credit losses that considers all relevant information available including past events, current conditions, and reasonable and supportable forecasts over the life of an asset. The Company also considers such factors as historical losses, expected prepayments and various economic factors. For mortgage loans the Company considers origination vintage year and property level information such as debt service coverage, property type, property location and collateral value. For bank loans the Company considers the credit rating of the borrower, credit spreads and type of loan. After the reasonable and supportable forecast period, the Company's model reverts to historical loss trends. Given the less complex and homogenous nature of agent loans, the Company estimates current expected credit losses using historical loss experience over the estimated life of the loans, adjusted for current conditions, reasonable and supportable forecasts and expected prepayments.

Loans are evaluated on a pooled basis when they share similar risk characteristics. The Company monitors loans through a quarterly credit monitoring process to determine when they no longer share similar risk characteristics and are to be evaluated individually when estimating credit losses.

Loans are written off against their corresponding allowances when there is no reasonable expectation of recovery. If a loan recovers after a write-off, the estimate of expected credit losses includes the expected recovery.

Accrual of income is suspended for loans that are in default or when full and timely collection of principal and interest payments is not probable. Accrued income receivable is monitored for recoverability and when not expected to be collected is written off through net investment income. Cash receipts on loans on non-accrual status are generally recorded as a reduction of amortized cost-basis of the loan.

Accrued interest is excluded from the amortized cost of loans and is reported within the accrued investment income line of the Condensed Consolidated Statements of Financial Position. As of September 30, 2020, accrued interest totaled $17 million, $4 million and $2 million for mortgage loans, bank loans and agent loans, respectively.

Mortgage loans When it is determined a mortgage loan shall be evaluated individually, the Company uses various methods to estimate credit losses on individual loans such as using collateral value less estimated costs to sell where applicable, including when foreclosure is probable or when repayment is expected to be provided substantially through the operation or sale of the collateral and the borrower is experiencing financial difficulty. When collateral value is used, the mortgage loans may not have a credit loss allowance when the fair value of the collateral exceeds the loan's amortized cost. An alternative approach may be utilized to estimate credit losses using the present value of the loan's expected future repayment cash flows discounted at the loan's current effective interest rate.

Individual loan credit loss allowances are adjusted for subsequent changes in the fair value of the collateral less costs to sell, when applicable, or present value of the loan's expected future repayment cash flows.

Debt service coverage ratio is considered a key credit quality indicator when mortgage loan credit loss allowances are estimated. Debt service coverage ratio represents the amount of estimated cash flow 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.

Mortgage loans amortized cost by debt service coverage ratio distribution and year of origination

($ in millions)	September 30, 2020							December 31, 2019
	2015 and prior	2016	2017	2018	2019	Current	Total	Total
Below 1.0	$ 42	$ 1	$ 33	$ —	$ —	$ —	$ 76	$ 56
1.0 - 1.25	131	27	36	110	49	40	393	225
1.26 - 1.50	513	41	166	207	317	6	1,250	1,237
Above 1.50	1,201	476	317	368	516	143	3,021	3,302
Amortized cost before allowance	**$ 1,887**	**$ 545**	**$ 552**	**$ 685**	**$ 882**	**$ 189**	**$ 4,740**	**$ 4,820**
Allowance (1)							(85)	(3)
Amortized cost, net							**$ 4,655**	**$ 4,817**

(1) Due to the adoption of the measurement of credit losses on financial instruments accounting standard, prior valuation allowance is now presented as an allowance for expected credit losses.

Mortgage loans with a debt service coverage ratio below 1.0 that are not considered impaired primarily relate to situations 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 factors such as additional collateral, escrow balances or borrower guarantees. Payments on all mortgage loans were current as of December 31, 2019 and September 30, 2020, which included short-term loan modifications executed in the second quarter of 2020 that granted temporary partial deferral of payments on $274 million of commercial mortgage loans related to impacts from the Coronavirus of which $7 million remain in effect as of September 30, 2020. Payments are expected to be recovered over a period of three to twelve months.

Rollforward of credit loss allowance for mortgage loans

($ in millions)	Three months ended September 30, 2020	Nine months ended September 30, 2020
Beginning balance	$ (86)	$ (3)
Cumulative effect of change in accounting principle	—	(42)
Net decreases (increases) related to credit losses	1	(40)
Ending balance	**$ (85)**	**$ (85)**

Bank loans When it is determined a bank loan shall be evaluated individually, the Company uses various methods to estimate credit losses on individual loans such as the present value of the loan's expected future repayment cash flows discounted at the loan's current effective interest rate.

Credit ratings of the borrower are considered a key credit quality indicator when bank loan credit loss allowances are estimated. The ratings are updated quarterly and are either received from a nationally recognized rating agency or a comparable internal rating is derived if an externally provided rating is not available. The year of origination is determined to be the year in which the asset is acquired.

Bank loans amortized cost by credit rating and year of origination

($ in millions)	September 30, 2020						
	2015 and prior	2016	2017	2018	2019	Current	Total
BBB	$ —	$ —	$ 9	$ 9	$ 14	$ 12	$ 44
BB	30	2	37	58	58	52	237
B	6	33	116	168	138	149	610
CCC and below	7	9	44	55	74	21	210
Amortized cost before allowance	**43**	**44**	**206**	**290**	**284**	**234**	**1,101**
Allowance							(61)
Amortized cost, net							**$ 1,040**

Rollforward of credit loss allowance for bank loans

($ in millions)	Three months ended September 30, 2020	Nine months ended September 30, 2020
Beginning balance	$ (76)	$ —
Cumulative effect of change in accounting principle	—	(53)
Net decreases (increases) related to credit losses	10	(20)
Reduction of allowance related to sales	5	7
Write-offs	—	5
Ending balance	**$ (61)**	**$ (61)**

Agent loans The Company also monitors agent loans to determine when they should be removed from the pool and assessed for credit losses individually by using internal credit risk grades that classify the loans into risk categories. The categorization is based on relevant information about the ability of borrowers to service their debt, such as historical payment experience, current business trends, cash flow coverage and collateral quality. Internal credit risk grades are updated annually or more frequently if conditions are warranted based on the Company's credit monitoring process.

As of September 30, 2020, 87% of agent loans balance represents the top three highest credit quality categories. The allowance for agent loans totaled $5 million as of September 30, 2020 and did not change from January 1, 2020.

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:

(1) 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.

(2) 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 mortgage loans, bank loans, agent loans and policy loans and are only included in the fair value hierarchy disclosure when the individual investment is reported at fair value.

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 inputs and valuation techniques for Level 2 and Level 3 assets and liabilities measured at fair value on a recurring basis

Level 2 measurements

- *Fixed income securities:*

  U.S. government and agencies, municipal, corporate - public and 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.

  Corporate - privately placed: Privately placed are 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.

  Corporate - privately placed also includes redeemable preferred stock that are valued using quoted prices for identical or similar assets in markets that are not active, contractual cash flows, benchmark yields, underlying stock prices and credit spreads.

  ABS and MBS: 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. Certain ABS are valued based on non-binding broker quotes whose inputs have been corroborated to be market observable. Residential MBS include prepayment speeds as a primary input for valuation.

- *Equity securities:* The primary inputs to the valuation include quoted prices or quoted net asset values for identical or similar assets in markets that are not active.

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

- *Other investments:* Free-standing exchange listed derivatives that are not actively traded are valued based on quoted prices for identical instruments in markets that are not active.

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

Level 3 measurements

- *Fixed income securities:*

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

Corporate - public and privately placed, ABS and MBS: Primarily valued based on non-binding broker quotes where the inputs have not been corroborated to be market observable. Other inputs for corporate fixed income securities 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.

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

Investments excluded from the fair value hierarchy

Limited partnerships carried at fair value, which do not have readily determinable fair values, use NAV provided by the investees and are excluded from the fair value hierarchy. These investments are generally not redeemable by the investees and generally cannot be sold without approval of the general partner. The Company receives distributions of income and proceeds from the liquidation of the underlying assets of the investees, which usually takes place in years 4-9 of the typical contractual life of 10-12 years. As of September 30, 2020, the Company has commitments to invest $388 million in these limited partnership interests.

Assets and liabilities measured at fair value

($ in millions)	September 30, 2020 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	$ 2,480	$ 370	$ —		$ 2,850
Municipal	—	9,640	69		9,709
Corporate - public	—	37,118	136		37,254
Corporate - privately placed	—	14,304	119		14,423
Foreign government	—	1,017	—		1,017
ABS	—	1,124	82		1,206
MBS	—	61	31		92
Total fixed income securities	**2,480**	**63,634**	**437**		**66,551**
Equity securities	3,647	360	388		4,395
Short-term investments	4,207	322	30		4,559
Other investments: Free-standing derivatives	—	157	—	$ (25)	132
Separate account assets	3,064	—	—		3,064
Other assets	1	—	—		1
Total recurring basis assets	**13,399**	**64,473**	**855**	**(25)**	**78,702**
Total assets at fair value	**$ 13,399**	**$ 64,473**	**$ 855**	**$ (25)**	**$ 78,702**
% of total assets at fair value	17.0%	81.9%	1.1%	— %	100.0%
Investments reported at NAV					1,768
Total					**$ 80,470**
Liabilities					
Contractholder funds: Derivatives embedded in life and annuity contracts	$ —	$ —	$ (497)		$ (497)
Other liabilities: Free-standing derivatives	—	(72)	—	$ 10	(62)
Total recurring basis liabilities	**$ —**	**$ (72)**	**$ (497)**	**$ 10**	**$ (559)**
% of total liabilities at fair value	—%	12.9%	88.9%	(1.8)%	100.0%

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
	December 31, 2019				
Assets					
Fixed income securities:					
U.S. government and agencies	$ 4,689	$ 397	$ —		$ 5,086
Municipal	—	8,558	62		8,620
Corporate - public	—	30,819	61		30,880
Corporate - privately placed	—	12,084	114		12,198
Foreign government	—	979	—		979
ABS	—	797	65		862
MBS	—	379	40		419
Total fixed income securities	**4,689**	**54,013**	**342**		**59,044**
Equity securities	7,407	384	371		8,162
Short-term investments	1,940	2,291	25		4,256
Other investments: Free-standing derivatives	—	180	—	$ (40)	140
Separate account assets	3,044	—	—		3,044
Other assets	1	—	—		1
Total recurring basis assets	**17,081**	**56,868**	**738**	**(40)**	**74,647**
Total assets at fair value	**$ 17,081**	**$ 56,868**	**$ 738**	**$ (40)**	**$ 74,647**
% of total assets at fair value	22.9%	76.2%	1.0%	(0.1)%	100.0%
Investments reported at NAV					1,814
Total					**$ 76,461**
Liabilities					
Contractholder funds: Derivatives embedded in life and annuity contracts	$ —	$ —	$ (462)		$ (462)
Other liabilities: Free-standing derivatives	—	(84)	—	$ 12	(72)
Total recurring basis liabilities	**$ —**	**$ (84)**	**$ (462)**	**$ 12**	**$ (534)**
% of total liabilities at fair value	—%	15.7%	86.5%	(2.2)%	100.0%

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

($ in millions)	Fair value	Valuation technique	Unobservable input	Range	Weighted average
September 30, 2020					
Derivatives embedded in life and annuity contracts – Equity-indexed and forward starting options	$ (459)	Stochastic cash flow model	Projected option cost	1.0 - 4.2%	2.76%
December 31, 2019					
Derivatives embedded in life and annuity contracts – Equity-indexed and forward starting options	$ (430)	Stochastic cash flow model	Projected option cost	1.0 - 4.2%	2.67%

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, 2020 and December 31, 2019, Level 3 fair value measurements of fixed income securities total $437 million and $342 million, respectively, and include $126 million and $50 million, respectively, of securities valued based on non-binding broker quotes where the inputs have not been corroborated to be market observable and $34 million and $36 million, respectively, of municipal fixed income securities that are not rated by third-party credit rating agencies. As the Company does not develop the Level 3 fair value unobservable inputs for these fixed income securities, they 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 month period ended September 30, 2020

($ in millions)	Balance as of June 30, 2020	Total gains (losses) included in: Net income	OCI	Transfers: Into Level 3	Out of Level 3	Purchases	Sales	Issues	Settlements	Balance as of September 30, 2020
Assets										
Fixed income securities:										
Municipal	$ 83	$ —	$ —	$ 20	$ (32)	$ —	$ (2)	$ —	$ —	$ 69
Corporate - public	67	—	9	—	—	70	(10)	—	—	136
Corporate - privately placed	126	—	—	—	(39)	35	(2)	—	(1)	119
ABS	50	—	1	—	(3)	58	(24)	—	—	82
MBS	45	—	—	—	—	—	—	—	(14)	31
Total fixed income securities	**371**	**—**	**10**	**20**	**(74)**	**163**	**(38)**	**—**	**(15)**	**437**
Equity securities	393	2	—	—	(1)	3	(9)	—	—	388
Short-term investments	10	—	—	—	—	20	—	—	—	30
Total recurring Level 3 assets	**774**	**2**	**10**	**20**	**(75)**	**186**	**(47)**	**—**	**(15)**	**855**
Liabilities										
Contractholder funds: Derivatives embedded in life and annuity contracts	(488)	(6)	—	—	—	—	—	(10)	7	(497)
Total recurring Level 3 liabilities	**$ (488)**	**$ (6)**	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**	**$ (10)**	**$ 7**	**$ (497)**

Total Level 3 gains (losses) included in net income for the three months ended September 30, 2020

	Net investment income	Realized capital gains (losses)	Life contract benefits	Interest credited to contractholder funds	Total
Components of net income	$ (2)	$ 4	$ 8	$ (14)	$ (4)

Rollforward of Level 3 assets and liabilities held at fair value during the nine month period ended September 30, 2020

($ in millions)	Balance as of December 31, 2019	Total gains (losses) included in: Net income	OCI	Transfers: Into Level 3	Out of Level 3	Purchases	Sales	Issues	Settlements	Balance as of September 30, 2020
Assets										
Fixed income securities:										
Municipal	$ 62	$ 1	$ 2	$ 20	$ (10)	$ —	$ (4)	$ —	$ (2)	$ 69
Corporate - public	61	(2)	1	1	—	76	—	—	(1)	136
Corporate - privately placed	114	2	(6)	11	(32)	37	(6)	—	(1)	119
ABS	65	(1)	(1)	51	(49)	72	(28)	—	(27)	82
MBS	40	1	(1)	—	—	10	(4)	—	(15)	31
Total fixed income securities	**342**	**1**	**(5)**	**83**	**(91)**	**195**	**(42)**	**—**	**(46)**	**437**
Equity securities	371	(15)	—	—	—	42	(10)	—	—	388
Short-term investments	25	—	—	—	(25)	30	—	—	—	30
Total recurring Level 3 assets	**738**	**(14)**	**(5)**	**83**	**(116)**	**267**	**(52)**	**—**	**(46)**	**855**
Liabilities										
Contractholder funds: Derivatives embedded in life and annuity contracts	(462)	(27)	—	—	—	—	—	(25)	17	(497)
Total recurring Level 3 liabilities	**$ (462)**	**$ (27)**	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**	**$ (25)**	**$ 17**	**$ (497)**

Total Level 3 gains (losses) included in net income for the nine months ended September 30, 2020

	Net investment income	Realized capital gains (losses)	Life contract benefits	Interest credited to contractholder funds	Total
Components of net income	$ (24)	$ 10	$ (6)	$ (21)	$ (41)

Rollforward of Level 3 assets and liabilities held at fair value during the three month period ended September 30, 2019

($ in millions)	Balance as of June 30, 2019	Total gains (losses) included in: Net income	OCI	Transfers: Into Level 3	Out of Level 3	Purchases	Sales	Issues	Settlements	Balance as of September 30, 2019
Assets										
Fixed income securities:										
Municipal	$ 63	$ —	$ 2	$ —	$ —	$ —	$ (1)	$ —	$ —	$ 64
Corporate - public	46	—	1	—	(7)	66	(2)	—	—	104
Corporate - privately placed	89	—	(1)	—	—	1	—	—	(2)	87
ABS	53	1	—	50	(35)	11	—	—	(2)	78
MBS	35	—	(1)	—	—	—	—	—	—	34
Total fixed income securities	**286**	**1**	**1**	**50**	**(42)**	**78**	**(3)**	**—**	**(4)**	**367**
Equity securities	319	11	—	—	—	55	—	—	—	385
Short-term investments	5	—	—	—	—	10	—	—	—	15
Free-standing derivatives, net	—	—	—	—	—	—	—	—	—	—
Total recurring Level 3 assets	**610**	**12**	**1**	**50**	**(42)**	**143**	**(3)**	**—**	**(4)**	**767**
Liabilities										
Contractholder funds: Derivatives embedded in life and annuity contracts	(437)	(14)	—	—	—	—	—	(9)	6	(454)
Total recurring Level 3 liabilities	**$ (437)**	**$ (14)**	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**	**$ (9)**	**$ 6**	**$ (454)**

Total Level 3 gains (losses) included in net income for the three months ended September 30, 2019

	Net investment income	Realized capital gains (losses)	Life contract benefits	Interest credited to contractholder funds	Total
Components of net income	$ 5	$ 7	$ (1)	$ (13)	$ (2)

Rollforward of Level 3 assets and liabilities held at fair value during the nine months period ended September 30, 2019

($ in millions)	Balance as of December 31, 2018	Total gains (losses) included in: Net income	OCI	Transfers: Into Level 3	Out of Level 3	Purchases	Sales	Issues	Settlements	Balance as of September 30, 2019
Assets										
Fixed income securities:										
Municipal	$ 70	$ —	$ 4	$ —	$ (5)	$ —	$ (4)	$ —	$ (1)	$ 64
Corporate - public	70	—	3	—	(47)	86	(7)	—	(1)	104
Corporate - privately placed	90	(1)	1	15	(2)	2	(13)	—	(5)	87
ABS	69	1	—	51	(150)	135	(22)	—	(6)	78
MBS	26	—	(1)	4	—	6	—	—	(1)	34
Total fixed income securities	**325**	**—**	**7**	**70**	**(204)**	**229**	**(46)**	**—**	**(14)**	**367**
Equity securities	341	49	—	—	—	77	(82)	—	—	385
Short-term investments	30	—	—	—	—	25	(40)	—	—	15
Free-standing derivatives, net	1	(1)	—	—	—	—	—	—	—	—
Total recurring Level 3 assets	**697**	**48**	**7**	**70**	**(204)**	**331**	**(168)**	**—**	**(14)**	**767**
Liabilities										
Contractholder funds: Derivatives embedded in life and annuity contracts	(224)	(54)	—	(175)	—	—	—	(9)	8	(454)
Total recurring Level 3 liabilities	**$ (224)**	**$ (54)**	**$ —**	**$ (175)**	**$ —**	**$ —**	**$ —**	**$ (9)**	**$ 8**	**$ (454)**

Total Level 3 gains (losses) included in net income for the nine months ended September 30, 2019

	Net investment income	Realized capital gains (losses)	Life contract benefits	Interest credited to contractholder funds	Total
Components of net income	$ 10	$ 38	$ 2	$ (56)	$ (6)

Transfers into Level 3 during the three and nine months ended September 30, 2020 and 2019 included situations where a quote was not provided by the Company's independent third-party valuation service provider and as a result the price was stale or had been replaced with a broker quote where the inputs had not been corroborated to be market observable resulting in the security being classified as Level 3. Transfers into Level 3 during 2019 also included derivatives embedded in equity-indexed universal life contracts due to refinements in the valuation modeling resulting in an increase in significance of non-market observable inputs.

Transfers out of Level 3 during the three and nine months ended September 30, 2020 and 2019 included situations where a broker quote was used in the prior period and a quote became available from the Company's independent third-party valuation service provider in the current period. A quote utilizing the new pricing source was not available as of the prior period, and any gains or losses related to the change in valuation source for individual securities were not significant.

Valuation changes included in net income and OCI for Level 3 assets and liabilities held as of September 30,

($ in millions)	Three months ended September 30, 2020	Three months ended September 30, 2019	Nine months ended September 30, 2020	Nine months ended September 30, 2019
Assets				
Fixed income securities:				
Municipal	$ —	$ —	$ 1	$ —
Corporate	1	—	—	—
Total fixed income securities	1	—	1	—
Equity securities	$ 2	$ 11	$ (16)	$ 25
Free-standing derivatives, net	—	—	—	(1)
Total recurring Level 3 assets	**$ 3**	**$ 11**	**$ (15)**	**$ 24**
Liabilities				
Contractholder funds: Derivatives embedded in life and annuity contracts	$ (6)	$ (14)	$ (27)	$ (54)
Total recurring Level 3 liabilities	**(6)**	**(14)**	**(27)**	**(54)**
Total included in net income	**$ (3)**	**$ (3)**	**$ (42)**	**$ (30)**
Components of net income				
Net investment income	$ (1)	$ 5	$ (24)	$ 10
Realized capital gains (losses)	4	6	9	14
Life contract benefits	8	(1)	(6)	2
Interest credited to contractholder funds	(14)	(13)	(21)	(56)
Total included in net income	**$ (3)**	**$ (3)**	**$ (42)**	**$ (30)**
Assets				
Municipal	$ —		$ 2	
Corporate - public	—		1	
Corporate - privately placed	1		(4)	
ABS	1		(1)	
Changes in unrealized net capital gains and losses reported in OCI [(1)]	**$ 2**		**$ (2)**	

[(1)] Effective January 1, 2020, the Company adopted the fair value accounting standard that prospectively requires the disclosure of valuation changes reported in OCI.

Financial instruments not carried at fair value

($ in millions)		September 30, 2020		December 31, 2019	
Financial assets	**Fair value level**	**Amortized cost, net**	**Fair value**	**Amortized cost, net**	**Fair value**
Mortgage loans	Level 3	$ 4,655	$ 4,966	$ 4,817	$ 5,012
Bank loans	Level 3	1,040	1,053	1,204	1,185
Agent loans	Level 3	643	643	666	664
Financial liabilities	**Fair value level**	**Carrying value** (1)	**Fair value**	**Carrying value** (1)	**Fair value**
Contractholder funds on investment contracts	Level 3	$ 7,940	$ 9,213	$ 8,438	$ 9,158
Long-term debt	Level 2	6,635	8,094	6,631	7,738
Liability for collateral	Level 2	1,521	1,521	1,829	1,829

(1) Represents the amounts reported on the Condensed Consolidated Statements of Financial Position.

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, options, or a foreign currency forward contract and one or more highly rated fixed income securities, primarily investment grade host bonds, to synthetically replicate the economic characteristics of one or more cash market securities. The Company replicates equity securities using futures, index total return swaps, and options to increase equity exposure.

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

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

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

When derivatives meet specific criteria, they may be designated as accounting hedges and accounted for as fair value, cash flow, foreign currency fair value or foreign currency cash flow hedges. The Company designates certain investment risk transfer reinsurance agreements as fair value hedges when the hedging instrument is highly effective in offsetting the risk of changes in the fair value of the hedged item. The fair value of the hedged liability is reported in contractholder funds in the Condensed Consolidated Statements of Financial Position. The impact from results of the fair value hedge is reported in interest credited to contractholder funds in the Condensed Consolidated Statements of Operations.

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

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

For those derivatives which qualify and have been designated as fair value accounting hedges, net income includes the changes in the fair value of both the derivative instrument and the hedged risk. 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, 2020

($ 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 designated as fair value accounting hedging instruments						
Other	Other assets	$ 3	n/a	$ —	$ —	$ —
Derivatives not designated as accounting hedging instruments						
Interest rate contracts						
Futures	Other assets	n/a	468	—	—	—
Equity and index contracts						
Options	Other investments	n/a	2,829	126	126	—
Futures	Other assets	n/a	963	1	1	—
Total return index contracts						
Total return swap agreements – equity index	Other investments	7	n/a	—	—	—
Foreign currency contracts						
Foreign currency forwards	Other investments	8	n/a	—	—	—
Credit default contracts						
Credit default swaps – buying protection	Other investments	25	n/a	—	—	—
Credit default swaps – selling protection	Other investments	750	n/a	6	6	—
Subtotal		**790**	**4,260**	**133**	**133**	**—**
Total asset derivatives		**$ 793**	**4,260**	**$ 133**	**$ 133**	**$ —**
Liability derivatives						
Derivatives not designated as accounting hedging instruments						
Interest rate contracts						
Interest rate cap agreements	Other liabilities & accrued expenses	$ 32	n/a	$ —	$ —	$ —
Futures	Other liabilities & accrued expenses	n/a	556	—	—	—
Equity and index contracts						
Options	Other liabilities & accrued expenses	n/a	2,662	(60)	—	(60)
Futures	Other liabilities & accrued expenses	n/a	700	—	—	—
Total return index contracts						
Total return swap agreements – fixed income	Other liabilities & accrued expenses	80	n/a	—	—	—
Foreign currency contracts						
Foreign currency forwards	Other liabilities & accrued expenses	720	n/a	17	24	(7)
Embedded derivative financial instruments						
Guaranteed accumulation benefits	Contractholder funds	133	n/a	(21)	—	(21)
Guaranteed withdrawal benefits	Contractholder funds	188	n/a	(17)	—	(17)
Equity-indexed and forward starting options in life and annuity product contracts	Contractholder funds	1,784	n/a	(459)	—	(459)
Credit default contracts						
Credit default swaps – buying protection	Other liabilities & accrued expenses	119	n/a	(4)	1	(5)
Credit default swaps – selling protection	Other liabilities & accrued expenses	9	n/a	—	—	—
Total liability derivatives		**3,065**	**3,918**	**(544)**	**$ 25**	**$ (569)**
Total derivatives		**$ 3,858**	**8,178**	**$ (411)**		

(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, 2019

($ in millions, except number of contracts)	Balance sheet location	Volume: Notional amount	Volume: Number of contracts	Fair value, net	Gross asset	Gross liability
Asset derivatives						
Derivatives designated as fair value accounting hedging instruments						
Other	Other assets	$ 2	n/a	$ —	$ —	$ —
Derivatives not designated as accounting hedging instruments						
Interest rate contracts						
Futures	Other assets	n/a	3,668	—	—	—
Equity and index contracts						
Options	Other investments	n/a	5,539	140	140	—
Futures	Other assets	n/a	1,533	1	1	—
Total return index contracts						
Total return swap agreements – fixed income	Other investments	56	n/a	1	1	—
Credit default contracts						
Credit default swaps – buying protection	Other investments	17	n/a	—	—	—
Subtotal		73	10,740	142	142	—
Total asset derivatives		**$ 75**	**10,740**	**$ 142**	**$ 142**	**$ —**
Liability derivatives						
Derivatives not designated as accounting hedging instruments						
Interest rate contracts						
Interest rate cap agreements	Other liabilities & accrued expenses	$ 34	n/a	$ —	$ —	$ —
Futures	Other liabilities & accrued expenses	n/a	1,089	—	—	—
Equity and index contracts						
Options	Other liabilities & accrued expenses	n/a	5,400	(68)	—	(68)
Futures	Other liabilities & accrued expenses	n/a	3	—	—	—
Total return index contracts						
Total return swap agreements – fixed income	Other liabilities & accrued expenses	119	n/a	—	—	—
Total return swap agreements – equity index	Other liabilities & accrued expenses	187	n/a	11	11	—
Foreign currency contracts						
Foreign currency forwards	Other liabilities & accrued expenses	745	n/a	19	28	(9)
Embedded derivative financial instruments						
Guaranteed accumulation benefits	Contractholder funds	161	n/a	(18)	—	(18)
Guaranteed withdrawal benefits	Contractholder funds	205	n/a	(14)	—	(14)
Equity-indexed and forward starting options in life and annuity product contracts	Contractholder funds	1,791	n/a	(430)	—	(430)
Credit default contracts						
Credit default swaps – buying protection	Other liabilities & accrued expenses	152	n/a	(7)	—	(7)
Credit default swaps – selling protection	Other liabilities & accrued expenses	9	n/a	—	—	—
Total liability derivatives		**3,403**	**6,492**	**(507)**	**$ 39**	**$ (546)**
Total derivatives		**$ 3,478**	**17,232**	**$ (365)**		

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, 2020						
Asset derivatives	$ 25	$ (25)	$ —	$ —	$ —	$ —
Liability derivatives	(12)	25	(15)	(2)	—	(2)
December 31, 2019						
Asset derivatives	$ 40	$ (39)	$ (1)	$ —	$ —	$ —
Liability derivatives	(16)	39	(27)	(4)	—	(4)

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

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

($ in millions)	Realized capital gains (losses)	Life contract benefits	Interest credited to contractholder funds	Operating costs and expenses	Total gain (loss) recognized in net income on derivatives
Three months ended September 30, 2020					
Interest rate contracts	$ —	$ —	$ —	$ —	$ —
Equity and index contracts	(10)	—	17	12	19
Embedded derivative financial instruments	—	8	(17)	—	(9)
Foreign currency contracts	(23)	—	—	—	(23)
Credit default contracts	(3)	—	—	—	(3)
Total return swaps - fixed income	2	—	—	—	2
Total return swaps - equity index	—	—	—	—	—
Total	**$ (34)**	**$ 8**	**$ —**	**$ 12**	**$ (14)**
Nine months ended September 30, 2020					
Interest rate contracts	$ 40	$ —	$ —	$ —	$ 40
Equity and index contracts	20	—	(1)	(2)	17
Embedded derivative financial instruments	—	(6)	(29)	—	(35)
Foreign currency contracts	8	—	—	—	8
Credit default contracts	1	—	—	—	1
Total return swaps - fixed income	—	—	—	—	—
Total return swaps - equity index	3	—	—	—	3
Total	**$ 72**	**$ (6)**	**$ (30)**	**$ (2)**	**$ 34**
Three months ended September 30, 2019					
Interest rate contracts	$ 32	$ —	$ —	$ —	$ 32
Equity and index contracts	(10)	—	4	(1)	(7)
Embedded derivative financial instruments	—	(1)	(16)	—	(17)
Foreign currency contracts	21	—	—	—	21
Credit default contracts	(1)	—	—	—	(1)
Total return swaps - fixed income	1	—	—	—	1
Total return swaps - equity index	(3)	—	—	—	(3)
Total	**$ 40**	**$ (1)**	**$ (12)**	**$ (1)**	**$ 26**
Nine months ended September 30, 2019					
Interest rate contracts	$ 58	$ —	$ —	$ —	$ 58
Equity and index contracts	(98)	—	46	25	(27)
Embedded derivative financial instruments	—	2	(57)	—	(55)
Foreign currency contracts	31	—	—	—	31
Credit default contracts	(6)	—	—	—	(6)
Total return swaps - fixed income	11	—	—	—	11
Total return swaps - equity index	20	—	—	—	20
Total	**$ 16**	**$ 2**	**$ (11)**	**$ 25**	**$ 32**

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, 2020, counterparties pledged $19 million in collateral to the Company, and the Company pledged $4 million in cash and securities to counterparties which includes $4 million of collateral posted under MNAs for contracts containing credit-risk-contingent provisions that are in a liability position.

The Company has not incurred any losses on derivative financial instruments due to counterparty nonperformance. Other derivatives, including futures and certain option contracts, are traded on organized exchanges which require margin deposits and guarantee the execution of trades, thereby mitigating any potential credit risk.

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

OTC derivatives counterparty credit exposure by counterparty credit rating

($ in millions)	September 30, 2020				December 31, 2019			
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)
A+	3	$ 347	$ 15	$ —	6	$ 868	$ 29	$ —
A	1	175	2	—	—	—	—	—
Total	**4**	**$ 522**	**$ 17**	**$ —**	**6**	**$ 868**	**$ 29**	**$ —**

(1) Allstate uses the lower of S&P's or Moody's long-term debt issuer ratings.

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

For certain exchange traded and cleared derivatives, margin deposits are required as well as daily cash settlements of margin accounts. As of September 30, 2020, the Company pledged $63 million and received $5 million in the form of margin deposits.

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 transactions contain credit-risk-contingent termination events and cross-default provisions. Credit-risk-contingent termination events allow the counterparties to terminate the derivative agreement or a specific trade on certain dates if AIC's 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.

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, 2020	December 31, 2019
Gross liability fair value of contracts containing credit-risk-contingent features	$ 12	$ 16
Gross asset fair value of contracts containing credit-risk-contingent features and subject to MNAs	(8)	(11)
Collateral posted under MNAs for contracts containing credit-risk-contingent features	(4)	(3)
Maximum amount of additional exposure for contracts with credit-risk-contingent features if all features were triggered concurrently	**$ —**	**$ 2**

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

	Notional amount						
($ in millions)	AAA	AA	A	BBB	BB and lower	Total	Fair value
September 30, 2020							
Single name							
Corporate debt	$ —	$ —	$ —	$ —	$ 9	$ 9	$ —
Index							
Corporate debt	6	12	156	492	84	750	6
Total	**$ 6**	**$ 12**	**$ 156**	**$ 492**	**$ 93**	**$ 759**	**$ 6**
December 31, 2019							
Single name							
Corporate debt	$ —	$ —	$ —	$ —	$ 9	$ 9	$ —
Total	**$ —**	**$ —**	**$ —**	**$ —**	**$ 9**	**$ 9**	**$ —**

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.

When the Company experiences changes in the mix or type of claims or changing claim settlement patterns, it may need to apply actuarial judgment in the determination and selection of development factors to be more reflective of the new trends. For example, the Coronavirus has had a significant impact on driving patterns and auto frequency that may lead to historical development trends being less predictive of future loss development. Generally, the initial reserves for a new accident year are established based on actual claim frequency and severity assumptions for different business segments, lines and coverages based on historical relationships to relevant inflation indicators. Reserves for prior accident years are statistically determined using several different actuarial estimation methods. Changes in auto claim frequency may result from changes in mix of business, the rate of distracted driving, miles driven or other macroeconomic factors. Changes in auto current year claim severity are generally influenced by inflation in the medical and auto repair sectors of the economy and the effectiveness and efficiency of claim practices. The Company mitigates these effects through various loss management programs. When such changes in claim data occur, actuarial judgment is used to determine appropriate development factors to establish reserves.

As part of the reserving process, the Company may also supplement its claims processes by utilizing third-party adjusters, appraisers, engineers, inspectors, and other professionals and information sources to assess and settle catastrophe and non-catastrophe related claims. The effects of inflation are implicitly considered in the reserving process.

Because reserves are estimates of unpaid portions of losses that have occurred, including incurred but not reported ("IBNR") losses, the establishment of appropriate reserves, including reserves for catastrophes, Discontinued Lines and Coverages and reinsurance and indemnification recoverables, is an inherently uncertain and complex process. The ultimate cost of losses may vary materially from recorded amounts, which are based on management's best estimates.

The highest degree of uncertainty is associated with reserves for losses incurred in the initial reporting period as it contains the greatest proportion of losses that have not been reported or settled. The Company also has uncertainty in the Discontinued Lines and Coverages reserves that are based on events long since passed and are complicated by lack of historical data, legal interpretations, unresolved legal issues and legislative intent based on establishment of facts.

The Company regularly updates its reserve estimates as new information becomes available and as events unfold that may affect the resolution of unsettled claims. Changes in prior year reserve estimates, which may be material, are reported in property and casualty insurance claims and claims expense in the Condensed Consolidated Statements of Operations in the period such changes are determined.

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

Allstate's reserves for asbestos claims were $844 million and $810 million, net of recoverables of $396 million and $362 million, as of September 30, 2020 and December 31, 2019, respectively. Reserves for environmental claims were $210 million and $179 million, net of recoverables of $43 million and $40 million, as of September 30, 2020 and December 31, 2019, respectively.

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

	Nine months ended September 30,	
($ in millions)	**2020**	**2019**
Balance as of January 1	$ 27,712	$ 27,423
Less recoverables (1)	(6,912)	(7,155)
Net balance as of January 1	**20,800**	**20,268**
Incurred claims and claims expense related to:		
Current year	17,075	18,345
Prior years	(440)	(118)
Total incurred	**16,635**	**18,227**
Claims and claims expense paid related to:		
Current year	(9,623)	(10,640)
Prior years	(6,714)	(6,872)
Total paid	**(16,337)**	**(17,512)**
Net balance as of September 30	21,098	20,983
Plus recoverables	6,889	7,093
Balance as of September 30	**$ 27,987**	**$ 28,076**

(1) Recoverables comprises reinsurance and indemnification recoverables.

Incurred claims and claims expense represents the sum of paid losses, claim adjustment expenses and reserve changes in the period. This expense included losses from catastrophes of $2.39 billion and $2.26 billion in the nine months ended September 30, 2020 and 2019, respectively, net of recoverables.

Catastrophes are an inherent risk of the property and casualty insurance business that have contributed to, and will continue to contribute to, material year-to-year fluctuations in the Company's results of operations and financial position.

Prior year reserve reestimates included in claims and claims expense (1)

($ in millions)	Nine months ended September 30, Non-catastrophe losses 2020	Non-catastrophe losses 2019	Catastrophe losses 2020	Catastrophe losses 2019	Total 2020	Total 2019
Auto	$ (60)	$ (302)	$ (41)	$ (9)	$ (101)	$ (311)
Homeowners	(19)	—	(421)	59	(440)	59
Other personal lines	(25)	13	(41)	4	(66)	17
Commercial lines	28	18	1	(1)	29	17
Discontinued Lines and Coverages (2)	139	103	—	—	139	103
Service Businesses	(1)	(3)	—	—	(1)	(3)
Total prior year reserve reestimates	**$ 62**	**$ (171)**	**$ (502)**	**$ 53**	**$ (440)**	**$ (118)**

(1) Favorable reserve reestimates are shown in parentheses.

(2) The Company's 2020 annual reserve review, using established industry and actuarial practices, resulted in unfavorable reestimates of $132 million.

In the third quarter of 2020, the Company recognized favorable prior year catastrophe reserve reestimates of $495 million, net of expenses and adjustments to reinsurance, related to two subrogation settlements, which is reflected as a reduction of claims and claims expense in the Condensed Consolidated Statement of Operations.

PG&E settlement On June 20, 2020, the United States Bankruptcy Court for the Northern District of California confirmed PG&E Corporation's and Pacific Gas and Electric Company's (together, "PG&E") Chapter 11 Plan of Reorganization. The Plan of Reorganization included an agreement to resolve insurance subrogation claims arising from the 2017 Northern California wildfires and the 2018 Camp Fire for $11 billion. Allstate was party to the agreement.

On July 1, 2020, PG&E emerged from Chapter 11 and funded the subrogation trust from which distributions will be made to the insurers. Insurers have five years from the effective date of the Plan of Reorganization to submit proof of paid losses to the trust prior to the final distribution.

Allstate recognized a favorable impact of $450 million. On July 24, 2020, the Company received an initial distribution from the trust representing approximately 80% of the expected recovery.

Southern California Edison settlement On September 14, 2020, Southern California Edison reached a $1.16 billion settlement agreement with insurance companies, resolving all insurance subrogation claims arising from the December 2017 Thomas and Koenigstein Wildfires and January 2018 Montecito Mudslides litigation. Allstate was party to the agreement and recognized a favorable impact of $45 million.

Note 9 Reinsurance and indemnification

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

($ in millions)	Three months ended September 30, 2020	Three months ended September 30, 2019	Nine months ended September 30, 2020	Nine months ended September 30, 2019
Property and casualty insurance premiums earned	$ (277)	$ (289)	$ (845)	$ (836)
Life premiums and contract charges	(62)	(68)	(173)	(200)

Effects of reinsurance ceded and indemnification programs 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, 2020	Three months ended September 30, 2019	Nine months ended September 30, 2020	Nine months ended September 30, 2019
Property and casualty insurance claims and claims expense [1] [2]	$ 128	$ (216)	$ (213)	$ (465)
Life contract benefits	15	(74)	(121)	(92)
Interest credited to contractholder funds	(7)	(6)	(19)	(14)

(1) In the three and nine months ended September 30, 2020, ceded claims and claims expense were reduced by approximately $330 million for amounts returned to reinsurers related to the PG&E subrogation recovery. See Note 8 for further information.

(2) Includes $195 million and $205 million of ceded losses related to the Michigan Catastrophic Claims Association ("MCCA") for the nine months ended September 30, 2020 and 2019, respectively. On May 30, 2019, the Governor of Michigan signed new legislation effective July 2, 2020 to reform Michigan's no-fault auto insurance system, including implementing mandated rate reductions that correspond to the level of personal injury protection coverage chosen by insureds. At this time it is not possible for the Company to know the full impact the reform will have on its claims and claims expense reserves and corresponding MCCA indemnification recoverables as not all components of reform will be implemented until 2023. For more detail on these changes see the Form 10-K for the year ended December 31, 2019.

Reinsurance and indemnification recoverables

Reinsurance and indemnification recoverables, net

($ in millions)	September 30, 2020	December 31, 2019
Property and casualty		
Paid and due from reinsurers and indemnitors	$ 94	$ 112
Unpaid losses estimated (including IBNR)	6,889	6,912
Total property and casualty	**$ 6,983**	**$ 7,024**
Annuities	**1,309**	**1,305**
Life insurance	**718**	**794**
Other	**87**	**88**
Total	**$ 9,097**	**$ 9,211**

Rollforward of credit loss allowance for reinsurance recoverables

($ in millions)	Three months ended September 30, 2020	Nine months ended September 30, 2020
Property and casualty [1] [2]		
Beginning balance	$ (59)	$ (60)
Decrease in the provision for credit losses	—	1
Ending balance	$ (59)	$ (59)
Annuities, life insurance and other		
Beginning balance	$ (15)	$ (14)
Increase in the provision for credit losses	(1)	(2)
Ending balance	**$ (16)**	**$ (16)**

(1) Primarily related to discontinued lines and coverages reinsurance ceded.

(2) Indemnification recoverables are considered collectible based on the industry pool and facility enabling legislation.

Allstate Life - Scottish Re (U.S.), Inc. The Company had $62 million and $70 million of life reinsurance recoverables, net of an allowance for estimated uncollectible amounts, related to Scottish Re (U.S.), Inc. as of September 30, 2020 and December 31, 2019. On December 14, 2018, the Delaware Insurance Commissioner placed Scottish Re (U.S.), Inc. under regulatory supervision. On March 6, 2019, the Chancery Court of the State of Delaware entered a Rehabilitation and Injunction Order in response to a petition filed by the Insurance Commissioner (the "Petition").

The Company joined in a joint motion filed on behalf of several affected parties asking the court to allow a specified amount of offsetting claim payments and losses against premiums remitted to Scottish Re (U.S.), Inc. The Company also filed a separate motion related to the reimbursement of claim payments where Scottish Re (U.S.), Inc. is also acting as administrator. The Court has not yet ruled on either of these motions. In the interim, the Company and several other affected parties have been permitted to exercise certain setoff rights while the parties address any potential disputes. On June 30, 2020, pursuant to the Petition, Scottish Re (U.S.), Inc. submitted a proposed Plan of Rehabilitation ("Plan") for consideration by the Court. On October 9, 2020, Scottish Re (U.S.), Inc. filed a proposed scheduling order that states it intends to file an amended Plan by March 1, 2021, with a hearing date to be determined on or after June 1, 2021. On October 23, 2020, an objection to the proposed Plan was filed based on an absence of a firm commitment from Scottish Re (U.S.), Inc. to produce timely responses to information requests. The Company continues to monitor Scottish Re (U.S.), Inc. for future developments and will reevaluate its allowance for uncollectible amounts as new information becomes available.

Note 10 Capital Structure

Redemption of preferred stock On January 15, 2020, the Company redeemed all 11,500 shares of its Fixed Rate Noncumulative Preferred Stock, Series A, par value $1.00 per share and liquidation preference $25,000 per share and the corresponding depositary shares. The total redemption payment was $288 million, using the proceeds from the issuance of the Fixed Rate Noncumulative Perpetual Preferred Stock, Series I, on November 8, 2019. In the first quarter of 2020, the Company recognized $10 million of original issuance costs in preferred stock dividends on the Condensed Consolidated Statements of Operations and Condensed Consolidated Statements of Shareholders' Equity as a result of the preferred stock redemption.

Note 11 Company Restructuring

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

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

The expenses related to these activities are included in the Condensed Consolidated Statements of Operations as restructuring and related charges and totaled $200 million and zero during the three months ended September 30, 2020 and 2019, respectively, and $219 million and $27 million during the nine months ended September 30, 2020 and 2019, respectively.

Restructuring expenses in 2020 are primarily due to a plan to optimize and simplify the Company's operating model and cost structure as part of the previously announced multi-year Transformative Growth Plan. In connection with the plan, the Company expects to incur restructuring and related charges totaling approximately $290 million, with $198 million recorded in the third quarter of 2020, primarily in the Allstate Protection segment, and the remainder to be recognized in future quarters. The Company expects these actions will be completed in 2021.

Employee costs of this program include severance and employee benefits primarily impacting claims, sales, service and support functions. Exit costs reflect real estate costs primarily related to accelerated amortization of right of use assets and related

leasehold improvements at facilities to be vacated.

Restructuring activity during the period

($ in millions)	Employee costs	Exit costs	Total liability
Restructuring liability as of December 31, 2019	$ 14	$ 8	$ 22
Expense incurred	196	22	218
Adjustments to liability	5	(4)	1
Payments and non-cash charges	(38)	(24)	(62)
Restructuring liability as of September 30, 2020	**$ 177**	**$ 2**	**$ 179**

As of September 30, 2020, the cumulative amount incurred to date for active programs related to employee severance, relocation benefits and exit expenses totaled $255 million for employee costs and $30 million for exit costs.

Note 12 Guarantees and Contingent Liabilities

Shared markets and state facility assessments

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

The Company routinely reviews its exposure to assessments from these plans, facilities and government programs. Underwriting results related to these arrangements, which tend to be adverse, have been immaterial to the Company's results of operations in the last two years. Because of the Company's participation, it may be exposed to losses that surpass the capitalization of these facilities and/or assessments from these facilities.

Guarantees

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.

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.

The aggregate liability balance related to all guarantees was not material as of September 30, 2020.

Regulation and compliance

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

Legal and regulatory proceedings and inquiries

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

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

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

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

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

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

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

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

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

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

The Company currently estimates that the aggregate range of reasonably possible loss in excess of the amount accrued, if any, for the disclosed matters where such an estimate is possible is zero to $85 million, pre-tax. This disclosure is not an indication of expected loss, if any. Under accounting guidance, an event is "reasonably possible" if "the chance of the future event or events occurring is more than remote but less than likely" and an event is "remote" if "the chance of the future event or events occurring is slight." This estimate is based upon currently available information and is subject to significant judgment and a variety of assumptions, and known and unknown uncertainties. The matters underlying the estimate will change from time to time, and actual results may vary significantly from the current estimate. The estimate does not include matters or losses for which an estimate is not possible. Therefore, this estimate represents an estimate of possible loss only for certain matters meeting these criteria. It does not represent the Company's maximum possible loss exposure. Information is provided below regarding the nature of all of the disclosed matters and, where specified, the amount, if any, of plaintiff claims associated with these loss contingencies.

Due to the complexity and scope of the matters disclosed in the "Claims related proceedings" and

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

Claims related proceedings The Company is managing various disputes in Florida that raise challenges to the Company's practices, processes, and procedures relating to claims for personal injury protection benefits under Florida auto policies. Medical providers continue to pursue litigation under various theories that challenge the amounts that the Company pays under the personal injury protection coverage, seeking additional benefit payments, as well as applicable interest, penalties and fees. There are two pending class actions, Pierce v. Allstate Insurance Company, et al. (Broward County, Fla. filed August 2013), the class settlement of which has received final approval, and Revival Chiropractic v. Allstate Insurance Company, et al. (M.D. Fla. filed January 2019), where the court denied class certification and the plaintiff has requested to file a renewed motion for class certification, as well as litigation involving individual plaintiffs. The Company is vigorously asserting both procedural and substantive defenses to lawsuits involving issues of unsettled Florida law.

The Company is defending putative class actions in various courts that raise challenges to the Company's depreciation practices in homeowner property claims. In these lawsuits, plaintiffs generally allege that, when calculating actual cash value, the costs of "non-materials" such as labor, general contractor's overhead and profit, and sales tax should not be subject to depreciation. The Company is currently defending the following lawsuits on this issue: Perry v. Allstate Indemnity Company, et al. (N.D. Ohio filed May 2016); Lado v. Allstate Vehicle and Property Insurance Company (S.D. Ohio filed March 2020); Maniaci v. Allstate Insurance Company (N.D. Ohio filed March 2020); Ferguson-Luke et al. v. Allstate Property and Casualty Insurance Company (N.D. Ohio filed April 2020); Brasher v. Allstate Indemnity Company (N.D. Ala. filed February 2018); Huey v. Allstate Vehicle and Property Insurance Company (N.D. Miss. filed October 2019); Floyd, et al. v. Allstate Indemnity Company et al. (D.S.C. filed January 2020); Clark v. Allstate Vehicle and Property Insurance Company (Circuit Court of Independence Co., Ark. filed February 2016); Thaxton v. Allstate Indemnity Company (Madison Co., Ill. filed July 2020); Hester v. Allstate Vehicle and Property Insurance Company (St. Clair Co., Ill. filed June 2020). The trial court denied class certification in Brasher, and plaintiff has moved for reconsideration of this ruling. No classes have been certified in any of the other matters.

Other proceedings The stockholder derivative actions described below are disclosed pursuant to SEC disclosure requirements for these types of matters. The putative class action alleging violations of the federal securities laws is disclosed because it involves similar allegations to those made in the stockholder derivative actions.

Biefeldt / IBEW Consolidated Action. Two separately filed stockholder derivative actions have been consolidated into a single proceeding that is pending in the Circuit Court for Cook County, Illinois, Chancery Division. The original complaint in the first-filed of those actions, *Biefeldt v. Wilson, et al.*, was filed on August 3, 2017, in that court by a plaintiff alleging that she is a stockholder of the Company. On June 29, 2018, the court granted defendants' motion to dismiss that complaint for failure to make a pre-suit demand on the Allstate Board but granted plaintiff permission to file an amended complaint. The original complaint in *IBEW Local No. 98 Pension Fund v. Wilson, et al.*, was filed on April 12, 2018, in the same court by another plaintiff alleging to be a stockholder of the Company. After the court issued its dismissal decision in the *Biefeldt* action, plaintiffs agreed to consolidate the two actions and filed a consolidated amended complaint naming as defendants the Company's chairman, president and chief executive officer, its former president, and certain present or former members of the board of directors. In that complaint, plaintiffs allege that the directors and officer defendants breached their fiduciary duties to the Company in connection with allegedly material misstatements or omissions concerning the Company's automobile insurance claim frequency statistics and the reasons for a claim frequency increase for Allstate brand auto insurance between October 2014 and August 3, 2015. The factual allegations are substantially similar to those at issue in *In re The Allstate Corp. Securities Litigation*. Plaintiffs further allege that a senior officer and several outside directors engaged in stock option exercises allegedly while in possession of material nonpublic information. Plaintiffs seek, on behalf of the Company, an unspecified amount of damages and various forms of equitable relief. Defendants moved to dismiss the consolidated complaint on September 24, 2018 for failure to make a demand on the Allstate Board. On May 14, 2019, the court granted defendants' motion to dismiss the complaint, but allowed plaintiffs leave to file a second consolidated amended complaint which they filed on September 17, 2019. Defendants moved to dismiss the complaint on November 1, 2019 for failure to make a demand on the Allstate Board. That motion is pending.

In *Sundquist v. Wilson, et al*., another plaintiff alleging to be a stockholder of the Company filed a stockholder derivative complaint in the United States District Court for the Northern District of Illinois on May 21, 2018. Plaintiff seeks, on behalf of the Company, an unspecified amount of damages and various forms of equitable relief. The complaint names as defendants the Company's chairman, president and chief executive officer, its former president, its former vice chairman, and certain present or former members of the board of directors.

The complaint alleges breaches of fiduciary duty based on allegations similar to those asserted in *In re The Allstate Corp. Securities Litigation* as well as state law “misappropriation” claims based on stock option transactions by the Company’s chairman, president and chief executive officer, its former vice chairman, and certain members of the board of directors. Defendants moved to dismiss and/or stay the complaint on August 7, 2018. On December 4, 2018, the court granted defendants’ motion and stayed the case pending the final resolution of the consolidated *Biefeldt/IBEW* matter.

Mims v. Wilson, et al., is an additional stockholder derivative action filed on February 12, 2020 in the United States District Court for the Northern District of Illinois. Plaintiff alleges that she previously made a demand on the Allstate board of directors and seeks, on behalf of the Company, an unspecified amount of damages and various forms of equitable relief. The complaint names as defendants the Company’s chairman, president and chief executive officer, its former president, its former vice chairman, and certain present or former members of the board of directors. The complaint alleges breaches of fiduciary duty and unjust enrichment based on allegations similar to those asserted in *In re The Allstate Corp. Securities Litigation*. On February 20, 2020, the Allstate board of directors appointed a special committee to investigate the allegations in plaintiff’s demand. The Company moved to dismiss the complaint on August 24, 2020 and briefing concluded on October 8, 2020.

In re The Allstate Corp. Securities Litigation is a certified class action filed on November 11, 2016 in the United States District Court for the Northern District of Illinois against the Company and two of its officers asserting claims under the federal securities laws. Plaintiffs allege that they purchased Allstate common stock during the class period and suffered damages as the result of the conduct alleged. Plaintiffs seek an unspecified amount of damages, costs, attorney’s fees, and other relief as the court deems appropriate. Plaintiffs allege that the Company and certain senior officers made allegedly material misstatements or omissions concerning claim frequency statistics and the reasons for a claim frequency increase for Allstate brand auto insurance between October 2014 and August 3, 2015.

Plaintiffs’ further allege that a senior officer engaged in stock option exercises during that time allegedly while in possession of material nonpublic information about Allstate brand auto insurance claim frequency. The Company, its chairman, president and chief executive officer, and its former president are the named defendants. After the court denied their motion to dismiss on February 27, 2018, defendants answered the complaint, denying plaintiffs’ allegations that there was any misstatement or omission or other misconduct. On June 22, 2018, plaintiffs filed their motion for class certification. The court allowed the lead plaintiffs to amend their complaint to add the City of Providence Employee Retirement System as a proposed class representative and on September 12, 2018, the amended complaint was filed. On March 26, 2019, the court granted plaintiffs’ motion for class certification and certified a class consisting of all persons who purchased Allstate common stock between October 29, 2014 and August 3, 2015. On April 9, 2019, defendants filed with the Seventh Circuit Court of Appeals a petition for permission to appeal this ruling pursuant to Federal Rule of Civil Procedure 23 (f) and the Court of Appeals granted that petition on April 25, 2019. On July 16, 2020, the Court of Appeals vacated the class certification order and remanded the matter for further consideration by the district court. Discovery in this matter concluded on October 5, 2020. The court will consider supplemental briefing on the issue of class certification; Allstate’s supplemental brief regarding class certification is due on October 28, 2020.

Note 13 Benefit Plans

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

($ in millions)	Three months ended September 30, 2020	Three months ended September 30, 2019	Nine months ended September 30, 2020	Nine months ended September 30, 2019
Pension benefits				
Service cost	$ 25	$ 30	$ 78	$ 86
Interest cost	49	58	161	185
Expected return on plan assets	(104)	(103)	(303)	(297)
Amortization of prior service credit	(14)	(14)	(42)	(42)
Curtailment loss	10	—	10	—
Costs and expenses	**(34)**	**(29)**	**(96)**	**(68)**
Remeasurement of projected benefit obligation	130	323	686	1,054
Remeasurement of plan assets	(202)	(136)	(391)	(752)
Remeasurement (gains) losses	**(72)**	**187**	**295**	**302**
Pension net (benefit) cost	**$ (106)**	**$ 158**	**$ 199**	**$ 234**
Postretirement benefits				
Service cost	$ 1	$ 2	$ 4	$ 6
Interest cost	2	4	8	11
Amortization of prior service credit	(1)	—	(3)	(2)
Curtailment gain	(8)	—	(8)	—
Costs and expenses	**(6)**	**6**	**1**	**15**
Remeasurement of projected benefit obligation	1	38	25	63
Remeasurement of plan assets	—	—	—	—
Remeasurement (gains) losses	**1**	**38**	**25**	**63**
Postretirement net (benefit) cost	**$ (5)**	**$ 44**	**$ 26**	**$ 78**
Pension and postretirement benefits				
Costs and expenses	**$ (40)**	**$ (23)**	**$ (95)**	**$ (53)**
Remeasurement (gains) losses	**(71)**	**225**	**320**	**365**
Total net (benefit) cost	**$ (111)**	**$ 202**	**$ 225**	**$ 312**

Differences between expected and actual returns on plan assets and changes in assumptions affect the Company's pension and other postretirement obligations, plan assets and expenses.

Pension and other postretirement service cost, interest cost, expected return on plan assets, amortization of prior service credit and curtailment gains (losses) are reported in property and casualty insurance claims and claims expense, operating costs and expenses, net investment income and (if applicable) restructuring and related charges on the Condensed Consolidated Statement of Operations.

Pension and postretirement benefits remeasurement gains and losses

($ in millions)	Three months ended September 30, 2020	Three months ended September 30, 2019	Nine months ended September 30, 2020	Nine months ended September 30, 2019
Remeasurement of projected benefit obligation (gains) losses:				
Discount rate	$ 57	$ 237	$ 454	$ 730
Other assumptions	74	124	257	387
Remeasurement of plan assets (gains) losses	(202)	(136)	(391)	(752)
Remeasurement (gains) losses	**$ (71)**	**$ 225**	**$ 320**	**$ 365**

Remeasurement gains for the third quarter of 2020 primarily related to favorable asset performance compared to the expected return on plan assets, partially offset by changes in actuarial assumptions and a decrease in the discount rate. Remeasurement losses for the first nine months of 2020 primarily related to a decrease in the discount rate and changes in actuarial assumptions, partially offset by favorable asset performance compared to the expected return on plan assets.

The weighted average discount rate used to measure the benefit obligation decreased to 2.65% at September 30, 2020 compared to 2.74% at June 30, 2020, 3.37% at March 31, 2020 and 3.31% at December 31, 2019 resulting in losses for the third quarter and first nine months of 2020.

Remeasurement losses for other assumptions in the third quarter of 2020 are primarily due to changes in the estimated percentage of employees taking lump sum distributions due to changes in the interest rate. Remeasurement losses for the first nine months of 2020 primarily related to a decrease in lump sum interest rates and changes in the estimated percentage of employees taking lump sum distributions.

For the third quarter of 2020, the actual return on plan assets was higher than the expected return due to tightening of credit spreads which increased the fair value of fixed income investments and improved public equity market performance. For the first nine months of 2020, the actual return on plan assets was higher than the expected return primarily due to a decline in interest rates.

Note 14 Supplemental Cash Flow Information

Non-cash investing activities include $46 million and $187 million related to mergers and exchanges completed with equity securities, fixed income securities and limited partnerships, and modifications of other investments for the nine months ended September 30, 2020 and 2019, respectively.

Non-cash financing activities include $56 million and $48 million related to the issuance of Allstate common shares for vested equity awards for the nine months ended September 30, 2020 and 2019, respectively.

Cash flows used in operating activities in the Condensed Consolidated Statements of Cash Flows include cash paid for operating leases related to amounts included in the measurement of lease liabilities of $118 million and $115 million for the nine months ended September 30, 2020 and 2019, respectively. Non-cash operating activities include $47 million and $534 million related to right-of-use ("ROU") assets obtained in exchange for lease obligations for the nine months ended September 30, 2020 and 2019, respectively. Non-cash operating activities related to ROU assets obtained in exchange for lease obligations for the nine months ended September 30, 2019 include the impact of $488 million related to the adoption of the accounting for leases standard.

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

	Nine months ended September 30,	
($ in millions)	2020	2019
Net change in proceeds managed		
Net change in fixed income securities	$ —	$ 80
Net change in short-term investments	314	(709)
Operating cash flow provided (used)	**$ 314**	**$ (629)**
Net change in cash	(6)	—
Net change in proceeds managed	**$ 308**	**$ (629)**
Cash flows from operating activities		
Net change in liabilities		
Liabilities for collateral, beginning of period	$ (1,829)	$ (1,458)
Liabilities for collateral, end of period	(1,521)	(2,087)
Operating cash flow (used) provided	**$ (308)**	**$ 629**

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, 2020 Pre-tax	2020 Tax	2020 After-tax	2019 Pre-tax	2019 Tax	2019 After-tax
Unrealized net holding gains and losses arising during the period, net of related offsets	$ 414	$ (88)	$ 326	$ 603	$ (127)	$ 476
Less: reclassification adjustment of realized capital gains and losses	233	(49)	184	136	(29)	107
Unrealized net capital gains and losses	**181**	**(39)**	**142**	**467**	**(98)**	**369**
Unrealized foreign currency translation adjustments	**32**	**(7)**	**25**	**(12)**	**2**	**(10)**
Unamortized pension and other postretirement prior service credit [(1)]	**48**	**(10)**	**38**	**(15)**	**3**	**(12)**
Other comprehensive income (loss)	**$ 261**	**$ (56)**	**$ 205**	**$ 440**	**$ (93)**	**$ 347**

($ in millions)	Nine months ended September 30, 2020 Pre-tax	2020 Tax	2020 After-tax	2019 Pre-tax	2019 Tax	2019 After-tax
Unrealized net holding gains and losses arising during the period, net of related offsets	$ 1,777	$ (376)	$ 1,401	$ 2,811	$ (593)	$ 2,218
Less: reclassification adjustment of realized capital gains and losses	689	(145)	544	244	(51)	193
Unrealized net capital gains and losses	**1,088**	**(231)**	**857**	**2,567**	**(542)**	**2,025**
Unrealized foreign currency translation adjustments	**(6)**	**1**	**(5)**	**(1)**	**—**	**(1)**
Unamortized pension and other postretirement prior service credit [(1)]	**40**	**(9)**	**31**	**(44)**	**9**	**(35)**
Other comprehensive income (loss)	**$ 1,122**	**$ (239)**	**$ 883**	**$ 2,522**	**$ (533)**	**$ 1,989**

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

Report of Independent Registered Public Accounting Firm

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

Results of Review of Interim Financial Information

We have reviewed the accompanying condensed consolidated statement of financial position of The Allstate Corporation and subsidiaries (the "Company") as of September 30, 2020, the related condensed consolidated statements of operations, comprehensive income and shareholders' equity for the three and nine month periods ended September 30, 2020 and 2019, and cash flows for the nine month periods ended September 30, 2020 and 2019, 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, 2019, 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 21, 2020, we expressed an unqualified opinion on those consolidated financial statements (which report expresses an unmodified opinion and includes an emphasis of a matter paragraph relating to the change in principles of accounting for recognizing pension and other postretirement benefit plan costs and the change in the presentation and method of accounting for the recognition and measurement of financial assets and financial liabilities). In our opinion, the information set forth in the accompanying condensed consolidated statement of financial position as of December 31, 2019 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.

/s/ DELOITTE & TOUCHE LLP

Chicago, Illinois
November 4, 2020

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

The following discussion highlights significant factors influencing the consolidated financial position and results of operations of The Allstate Corporation (referred to in this document as "we," "our," "us," the "Company" or "Allstate"). It should be read in conjunction with the condensed consolidated financial statements and related 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 2019, filed February 21, 2020.

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

The Novel Coronavirus Pandemic or COVID-19 ("Coronavirus")

The Coronavirus resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which have included the implementation of travel restrictions, government-imposed shelter-in-place orders, quarantine periods, social distancing, and restrictions on large gatherings, have caused material disruption to businesses globally, resulting in increased unemployment, a recession and increased economic uncertainty. Some of the restrictions implemented to contain the pandemic have been relaxed, but reduced economic activity, limits on large gatherings and events and higher unemployment continue. Additionally, there is no way of predicting with certainty how long the pandemic might last, including the potential for restrictions being restored or new restrictions being implemented that could result in further economic volatility.

We have been proactive in protecting the health and safety of our employees and agents, while delivering on our commitment to protect our customers, including the use of virtual tools to allow for safe claims handling. We executed business continuity plans, maximized work from home, developed exposure escalation protocols and a return to office framework.

Depending on its length and severity, the Coronavirus and the related containment actions may significantly affect our results of operations, financial condition and liquidity, including sales of new and retention of existing policies, driving behavior and auto frequency, shared economy demand, severity costs, life insurance mortality and hospital and outpatient claim costs, annuity reserves, investment valuations and returns and increases in bad debt and credit allowance exposure.

The magnitude and duration of the global pandemic and the impact of actions taken by governmental authorities, businesses and consumers to mitigate health risks create significant uncertainty. We will continue to closely monitor and proactively adapt to developments and changing conditions. Currently, it is not possible to reliably estimate the length and severity of the pandemic or its impact to our operations, but the effects could be material.

A pandemic such as the Coronavirus and its impacts were contemplated in the risk factors set forth under "Item 1A. Risks Factors'' in our Annual Report on Form 10-K for the year ended December 31, 2019, including the risk factors titled "A large-scale pandemic, the occurrence of terrorism or military actions may have an adverse effect on our business" and "Conditions in the global economy and capital markets could adversely affect our business and results of operations".

We have continued to support our customers during the Coronavirus pandemic as we:

- Provided our Shelter-in-Place Payback of over $948 million to customers through June 30, 2020, as the significant decline in the number of auto accidents contributed favorably to our underwriting results
- Offered the Allstate Special Payment plan to provide more flexible payment options, including the option to delay payments
- Extended auto insurance coverage to customers using their personal vehicles to deliver food, medicine and other goods for commercial purposes; coverage for these activities is typically excluded
- Offered free Allstate Identity Protection to U.S. residents through December 31, 2020, regardless of whether they were already Allstate customers
- Increased the utilization of virtual tools such as QuickFoto Claim® and Virtual Assist® to allow for a simple, fast and safe claims handling process for customers and our employees

The following sections summarize the potential impacts of the Coronavirus on our operations, each of our segments and investments that may continue, emerge, evolve or accelerate into 2021. This list is not inclusive of all potential impacts and should not be treated as such. Within the MD&A we have included further disclosures related to the impacts of the Coronavirus on our third quarter and first nine months of 2020 results.

Allstate's operations

- Employee availability and productivity
- Increased regulatory restrictions on profitability, rate actions or claim practices, potentially outside the scope of current policies
- Availability and performance of third party vendors, including technology development, car or home repair and marketing programs
- Cybersecurity risks related to remote workforce

Allstate Protection

- Declines in auto new issued applications due to lower car sales and reductions in consumer shopping for insurance
- Slower written premiums growth due to decreased consumer demand
- Fewer filings for rate increases
- Lower miles and usage in shared economy products
- Lower auto accident frequency from reduced miles driven
- More competitive new business pricing
- Expanding the availability of our pay-per-mile insurance product, Milewise®
- Increased auto claim severity due to more severe accidents or higher replacement parts inflation
- Increased exposure to allowances for uncollectible receivables
- Validity of statistical models given changes in underlying statistics such as auto frequency or investment projections
- Agent availability and productivity

Service Businesses

- Volatility in consumer spending and retail sales resulting from shelter-in-place orders and increasing unemployment
- Reduced demand for Allstate Dealer Services products due to lower new and used car sales
- Decline in claims in Allstate Dealer Services and Allstate Roadside Services due to lower miles driven
- Decreased sales of Allstate Identity Protection products due to higher unemployment
- Increased costs from Allstate Identity Protection providing free identity protection to consumers through the end of the year

Allstate Life

- Higher death benefit costs
- Decline in sales due to temporary underwriting restrictions placed on new business; agents will be able to offer coverage to customers outside the new guidelines through non-proprietary carriers
- Statutory reserving requirements could be increased due to low interest rates, which could affect the amount of capital required to be maintained by our insurance companies

Allstate Benefits

- Decreased sports related and accident injury claims and deferral of non-essential medical procedures, reducing accident, hospital and critical illness product exposure, partially offset by increased claim cost exposure for our life products
- Decreased sales and increased policy lapses due to higher employee turnover, business closures and employee layoffs and furloughs

Allstate Annuities

- Lower performance-based investment income
- Higher reserves released on death of the insured for life-contingent immediate annuities, which lowers contract benefits
- Statutory reserving requirements could be increased due to low interest rates, which could affect the amount of capital required to be maintained by our insurance companies

Investments

- Impact on the market values, liquidity and valuations of fixed income securities, equity securities and performance-based investments as well as changes in the expected pace of funding performance-based and loan commitments
- Negative impact on fixed income securities in certain sectors such as energy, automotive, retail, travel, lodging and airlines
- State and local government budgets may be strained by the costs of responding to the Coronavirus and reduced tax revenues from lower economic activity which may have an adverse impact on valuations and returns of our municipal bond portfolio
- Volatility in future investment results due to capital market conditions, including the pace of economic recovery, effectiveness of the fiscal and monetary policy responses and uncertainty resulting from the ongoing pandemic
- Higher expected credit losses

Operating Priorities

To achieve our goals in 2020, we are focused on the following priorities:

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

Corporate Strategy

The Company's strategy is to increase market share in personal property-liability and expand the protection offerings to customers.

Transformative Growth Plan ("TGP") We have initiated a multi-year TGP to achieve our corporate strategy. The plan has three components: expand customer access, improve the customer value proposition and invest in marketing and technology.

To expand customer access, substantially all of Esurance and Allstate's direct operations were combined in the third quarter of 2020. Historical results have been updated with Esurance and Allstate results combined. We continue to execute this plan as we manage through the impacts from the Coronavirus.

A key element to improving customer value is to lower costs to support more affordable prices. During the third quarter of 2020, we approved restructuring plans to optimize and simplify our operating model and cost structure. See Note 11 of the condensed consolidated financial statements for further information.

We also launched a new advertising campaign to support our strategy and are piloting new agency sales models.

Enhancing Strategic Position in the Independent Agent Channel On July 7, 2020, we announced a definitive agreement to acquire National General Holdings Corp. ("National General"), an insurance holding company serving customers through independent agents for property and casualty and accident and health products for approximately $4 billion in cash.

National General had $5.6 billion of gross written premiums in 2019 and provides personal and commercial automobile, homeowners, umbrella, recreational vehicle, motorcycle, lender-placed property, supplemental health and other insurance products. Auto insurance represents approximately 60% of premium with a significant presence in the non-standard auto market.

In December 2019, we announced the combination of the Allstate Independent Agency and Encompass organizations to gain efficiencies and expand our presence in the independent agency channel. Upon completion of the transaction, these businesses will be integrated into National General over time, which will generate cost synergies.

The transaction will increase our market share in personal property-liability by over one percentage point. It will significantly expand our distribution footprint, leading us to be a top five personal lines carrier in the independent agency distribution channel.

The transaction is expected to close in early 2021, subject to regulatory approvals and other customary closing conditions. See Note 3 of the condensed consolidated financial statements for further information.

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

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

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

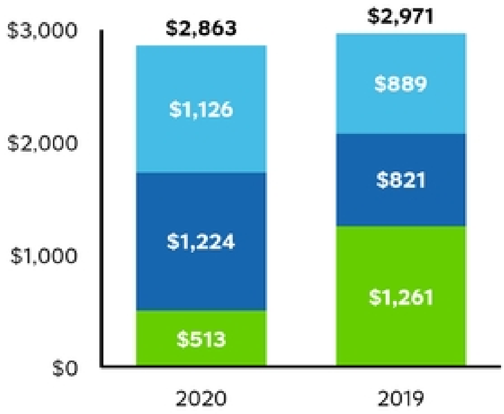
Adjusted net income is reconciled to net income applicable to common shareholders in the Service Businesses, Allstate Life, Allstate Benefits and Allstate Annuities Segment sections of MD&A.

Highlights

Consolidated net income

($ in millions)

Q1 Q2 Q3



Consolidated net income applicable to common shareholders increased 26.7% to $1.13 billion in the third quarter of 2020 compared to the same period of 2019 primarily due to pension and other postretirement gains in 2020 compared to losses in 2019, higher net realized capital gains and higher Allstate Protection premiums earned, partially offset by higher catastrophe losses, life and annuity contract benefits and restructuring charges related to the TGP.

Consolidated net income applicable to common shareholders decreased 3.6% to $2.86 billion in first nine months of 2020 compared to the same period of 2019 primarily due to Shelter-in-Place Payback, lower net investment income and lower net realized capital gains, partially offset by higher Allstate Protection underwriting income and higher Service Businesses adjusted net income.

For the twelve months ended September 30, 2020, return on common shareholders' equity was 18.9%, an increase of 8.2 points from 10.7% for the twelve months ended September 30, 2019.

Total revenue

($ in millions)

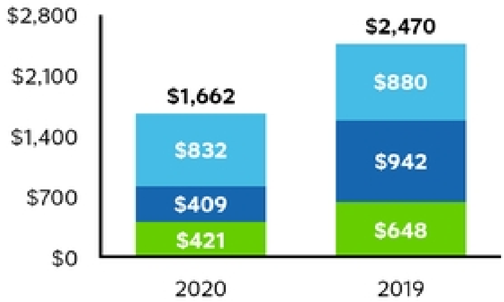
Total revenue increased 3.9% to $11.50 billion in the third quarter of 2020 compared to the same period of 2019, driven by higher net realized capital gains and a 2.7% increase in property and casualty insurance premiums earned, partially offset by lower net investment income.

Total revenue decreased 1.3% to $32.77 billion in the first nine months of 2020 compared to the same period of 2019, driven by lower net investment income and lower realized capital gains, partially offset by a 3.4% increase in property and casualty insurance premiums earned.

Insurance premiums earned increased in Allstate brand and Service Businesses (Allstate Protection Plans and Allstate Dealer Services).

Net investment income

($ in millions)



Net investment income decreased 5.5% to $832 million in the third quarter of 2020 compared to the same period of 2019, primarily due to a decline in market-based income resulting from lower interest-bearing portfolio yields.

Net investment income decreased 32.7% to $1.66 billion in the first nine months of 2020 compared to the same period of 2019, primarily due to lower performance-based investment results, mainly from limited partnership interests, and a decline in market-based income due to lower interest-bearing portfolio yields.

Summarized financial results

($ in millions)	Three months ended September 30, 2020	Three months ended September 30, 2019	Nine months ended September 30, 2020	Nine months ended September 30, 2019
Revenues				
Property and casualty insurance premiums	$ 9,336	$ 9,094	$ 27,794	$ 26,882
Life premiums and contract charges	620	625	1,841	1,874
Other revenue	272	273	794	794
Net investment income	832	880	1,662	2,470
Realized capital gains (losses)	440	197	682	1,183
Total revenues	**11,500**	**11,069**	**32,773**	**33,203**
Costs and expenses				
Property and casualty insurance claims and claims expense	(6,072)	(6,051)	(16,635)	(18,227)
Shelter-in-Place Payback expense	—	—	(948)	—
Life contract benefits and interest credited to contractholder funds	(877)	(682)	(2,207)	(2,008)
Amortization of deferred policy acquisition costs	(1,492)	(1,425)	(4,242)	(4,151)
Operating, restructuring and interest expenses	(1,658)	(1,494)	(4,687)	(4,446)
Pension and other postretirement remeasurement gains (losses)	71	(225)	(320)	(365)
Amortization of purchased intangibles	(31)	(32)	(88)	(96)
Impairment of purchased intangibles	—	—	—	(55)
Total costs and expenses	**(10,059)**	**(9,909)**	**(29,127)**	**(29,348)**
Gain on disposition of operations	1	—	3	3
Income tax expense	(289)	(229)	(697)	(784)
Net income	**1,153**	**931**	**2,952**	**3,074**
Preferred stock dividends	(27)	(42)	(89)	(103)
Net income applicable to common shareholders	**$ 1,126**	**$ 889**	**$ 2,863**	**$ 2,971**

Segment highlights

Allstate Protection underwriting income was $888 million in the third quarter of 2020, an increase of $52 million from $836 million in the third quarter of 2019. The increase was primarily due to a decline in auto non-catastrophe losses, favorable catastrophe reserve reestimates in personal lines homeowners driven by subrogation settlements and increased premiums earned, partially offset by higher catastrophe losses and restructuring charges related to the TGP. Underwriting income totaled $3.14 billion in the first nine months of 2020, a $1.23 billion increase from $1.91 billion in the first nine months of 2019, primarily due to lower auto non-catastrophe losses, increased premiums earned and favorable catastrophe reserve reestimates in personal lines homeowners driven by subrogation settlements, partially offset by Shelter-in-Place Payback expense and higher catastrophe losses.

Catastrophe losses were $990 million and $2.39 billion in the third quarter and first nine months of 2020, respectively, compared to $510 million and $2.26 billion in the third quarter and first nine months of 2019, respectively.

Subrogation settlements Allstate recognized favorable prior year catastrophe reserve reestimates of $450 million and $45 million, pre-tax, net of expenses and adjustments to reinsurance, in the third quarter of 2020 related to the PG&E Corporation and Southern California Edison (together "subrogation settlements"), respectively. See Note 8 of the condensed consolidated financial statements for additional details.

Premiums written increased 0.9% to $9.40 billion in the third quarter of 2020 and 1.8% to $27.16 billion in the first nine months of 2020 compared to the same periods of 2019.

Service Businesses adjusted net income was $40 million in the third quarter of 2020 compared to $8 million in the third quarter of 2019. Adjusted net income was $115 million in the first nine months of 2020 compared to $35 million in the first nine months of 2019. The increase in both periods was primarily due to growth of Allstate Protection Plans and improved profitability at Allstate Roadside Services, partially offset by investments at Allstate Identity Protection.

Total revenues increased 19.1% to $498 million in the third quarter of 2020 and 15.6% to $1.40 billion in the first nine months of 2020, compared to the same periods of 2019, primarily due to Allstate Protection Plans' growth through its U.S. retail and international channels partially offset by declines in revenue at Allstate Roadside Services.

Allstate Life adjusted net loss was $14 million in the third quarter of 2020 compared to adjusted net income of $44 million in the third quarter of 2019, primarily due to higher contract benefits and amortization of DAC related to our annual review of assumptions. Adjusted net income was $138 million in the first nine months of 2020 compared to $185 million in the first nine months of 2019. The decrease was primarily due to higher contract benefits, partially offset by lower operating costs and expenses.

Premiums and contract charges decreased 0.3% to $330 million in the third quarter of 2020 and increased 0.1% to $1.00 billion in the first nine months of 2020 compared to the same periods of 2019.

Allstate Benefits adjusted net income was $33 million in the third quarter of 2020 compared to $31 million in the third quarter of 2019. The increase was primarily due to lower contract benefits, partially offset by higher DAC amortization related to our annual review of assumptions. Adjusted net income was $62 million in the first nine months of 2020 compared to $99 million in the first nine months of 2019. The decrease was primarily due to higher operating costs and expenses driven by a $41 million, pre-tax, write-off of capitalized software costs associated with a billing system in the second quarter of 2020 and lower premiums, partially offset by lower contract benefits.

Premiums and contract charges decreased 1.4% to $287 million in the third quarter of 2020 and 3.6% to $832 million in the first nine months of 2020, compared to the same periods of 2019, primarily due to decreases in disability products and decreased premium collections due to Coronavirus-related layoffs and furloughs, partially offset by an increase in contract charges associated with the annual review of assumptions.

Allstate Annuities adjusted net income was $37 million in the third quarter of 2020 compared to $16 million in the third quarter of 2019 primarily due to lower contract benefits, partially offset by lower net investment income. Allstate Annuities adjusted net loss was $213 million in the first nine months of 2020 compared to adjusted net income of $43 million in the first nine months of 2019, primarily due to lower net investment income.

Net investment income decreased 2.4% to $245 million in the third quarter of 2020 compared to the third quarter of 2019, primarily due to lower interest-bearing investment yields. Net investment income decreased 51.4% to $358 million in the first nine months of 2020, compared to the same period of 2019, primarily due to lower performance-based investment results, lower interest-bearing investment yields and lower average investment balances.

Financial highlights

Investments totaled $91.20 billion as of September 30, 2020, increasing from $88.36 billion as of December 31, 2019.

Shareholders' equity As of September 30, 2020, shareholders' equity was $27.26 billion. This total included $2.83 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 $82.39, an increase of 18.0% from $69.84 as of September 30, 2019, and an increase of 12.7% from $73.12 as of December 31, 2019.

Return on average common shareholders' equity For the twelve months ended September 30, 2020, return on common shareholders' equity was 18.9%, an increase of 8.2 points from 10.7% for the twelve months ended September 30, 2019. The increase was primarily due to higher net income applicable to common shareholders for the trailing twelve-month period ended September 30, 2020, partially offset by an increase in average common shareholders' equity.

Pension and other postretirement remeasurement gains and losses We recorded pension and other postretirement remeasurement gains of $71 million in the third quarter of 2020 primarily related to favorable asset performance compared to the expected return on plan assets, partially offset by changes in actuarial assumptions and a decrease in the discount rate. We recorded pension and other postretirement remeasurement losses of $320 million in the first nine months of 2020 primarily related to a decrease in the discount rate and changes in actuarial assumptions, partially offset by favorable asset performance compared to the expected return on plan assets. See Note 13 of the condensed consolidated financial statements for further information.

Adopted accounting standard

Effective January 1, 2020, we adopted the measurement of credit losses on financial instruments accounting standard that primarily affected mortgage loans, bank loans and reinsurance recoverables. Subsequent to the adoption, we measure credit losses on financial instruments, including losses related to mortgage loans, bank loans and reinsurance recoverables, using the expected credit loss model. This model requires us to recognize an estimate of expected credit losses for affected financial assets in a valuation allowance that when deducted from the amortized cost basis of the related financial assets results in a net carrying value at the amount expected to be collected.

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

Property-Liability Operations

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

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

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

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

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

- *Effect of catastrophe losses on combined ratio*: the ratio of catastrophe losses included in claims and claims expense to premiums earned. This ratio includes prior year reserve reestimates of catastrophe losses.
- *Effect of prior year reserve reestimates on combined ratio*: the ratio of prior year reserve reestimates included in claims and claims expense to premiums earned. This ratio includes prior year reserve reestimates of catastrophe losses.
- *Effect of amortization of purchased intangibles on combined ratio*: the ratio of amortization of purchased intangibles to premiums earned.
- *Effect of restructuring and related charges on combined ratio*: the ratio of restructuring and related charges to premiums earned.
- *Effect of Shelter-in-Place Payback expense on combined and expense ratios*: the ratio of Shelter-in-Place Payback expense 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, 2020	Three months ended September 30, 2019	Nine months ended September 30, 2020	Nine months ended September 30, 2019
Premiums written	$ 9,395	$ 9,312	$ 27,159	$ 26,682
Revenues				
Premiums earned	$ 8,952	$ 8,782	$ 26,696	$ 25,970
Other revenue	192	195	555	561
Net investment income	422	448	802	1,210
Realized capital gains (losses)	292	163	571	916
Total revenues	**9,858**	**9,588**	**28,624**	**28,657**
Costs and expenses				
Claims and claims expense	(5,968)	(5,960)	(16,358)	(17,962)
Shelter-in-Place Payback expense (1)	—	—	(948)	—
Amortization of DAC	(1,158)	(1,167)	(3,474)	(3,494)
Operating costs and expenses (2)	(1,078)	(1,114)	(3,270)	(3,245)
Restructuring and related charges (3)	(187)	1	(199)	(26)
Total costs and expenses	**(8,391)**	**(8,240)**	**(24,249)**	**(24,727)**
Income tax expense	(302)	(272)	(876)	(809)
Net income applicable to common shareholders	**$ 1,165**	**$ 1,076**	**$ 3,499**	**$ 3,121**
Underwriting income	$ 753	$ 737	$ 3,002	$ 1,804
Net investment income	422	448	802	1,210
Income tax expense on operations	(240)	(236)	(752)	(617)
Realized capital gains (losses), after-tax	230	127	447	724
Net income applicable to common shareholders	**$ 1,165**	**$ 1,076**	**$ 3,499**	**$ 3,121**
Catastrophe losses				
Catastrophe losses, excluding reserve reestimates	$ 1,497	$ 513	$ 2,889	$ 2,209
Catastrophe reserve reestimates (4) (5)	(507)	(3)	(502)	53
Total catastrophe losses	**$ 990**	**$ 510**	**$ 2,387**	**$ 2,262**
Non-catastrophe reserve reestimates (4)	70	(41)	63	(168)
Prior year reserve reestimates (4) (5)	(437)	(44)	(439)	(115)
GAAP operating ratios				
Loss ratio	66.7	67.9	61.3	69.2
Expense ratio (6)	24.9	23.7	27.5	23.9
Combined ratio	91.6	91.6	88.8	93.1
Effect of catastrophe losses on combined ratio	11.1	5.8	8.9	8.7
Effect of prior year reserve reestimates on combined ratio	(4.9)	(0.5)	(1.6)	(0.4)
Effect of catastrophe losses included in prior year reserve reestimates on combined ratio	(5.7)	—	(1.9)	0.2
Effect of restructuring and related charges on combined ratio (3)	2.1	—	0.7	0.1
Effect of Shelter-in-Place Payback expense on combined and expense ratios	—	—	3.6	—
Effect of Discontinued Lines and Coverages on combined ratio	1.5	1.1	0.6	0.5

(1) Auto and commercial lines customers received a Shelter-in-Place Payback due to the significant declines in the number of auto accidents caused by mandated stay-at-home orders, other pandemic containment actions and reduced economic activity.

(2) As a result of the Coronavirus, we offered customers the Allstate Special Payment plan to provide more flexible payment options, including the option to delay payments, resulting in increased bad debt expense of $19 million and $66 million for the three and nine months ended September 30, 2020, respectively. This increase added 0.2 points to the expense ratio for both the third quarter and first nine months of 2020.

(3) Restructuring and related charges for the third quarter and first nine months of 2020 primarily related to the TGP.

(4) Favorable reserve reestimates are shown in parentheses.

(5) 2020 includes $495 million of favorable reserve reestimates related to the PG&E Corporation and Southern California Edison (together “subrogation settlements”), which primarily impacted homeowners. See Note 8 of the condensed consolidated financial statements for additional details.

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

Net investment income decreased 5.8% or $26 million in the third quarter of 2020 compared to the third quarter of 2019, primarily due to a decline in market-based income resulting from lower interest-bearing portfolio yields. Net investment income decreased 33.7% or $408 million in the first nine months of 2020 compared to the same period of 2019, due to lower performance-based investment results, mainly from limited partnerships, and a decline in market-based income due to lower interest-bearing portfolio yields.

Net investment income

	Three months ended September 30,		Nine months ended September 30,	
($ in millions)	2020	2019	2020	2019
Fixed income securities	$ 283	$ 272	$ 825	$ 796
Equity securities	14	44	36	116
Mortgage loans	6	4	18	12
Limited partnership interests	123	128	(71)	286
Short-term investments	1	13	12	44
Other	23	27	73	80
Investment income, before expense	450	488	893	1,334
Investment expense:				
Investee level expenses [1]	(7)	(11)	(24)	(38)
Securities lending expense	—	(7)	(4)	(22)
Operating costs and expenses	(21)	(22)	(63)	(64)
Total investment expense	(28)	(40)	(91)	(124)
Net investment income	**$ 422**	**$ 448**	**$ 802**	**$ 1,210**

(1) Beginning January 1, 2020, depreciation previously included in investee level expenses is reported as realized capital gains or losses.

Realized capital gains and losses Net realized capital gains in the third quarter of 2020 primarily related to gains on sales of fixed income securities and increases in the valuation of equity investments. Net realized capital gains in the first nine months of 2020 primarily related to gains on sales of fixed income securities, partially offset by lower valuation of equity investments in the first quarter of 2020.

Realized capital gains (losses)

	Three months ended September 30,		Nine months ended September 30,	
($ in millions)	2020	2019	2020	2019
Sales [1]	$ 205	$ 124	$ 721	$ 332
Credit losses [2]	7	(6)	(28)	(23)
Valuation of equity investments - appreciation (decline):				
Equity securities	84	21	(90)	502
Equity fund investments in fixed income securities	12	6	(44)	36
Limited partnerships [3]	14	(14)	(50)	69
Total valuation of equity investments	110	13	(184)	607
Valuation and settlements of derivative instruments	(30)	32	62	—
Realized capital gains (losses), pre-tax	292	163	571	916
Income tax expense	(62)	(36)	(124)	(192)
Realized capital gains (losses), after-tax	**$ 230**	**$ 127**	**$ 447**	**$ 724**

(1) Beginning January 1, 2020, depreciation previously included in investee level expenses is reported as realized capital gains or losses.

(2) Due to the adoption of the measurement of credit losses on financial instruments accounting standard, realized capital losses previously reported as other-than-temporary impairment write-downs are now presented as credit losses.

(3) Relates to limited partnerships where the underlying assets are predominately public equity securities.

Allstate Protection Segment

As part of the TGP, Esurance results have been combined into the Allstate brand in the third quarter of 2020. Historical results have been updated to conform with this presentation. See MD&A Highlights section for further detail.

Underwriting results

($ in millions)	Three months ended September 30, 2020	Three months ended September 30, 2019	Nine months ended September 30, 2020	Nine months ended September 30, 2019
Premiums written	$ 9,395	$ 9,312	$ 27,159	$ 26,682
Premiums earned	$ 8,952	$ 8,782	$ 26,696	$ 25,970
Other revenue	192	195	555	561
Claims and claims expense	(5,833)	(5,862)	(16,219)	(17,859)
Shelter-in-Place Payback expense	—	—	(948)	—
Amortization of DAC	(1,158)	(1,167)	(3,474)	(3,494)
Other costs and expenses	(1,078)	(1,113)	(3,268)	(3,243)
Restructuring and related charges	(187)	1	(199)	(26)
Underwriting income	**$ 888**	**$ 836**	**$ 3,143**	**$ 1,909**
Catastrophe losses	$ 990	$ 510	$ 2,387	$ 2,262
Underwriting income (loss) by line of business				
Auto	$ 906	$ 421	$ 2,561	$ 1,332
Homeowners	(67)	349	375	403
Other personal lines [(1)]	42	50	175	130
Commercial lines	(14)	1	(20)	1
Other business lines [(2)]	19	16	49	45
Answer Financial	2	(1)	3	(2)
Underwriting income	**$ 888**	**$ 836**	**$ 3,143**	**$ 1,909**

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

(2) Other business lines primarily represent Ivantage, a general agency for Allstate exclusive agencies and reflects revenue and direct operating expenses of the business. 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)]

($ in millions)	Three months ended September 30,									
	Auto		Homeowners		Other personal lines		Commercial lines		Allstate Protection (2)	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Underwriting income (loss) - prior period	$ 421	$ 394	$ 349	$ 209	$ 50	$ 12	$ 1	$ (42)	$ 836	$ 587
Changes in underwriting income (loss) from:										
Increase (decrease) premiums earned	130	282	76	105	17	15	(53)	60	170	462
Increase (decrease) other revenue	(6)	5	(2)	—	3	1	—	(1)	(3)	3
(Increase) decrease incurred claims and claims expense (“losses”):										
Incurred losses, excluding catastrophe losses and reserve reestimates	555	(300)	(27)	(55)	(2)	2	57	(58)	583	(411)
Catastrophe losses, excluding reserve reestimates	17	(17)	(913)	100	(77)	25	(11)	3	(984)	111
Catastrophe reserve reestimates	24	(3)	442	4	37	2	1	1	504	4
Non-catastrophe reserve reestimates	(117)	57	16	(19)	30	(8)	(3)	41	(74)	71
Losses subtotal	479	(263)	(482)	30	(12)	21	44	(13)	29	(225)
Shelter-in-Place Payback expense	—	—	—	—	—	—	—	—	—	—
(Increase) decrease expenses	(118)	3	(8)	5	(16)	1	(6)	(3)	(144)	9
Underwriting income (loss)	**$ 906**	**$ 421**	**$ (67)**	**$ 349**	**$ 42**	**$ 50**	**$ (14)**	**$ 1**	**$ 888**	**$ 836**

	Nine months ended September 30,									
	Auto		Homeowners		Other personal lines		Commercial lines		Allstate Protection (2)	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Underwriting income (loss) - prior period	$ 1,332	$ 1,410	$ 403	$ 565	$ 130	$ 127	$ 1	$ (84)	$ 1,909	$ 2,053
Changes in underwriting income (loss) from:										
Increase (decrease) premiums earned	492	951	274	286	45	37	(85)	168	726	1,442
Increase (decrease) other revenue	(8)	8	(2)	—	4	2	—	(1)	(6)	11
(Increase) decrease losses:										
Incurred losses, excluding catastrophe losses and reserve reestimates	1,890	(833)	(41)	(144)	2	9	109	(170)	1,960	(1,138)
Catastrophe losses, excluding reserve reestimates	127	(77)	(730)	(276)	(63)	(14)	(14)	5	(680)	(362)
Catastrophe reserve reestimates	32	(28)	480	25	45	(6)	(2)	1	555	(8)
Non-catastrophe reserve reestimates	(242)	(17)	19	(38)	38	(26)	(10)	89	(195)	8
Losses subtotal	1,807	(955)	(272)	(433)	22	(37)	83	(75)	1,640	(1,500)
Shelter-in-Place Payback expense	(944)	—	—	—	—	—	(4)	—	(948)	—
(Increase) decrease expenses	(118)	(82)	(28)	(15)	(26)	1	(15)	(7)	(178)	(97)
Underwriting income (loss)	**$ 2,561**	**$ 1,332**	**$ 375**	**$ 403**	**$ 175**	**$ 130**	**$ (20)**	**$ 1**	**$ 3,143**	**$ 1,909**

(1) The 2020 column presents changes relative to 2019. The 2019 column presents changes relative to 2018.

(2) Includes other business lines and Answer Financial.

Underwriting income increased $52 million in the third quarter of 2020 compared to the third quarter of 2019 primarily due to a decline in auto non-catastrophe losses, favorable catastrophe reserve reestimates in personal lines homeowners driven by subrogation settlements and increased premiums earned, partially offset by higher catastrophe losses and restructuring charges related to the TGP.

Underwriting income increased $1.23 billion in the first nine months of 2020 compared to the first nine months of 2019, primarily due to lower auto non-catastrophe losses, increased premiums earned and favorable catastrophe reserve reestimates in personal lines homeowners driven by subrogation settlements, partially offset by Shelter-in-Place Payback expense and higher catastrophe losses.

Premiums written is the amount of premiums charged for policies issued during a fiscal period. Premiums are considered earned and are included in the financial results on a pro-rata basis over the policy period. The portion of premiums written applicable to the unexpired term of the policies is recorded as unearned premiums on our 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	**2020**	**2019**	**2020**	**2019**
Auto	$ 6,326	$ 6,270	$ 18,725	$ 18,404
Homeowners	2,339	2,288	6,355	6,183
Other personal lines	542	516	1,500	1,436
Subtotal – Personal lines	9,207	9,074	26,580	26,023
Commercial lines	188	238	579	659
Total premiums written	**$ 9,395**	**$ 9,312**	**$ 27,159**	**$ 26,682**
Reconciliation of premiums written to premiums earned:				
Increase in unearned premiums	(470)	(538)	(449)	(743)
Other	—	8	(41)	31
Total premiums earned	**$ 8,925**	**$ 8,782**	**$ 26,669**	**$ 25,970**
Auto	$ 6,210	$ 6,080	$ 18,537	$ 18,045
Homeowners	2,073	1,997	6,164	5,890
Other personal lines	486	469	1,435	1,390
Subtotal – Personal lines	8,769	8,546	26,136	25,325
Commercial lines	183	236	560	645
Total premiums earned	**$ 8,952**	**$ 8,782**	**$ 26,696**	**$ 25,970**

Combined ratios by line of business

	Loss ratio		Expense ratio (1)		Combined ratio	
	2020	**2019**	**2020**	**2019**	**2020**	**2019**
Three months ended September 30,						
Auto	59.7	68.9	25.7	24.2	85.4	93.1
Homeowners	80.4	59.3	22.8	23.2	103.2	82.5
Other personal lines	63.0	62.7	28.4	26.6	91.4	89.3
Commercial lines	83.6	83.5	24.1	16.1	107.7	99.6
Total	**65.2**	**66.8**	**24.9**	**23.7**	**90.1**	**90.5**
Impact of restructuring and related charges (2)	—	—	*2.1*	—	*2.1*	—
Impact of Allstate Special Payment plan bad debt expense (3)	—	—	*0.2*	—	*0.2*	—
Nine months ended September 30,						
Auto	56.6	68.2	29.6	24.4	86.2	92.6
Impact of Shelter-in-Place Payback	—	—	*5.1*	—	*5.1*	—
Homeowners	71.4	70.1	22.5	23.1	93.9	93.2
Other personal lines	60.8	64.4	27.0	26.2	87.8	90.6
Commercial lines	80.2	82.5	23.4	17.3	103.6	99.8
Impact of Shelter-in-Place Payback	—	—	*0.7*	—	*0.7*	—
Total	**60.7**	**68.7**	**27.5**	**23.9**	**88.2**	**92.6**
Impact of restructuring and related charges (2)	—	—	*0.7*	*0.1*	*0.7*	*0.1*
Impact of Shelter-in-Place Payback	—	—	*3.6*	—	*3.6*	—
Impact of Allstate Special Payment plan bad debt expense (3)	—	—	*0.2*	—	*0.2*	—

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

(2) Restructuring and related charges for the third quarter and first nine months of 2020 primarily related to the TGP.

(3) Relates to the Allstate Special Payment plan offered to customers as a result of the Coronavirus to provide more flexible payment options, including the option to delay payments. Approximately 70% of the higher bad debt expense was attributed to auto.

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	
	2020	2019	2020	2019	2020	2019	2020	2019
Three months ended September 30,								
Auto	59.7	68.9	1.6	2.4	(0.9)	(2.5)	(0.4)	—
Homeowners	80.4	59.3	39.1	17.0	(22.0)	0.1	(21.3)	0.1
Other personal lines	63.0	62.7	13.4	5.3	(11.9)	1.9	(8.0)	(0.4)
Commercial lines	83.6	83.5	6.6	0.9	1.1	—	(1.1)	(0.4)
Total	**65.2**	**66.8**	**11.1**	**5.8**	**(6.4)**	**(1.6)**	**(5.7)**	**—**
Nine months ended September 30,								
Auto	56.6	68.2	1.4	2.3	(0.5)	(1.7)	(0.2)	—
Homeowners	71.4	70.1	31.6	28.9	(7.1)	1.0	(6.8)	1.0
Other personal lines	60.8	64.4	11.6	10.7	(4.6)	1.2	(2.9)	0.3
Commercial lines	80.2	82.5	4.1	1.0	5.2	2.6	0.2	(0.2)
Total	**60.7**	**68.7**	**8.9**	**8.7**	**(2.2)**	**(0.9)**	**(1.9)**	**0.2**

Catastrophe losses increased 94.1% or $480 million in the third quarter of 2020 compared to the third quarter of 2019 and increased 5.5% or $125 million in first nine months of 2020 compared to the first nine months of 2019. Catastrophe losses include the $495 million favorable subrogation settlements, which decreased the loss ratio by 5.5 points and 1.9 points in the third quarter and first nine months of 2020, respectively, compared to the same periods of 2019.

Excluding subrogation settlements, catastrophe losses increased 191.2% or $975 million compared to the third quarter of 2019 and increased 27.4% or $620 million in the first nine months of 2020 compared to the first nine months of 2019.

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, civil unrest or industrial accidents. The nature and level of catastrophes in any period cannot be reliably predicted.

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

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

Catastrophe losses by the size of event

($ in millions)	Three months ended September 30, 2020					
	Number of events		Claims and claims expense		Combined ratio impact	Average catastrophe loss per event
Size of catastrophe loss						
Greater than $250 million	1	2.4%	$ 495	50.0 %	5.5	$ 495
$101 million to $250 million	2	4.7	353	35.7	4.0	177
$50 million to $100 million	1	2.4	96	9.7	1.1	96
Less than $50 million	38	90.5	523	52.8	5.9	14
Total	**42**	**100.0%**	**1,467**	**148.2**	**16.5**	**35**
Prior year reserve reestimates			(507)	(51.2)	(5.7)	
Prior quarter reserve reestimates			30	3.0	0.3	
Total catastrophe losses			**$ 990**	**100.0 %**	**11.1**	

	Nine months ended September 30, 2020					
	Number of events		Claims and claims expense		Combined ratio impact	Average catastrophe loss per event
Size of catastrophe loss						
Greater than $250 million	1	1.3%	$ 495	20.7 %	1.9	$ 495
$101 million to $250 million	5	6.4	829	34.7	3.1	166
$50 million to $100 million	9	11.5	600	25.2	2.2	67
Less than $50 million	63	80.8	965	40.4	3.6	15
Total	**78**	**100.0%**	**2,889**	**121.0**	**10.8**	**37**
Prior year reserve reestimates			(502)	(21.0)	(1.9)	
Total catastrophe losses			**$ 2,387**	**100.0 %**	**8.9**	

Catastrophe losses by the type of event

($ in millions)	Three months ended September 30,				Nine months ended September 30,			
	Number of events	2020	Number of events	2019	Number of events	2020	Number of events	2019
Hurricanes/Tropical storms	6	$ 771	3	$ 113	6	$ 771	3	$ 113
Tornadoes	1	4	—	—	3	43	4	390
Wind/Hail	23	399	25	379	54	1,768	74	1,583
Wildfires	12	293	—	—	13	295	—	—
Other events	—	—	—	—	2	12	6	123
Prior year reserve reestimates		(507)		(3)		(502)		53
Prior quarter reserve reestimates		30		21		—		—
Total catastrophe losses	**42**	**$ 990**	**28**	**$ 510**	**78**	**$ 2,387**	**87**	**$ 2,262**

Expense ratio increased 1.2 points in the third quarter of 2020 compared to the same period of 2019, reflecting restructuring charges related to the TPG and higher bad debt expense related to the Allstate Special Payment plan. Excluding restructuring charges and higher bad debt expense, the expense ratio decreased 1.1 points in the third quarter of 2020 compared to the same period of 2019, primarily due to lower operating expenses and agent compensation.

Expense ratio increased 3.6 points in the first nine months of 2020 compared to the same period of 2019, reflecting Shelter-in-Place Payback expense, higher bad debt expense and restructuring charges related to the TGP. Excluding Shelter-in-Place Payback expense, higher bad debt expense and restructuring charges related to the TGP, the expense ratio decreased 0.9 points in the first nine months of 2020 compared to the first nine months of 2019, primarily due to lower agent compensation and operating expenses.

Impact of specific costs and expenses on the expense ratio

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Amortization of DAC	12.9	13.3	13.0	13.5
Advertising expense	2.3	2.3	2.3	2.2
Other costs and expenses	7.4	8.1	7.7	8.1
Subtotal	22.6	23.7	23.0	23.8
Restructuring and related charges (1)	2.1	—	0.7	0.1
Shelter-in-Place Payback expense	—	—	3.6	—
Allstate Special Payment plan bad debt expense	0.2	—	0.2	—
Total expense ratio	**24.9**	**23.7**	**27.5**	**23.9**

(1) Restructuring and related charges for the third quarter and first nine months of 2020 primarily related to the TGP.

Reserve reestimates were favorable in the third quarter and first nine months of 2020 due to catastrophe reserve reestimates driven by the subrogation settlements, primarily related to homeowners and favorable non-catastrophe reserve reestimates in personal lines auto, partially offset by strengthening in commercial lines auto reserves.

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

($ in millions)	2020	2019
Auto	$ 14,728	$ 14,378
Homeowners	2,138	2,157
Other personal lines	1,458	1,489
Commercial lines	1,072	801
Total Allstate Protection	**$ 19,396**	**$ 18,825**

Reserve reestimates

	Three months ended September 30,				Nine months ended September 30,			
	Reserve reestimate (1)		Effect on combined ratio (2)		Reserve reestimate (1)		Effect on combined ratio (2)	
($ in millions, except ratios)	2020	2019	2020	2019	2020	2019	2020	2019
Auto	$ (60)	$ (153)	(0.7)	(1.7)	$ (101)	$ (311)	(0.4)	(1.2)
Homeowners	(456)	2	(5.1)	—	(440)	59	(1.7)	0.2
Other personal lines	(58)	9	(0.6)	0.1	(66)	17	(0.2)	0.1
Commercial lines	2	—	—	—	29	17	0.1	—
Total Allstate Protection (3)	**$ (572)**	**$ (142)**	**(6.4)**	**(1.6)**	**$ (578)**	**$ (218)**	**(2.2)**	**(0.9)**
Allstate brand	$ (529)	$ (143)	(5.9)	(1.6)	$ (532)	$ (221)	(2.0)	(0.9)
Encompass brand	(43)	1	(0.5)	—	(46)	3	(0.2)	—
Total Allstate Protection (3)	**$ (572)**	**$ (142)**	**(6.4)**	**(1.6)**	**$ (578)**	**$ (218)**	**(2.2)**	**(0.9)**

(1) Favorable reserve reestimates are shown in parentheses.

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

(3) 2020 includes $495 million of favorable reserve reestimates related to subrogation settlements, which primarily impacted homeowners. The favorable reserve reestimates decreased the combined ratio by 5.5 points and 1.9 points in the third quarter and first nine months of 2020, respectively. See Note 8 of the condensed consolidated financial statements for additional details.

The following table presents premiums written, policies in force ("PIF") and underwriting income (loss) by line of business for Allstate brand, Encompass brand and Allstate Protection as of or for the nine months ended September 30, 2020. Detailed analysis of underwriting results, premiums written and earned, and the combined ratios, including loss and expense ratios, are discussed in the brand sections.

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

($ in millions)	Allstate brand		Encompass brand		Allstate Protection	
Premiums written	**Amount**	**Percent to total brand**	**Amount**	**Percent to total brand**	**Amount**	**Percent to total**
Auto	$ 18,337	69.4 %	$ 388	52.1%	$ 18,725	69.0 %
Homeowners	6,057	22.9	298	40.0	6,355	23.4
Other personal lines	1,441	5.5	59	7.9	1,500	5.5
Commercial lines	579	2.2	—	—	579	2.1
Total	**$ 26,414**	**100.0 %**	**$ 745**	**100.0%**	**$ 27,159**	**100.0 %**
Percent to total Allstate Protection		**97.3 %**		**2.7%**		**100.0 %**
PIF (thousands)						
Auto	21,900	66.4 %	460	61.1%	22,360	66.3 %
Homeowners	6,414	19.4	220	29.2	6,634	19.7
Other personal lines	4,455	13.5	73	9.7	4,528	13.4
Commercial lines	219	0.7	—	—	219	0.6
Total	**32,988**	**100.0 %**	**753**	**100.0%**	**33,741**	**100.0 %**
Percent to total Allstate Protection		**97.8 %**		**2.2%**		**100.0 %**
Underwriting income (loss)						
Auto	$ 2,522	82.0 %	$ 39	61.9%	$ 2,561	81.5 %
Homeowners	356	11.5	19	30.2	375	11.9
Other personal lines	170	5.5	5	7.9	175	5.6
Commercial lines	(20)	(0.6)	—	—	(20)	(0.6)
Other business lines	49	1.6	—	—	49	1.5
Answer Financial	—	—	—	—	3	0.1
Total	**$ 3,077**	**100.0 %**	**$ 63**	**100.0%**	**$ 3,143**	**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 while Commercial lines PIF counts for shared economy agreements typically reflect contracts that cover multiple rather than individual drivers.
- *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 brand policy terms are 6 months for auto and 12 months for homeowners. Encompass brand policy terms are generally 12 months for auto and homeowners.
- *Renewal ratio*: Renewal policy item counts issued during the period, based on contract effective dates, divided by the total policy item counts issued 6 months prior for auto (generally 12 months prior for Encompass brand) or 12 months prior for homeowners.
- *Total brand rate changes:* Based on historical premiums written, not including rate plan enhancements (such as the introduction of discounts and surcharges that result in no change in the overall rate level) and initial rates filed for insurance subsidiaries initially writing business in a location. Includes rate changes approved based on our net cost of reinsurance. The rate change percentage is calculated using approved rate changes during the period as a percentage of total brand premiums written.

Underwriting results

($ in millions)	Three months ended September 30, 2020	Three months ended September 30, 2019	Nine months ended September 30, 2020	Nine months ended September 30, 2019
Premiums written	$ 9,135	$ 9,034	$ 26,414	$ 25,902
Premiums earned	$ 8,704	$ 8,525	$ 25,939	$ 25,206
Other revenue	173	176	499	502
Claims and claims expense	(5,710)	(5,669)	(15,785)	(17,325)
Shelter-in-Place Payback expense	—	—	(927)	—
Amortization of DAC	(1,110)	(1,119)	(3,329)	(3,350)
Other costs and expenses	(1,031)	(1,063)	(3,126)	(3,089)
Restructuring and related charges	(183)	2	(194)	(23)
Underwriting income	**$ 843**	**$ 852**	**$ 3,077**	**$ 1,921**
Catastrophe losses	$ 985	$ 463	$ 2,311	$ 2,159
Underwriting income (loss) by line of business				
Auto	$ 897	$ 420	$ 2,522	$ 1,326
Homeowners	(93)	362	356	418
Other personal lines (1)	34	53	170	131
Commercial lines	(14)	1	(20)	1
Other business lines (2)	19	16	49	45
Underwriting income	**$ 843**	**$ 852**	**$ 3,077**	**$ 1,921**

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

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

($ in millions)	Three months ended September 30, 2020	Three months ended September 30, 2019	Nine months ended September 30, 2020	Nine months ended September 30, 2019
Underwriting income (loss) - prior period	$ 852	$ 577	$ 1,921	$ 2,035
Changes in underwriting income (loss) from:				
Increase (decrease) premiums earned	179	459	733	1,445
Increase (decrease) other revenue	(3)	3	(3)	10
(Increase) decrease incurred claims and claims expense (“losses”):				
Incurred losses, excluding catastrophe losses and reserve reestimates	554	(408)	1,881	(1,115)
Catastrophe losses, excluding reserve reestimates	(981)	135	(652)	(349)
Catastrophe reserve reestimates	459	4	500	(10)
Non-catastrophe reserve reestimates	(73)	75	(189)	15
Losses subtotal	(41)	(194)	1,540	(1,459)
Shelter-in-Place Payback expense	—	—	(927)	—
(Increase) decrease expenses	(144)	7	(187)	(110)
Underwriting income	**$ 843**	**$ 852**	**$ 3,077**	**$ 1,921**

(1) The 2020 column presents changes in 2020 compared to 2019. The 2019 column presents changes in 2019 compared to 2018.

Underwriting income decreased 1.1% or $9 million in the third quarter of 2020 compared to the third quarter of 2019, primarily due to higher catastrophe losses and restructuring charges related to the TGP, partially offset by a decline in auto non-catastrophe losses, favorable catastrophe reserve reestimates in personal lines homeowners driven by subrogation settlements and increased premiums earned.

Underwriting income increased 60.2% or $1.16 billion in the first nine months of 2020 compared to the first nine months of 2019, primarily due to lower auto non-catastrophe losses, increased earned premiums and favorable catastrophe reserve reestimates in homeowners driven by subrogation settlements, partially offset by Shelter-in-Place Payback expense and higher catastrophe losses.

Premiums written and earned by line of business

($ in millions)	Three months ended September 30,		Nine months ended September 30,	
Premiums written	**2020**	**2019**	**2020**	**2019**
Auto	$ 6,192	$ 6,123	$ 18,337	$ 17,991
Homeowners (1)	2,234	2,178	6,057	5,876
Other personal lines	521	495	1,441	1,376
Subtotal – Personal lines	8,947	8,796	25,835	25,243
Commercial lines	188	238	579	659
Total	**$ 9,135**	**$ 9,034**	**$ 26,414**	**$ 25,902**
Premiums earned				
Auto	$ 6,081	$ 5,944	$ 18,138	$ 17,640
Homeowners	1,974	1,896	5,865	5,591
Other personal lines	466	449	1,376	1,330
Subtotal – Personal lines	8,521	8,289	25,379	24,561
Commercial lines	183	236	560	645
Total	**$ 8,704**	**$ 8,525**	**$ 25,939**	**$ 25,206**

(1) The cost of our catastrophe reinsurance program increased $8 million to $83 million in the third quarter of 2020 from $75 million in the third quarter of 2019 and increased $27 million to $238 million in the first nine months of 2020 from $211 million in the first nine months of 2019. Catastrophe placement premiums are recorded primarily in the Allstate brand and are a reduction of premium. For a more detailed discussion on reinsurance, see Note 9 of the condensed consolidated financial statements.

Auto premium measures and statistics

	Three months ended September 30,			Nine months ended September 30,		
	2020	**2019**	**Change**	**2020**	**2019**	**Change**
PIF (thousands)	21,900	21,882	0.1 %	21,900	21,882	0.1 %
New issued applications (thousands)	888	902	(1.6)%	2,637	2,722	(3.1)%
Average premium	$ 621	$ 607	2.3 %	$ 616	$ 600	2.7 %
Renewal ratio (%)	87.9	87.9	—	87.6	88.2	(0.6)
Total brand rate changes (%)	—	0.6	(0.6)	0.7	2.2	(1.5)

Auto insurance premiums written increased 1.1% or $69 million in the third quarter of 2020 compared to the third quarter of 2019 and increased 1.9% or $346 million in the first nine months of 2020 compared to the first nine months of 2019, primarily due to an increase in average premium. During the second and third quarters of 2020, growth in premiums written slowed significantly due to lower increases in average premium from fewer approved rate changes and a decline in new issued applications, both related to the Coronavirus. PIF increased 0.1% or 18 thousand to 21,900 thousand as of September 30, 2020 compared to September 30, 2019 as higher PIF in Allstate brand, with increases in 26 states, including 4 of our largest 10 states, was offset by lower PIF in Esurance brand as advertising resources are redirected to the Allstate brand.

Homeowners premium measures and statistics

	Three months ended September 30,			Nine months ended September 30,		
	2020	**2019**	**Change**	**2020**	**2019**	**Change**
PIF (thousands)	6,414	6,341	1.2%	6,414	6,341	1.2%
New issued applications (thousands)	247	234	5.6%	681	675	0.9%
Average premium	$ 1,334	$ 1,304	2.3%	$ 1,324	$ 1,288	2.8%
Renewal ratio (%)	87.8	88.4	(0.6)	87.6	88.3	(0.7)
Total brand rate changes (%)	0.5	0.3	0.2	1.8	2.6	(0.8)

Homeowners insurance premiums written increased 2.6% or $56 million in the third quarter of 2020 compared to the third quarter of 2019 and increased 3.1% or $181 million in the first nine months of 2020 compared to the first nine months of 2019, primarily due to higher average premiums, including both rate changes and inflation in insured home valuations, and policy growth. Homeowners PIF increased in 27 states, including 5 of our largest 10 states, as of September 30, 2020 compared to September 30, 2019.

Other personal lines premiums written increased 5.3% or $26 million in the third quarter of 2020 compared to the third quarter of 2019 and increased 4.7% or $65 million in the first nine months of 2020 compared to the first nine months of 2019. The increase in both periods was primarily due to an increase in condominiums, personal umbrella and boat insurance premiums.

Commercial lines premiums written decreased 21.0% or $50 million in the third quarter of 2020 compared to the third quarter of 2019 and decreased 12.1% or $80 million in the first nine months of 2020 compared to the first nine months of 2019. The decrease in both periods was primarily due to lower miles and utilization in our shared economy business related to the impacts of the Coronavirus. PIF for the shared economy agreements typically reflect contracts that cover multiple insureds as opposed to individual insureds.

Combined ratios by line of business

	Loss ratio		Expense ratio (1)		Combined ratio	
	2020	**2019**	**2020**	**2019**	**2020**	**2019**
Three months ended September 30,						
Auto	59.7	68.8	25.5	24.1	85.2	92.9
Homeowners	82.3	58.1	22.4	22.8	104.7	80.9
Other personal lines	64.6	61.7	28.1	26.5	92.7	88.2
Commercial lines	83.6	83.5	24.1	16.1	107.7	99.6
Total	**65.6**	**66.5**	**24.7**	**23.5**	**90.3**	**90.0**
Impact of restructuring and related charges (2)	—	—	*2.1*	—	*2.1*	—
Impact of Allstate Special Payment plan bad debt expense (3)	—	—	*0.2*	—	*0.2*	—
Nine months ended September 30,						
Auto	56.7	68.2	29.4	24.3	86.1	92.5
Impact of Shelter-in-Place Payback	—	—	*5.1*	—	*5.1*	—
Homeowners	71.9	69.9	22.0	22.6	93.9	92.5
Other personal lines	60.9	64.2	26.7	26.0	87.6	90.2
Commercial lines	80.2	82.5	23.4	17.3	103.6	99.8
Impact of Shelter-in-Place Payback	—	—	0.7	—	0.7	—
Total	**60.8**	**68.7**	**27.3**	**23.7**	**88.1**	**92.4**
Impact of restructuring and related charges (2)	—	—	*0.7*	*0.1*	*0.7*	*0.1*
Impact of Shelter-in-Place Payback	—	—	*3.6*	—	*3.6*	—
Impact of Allstate Special Payment plan bad debt expense (3)	—	—	*0.3*	—	*0.3*	—

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

(2) Restructuring and related charges for the third quarter and first nine months of 2020 primarily related to the TGP.

(3) Relates to the Allstate Special Payment plan offered to customers as a result of the Coronavirus to provide more flexible payment options, including the option to delay payments. Approximately 70% of the higher bad debt expense was attributed to auto.

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 (1)	
	2020	2019	2020	2019	2020	2019	2020	2019
Three months ended September 30,								
Auto	59.7	68.8	1.6	2.3	(1.0)	(2.5)	(0.4)	—
Homeowners	82.3	58.1	40.9	15.8	(21.2)	(0.1)	(20.3)	(0.1)
Other personal lines	64.6	61.7	14.2	5.1	(11.2)	2.2	(7.9)	(0.3)
Commercial lines	83.6	83.5	6.6	0.9	1.1	—	(1.1)	(0.4)
Total	**65.6**	**66.5**	**11.3**	**5.4**	**(6.1)**	**(1.7)**	**(5.4)**	**(0.1)**
Nine months ended September 30,								
Auto	56.7	68.2	1.3	2.3	(0.5)	(1.7)	(0.2)	—
Homeowners	71.9	69.9	32.1	28.8	(6.9)	0.8	(6.5)	0.9
Other personal lines	60.9	64.2	11.9	10.8	(4.2)	1.4	(2.8)	0.3
Commercial lines	80.2	82.5	4.1	1.0	5.2	2.6	0.2	(0.2)
Total	**60.8**	**68.7**	**8.9**	**8.6**	**(2.1)**	**(0.9)**	**(1.8)**	**0.2**

(1) 2020 includes $452 million of favorable reserve reestimates related to subrogation settlements, which primarily impacted homeowners. See Note 8 of the condensed consolidated financial statements for additional details.

Frequency and severity statistics, which are influenced by driving patterns, inflation and other factors, are provided to describe the trends in loss costs. 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:

- *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 gross claim frequency or paid claim severity.

(1) Excludes counts associated with catastrophe events.

We have expanded our utilization of virtual claims processes in response to the Coronavirus. We are continuing to implement new technology and process improvements that provide continued loss cost accuracy, efficient processing and enhanced customer experiences that are simple, fast and produce high degrees of satisfaction.

- Digital Operating Centers handle auto physical damage claims countrywide utilizing our virtual estimation capabilities, which includes estimating damage with photos and video through the use of QuickFoto Claim® and Virtual Assist®.
- Virtual Assist and aerial imagery using satellites, airplanes and drones handle property claims by estimating damage through video.

These organizational and process changes impact frequency and severity statistics as changes in claim opening and closing practices and shifts in timing, if any, can impact comparisons to prior periods.

Auto loss ratio decreased 9.1 points and 11.5 points in the third quarter and first nine months of 2020, respectively, compared to the same periods of 2019, primarily due to a decline in non-catastrophe losses driven by favorable frequency, higher premiums earned and lower catastrophe losses, partially offset by increased severity and less favorable non-catastrophe prior year reserve reestimates compared to the prior period.

Auto property damage frequency and severity statistics

(% change year-over-year)	Three months ended September 30, 2020	Nine months ended September 30, 2020
Gross claim frequency	(28.6)%	(29.2)%
Paid claim severity	7.9	11.5

The impacts of the Coronavirus affect frequency and severity statistics including:

- Shelter-in-place restrictions, social distancing requirements, limits on large gatherings and events, and restrictions on non-essential businesses as these become more or less strict
- Unemployment levels
- Commuting activity and utilization of public transportation
- Paid claims settlement rates as the low frequency environment creates capacity to settle claims faster
- Driving behavior (e.g., speed, time of day) impacting mix of claim types
- Labor and part cost variability
- Changes in limits purchased
- Cadence of routine automobile maintenance
- Court system variability in both timing and magnitude of claim settlement

Property damage gross claim frequency decreased in the third quarter and the first nine months of 2020 compared to the same periods of 2019 due to factors including:

- Declines in auto miles driven
- Declines in gross claim frequency compared to the prior year moderated in the third quarter from earlier in the year, reflecting an increase in miles driven compared to April and May 2020 as shelter-in-place restrictions were lifted in many states

Property damage paid claim severities increased in the third quarter and first nine months of 2020 compared to the same periods of 2019 due to factors including:

- Claims settled within days or weeks of the loss tend to be less complex and have lower severity, while the higher severity property damage claims generally take longer to resolve
- 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 was consistent with the trends noted in property damage. Bodily injury severity trends increased at a rate above medical care inflation indices in 2020.

Homeowners loss ratio increased 24.2 points in the third quarter of 2020 compared to the third quarter of 2019, primarily due to higher catastrophe losses and increased claim frequency and severity, partially offset by favorable catastrophe reserve reestimates driven by subrogation settlements and increased premiums earned. Homeowners loss ratio increased 2.0 points in the first nine months of 2020 compared to the first nine months of 2019, primarily due to higher catastrophe losses and increased claim severity, partially offset by favorable catastrophe reserve reestimates driven by subrogation settlements, increased premiums earned and improved claim frequency.

Homeowners frequency and severity statistics (excluding catastrophe losses)

(% change year-over-year)	Three months ended September 30, 2020	Nine months ended September 30, 2020
Gross claim frequency	3.5%	(5.9)%
Paid claim severity	3.3	9.1

Gross claim frequency excluding catastrophe losses increased in the third quarter of 2020 primarily due to increases in wind/hail and fire. Gross claim frequency excluding catastrophe losses decreased in the first nine months of 2020 compared to the same periods of 2019. Paid claim severity excluding catastrophe losses increased in the third quarter and first nine months of 2020 compared to the same periods of 2019, as we experienced increased claim severity in wind/hail and theft perils. Homeowner paid claim severity can be impacted by both the mix of perils and the magnitude of specific losses paid during the quarter.

Other personal lines loss ratio increased 2.9 points in the third quarter of 2020 compared to the third quarter of 2019, primarily due to higher catastrophe losses, partially offset by favorable catastrophe reserve reestimates driven by subrogation settlements, favorable non-catastrophe reserve reestimates and increased premiums earned. Other personal lines loss ratio decreased 3.3 points in first nine months of 2020 compared to the first nine months of 2019, primarily due to increased premiums earned, favorable catastrophe reserve reestimates driven by the subrogation settlements and favorable non-catastrophe reserve reestimates, partially offset by higher catastrophe losses.

Commercial lines loss ratio increased 0.1 points in the third quarter compared to the same period of 2019, primarily due to higher claim severity, decreased premiums earned and higher catastrophe losses, partially offset by a decline in non-catastrophe losses driven by favorable auto frequency related to the Coronavirus. Commercial lines loss ratio decreased 2.3 points in the first nine months of 2020 compared to the same period of 2019, primarily due to a decline in non-catastrophe losses driven by favorable auto frequency related to the Coronavirus, partially offset by decreased premiums earned and higher claim severity.

Impact of specific costs and expenses on the expense ratio

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Amortization of DAC (1)	12.8	13.1	12.9	13.4
Advertising expense	2.3	2.4	2.4	2.3
Other costs and expenses	7.3	8.0	7.4	7.9
Subtotal	22.4	23.5	22.7	23.6
Restructuring and related charges (2)	2.1	—	0.7	0.1
Shelter-in-Place Payback expense	—	—	3.6	—
Allstate Special Payment plan bad debt expense	0.2	—	0.3	—
Total expense ratio	**24.7**	**23.5**	**27.3**	**23.7**

(1) Primarily includes agent compensation and premium taxes.

(2) Restructuring and related charges for the third quarter and first nine months of 2020 primarily related to the TGP.

Expense ratio increased 1.2 points in the third quarter of 2020 compared to the same period of 2019, reflecting restructuring charges related to the TGP and higher bad debt expense related to the Allstate Special Payment plan. Excluding restructuring charges and higher bad debt expense, the expense ratio decreased 1.1 points in the third quarter of 2020 compared to the same period of 2019, primarily due to lower operating expenses and agent compensation.

Expense ratio increased 3.6 points in the first nine months of 2020 compared to the same period of 2019, reflecting Shelter-in-Place Payback expense, higher bad debt expense and restructuring charges related to the TGP. Excluding Shelter-in-Place Payback expense, higher bad debt expense and restructuring charges related to the TGP, the expense ratio decreased 1.0 points in the first nine months of 2020 compared to the first nine months of 2019, primarily due to lower agent compensation and operating expenses.

Encompass
Creating protection around you

Underwriting results

($ in millions)	Three months ended September 30, 2020	Three months ended September 30, 2019	Nine months ended September 30, 2020	Nine months ended September 30, 2019
Premiums written	$ 260	$ 278	$ 745	$ 780
Premiums earned	$ 248	$ 257	$ 757	$ 764
Other revenue	1	2	3	4
Claims and claims expense	(123)	(193)	(434)	(534)
Shelter-in-Place Payback expense	—	—	(21)	—
Amortization of DAC	(48)	(48)	(145)	(144)
Other costs and expenses	(31)	(32)	(92)	(97)
Restructuring and related charges	(4)	(1)	(5)	(3)
Underwriting income (loss)	**$ 43**	**$ (15)**	**$ 63**	**$ (10)**
Catastrophe losses	$ 5	$ 47	$ 76	$ 103
Underwriting income (loss) by line of business				
Auto	$ 9	$ 1	$ 39	$ 6
Homeowners	26	(13)	19	(15)
Other personal lines	8	(3)	5	(1)
Underwriting income (loss)	**$ 43**	**$ (15)**	**$ 63**	**$ (10)**

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

($ in millions)	Three months ended September 30, 2020	Three months ended September 30, 2019	Nine months ended September 30, 2020	Nine months ended September 30, 2019
Underwriting income (loss) - prior period	$ (15)	$ 11	$ (10)	$ 22
Changes in underwriting loss from:				
Increase (decrease) premiums earned	(9)	3	(7)	(3)
Increase (decrease) other revenue	(1)	1	(1)	—
(Increase) decrease incurred claims and claims expense (“losses”):				
Incurred losses, excluding catastrophe losses and reserve reestimates	29	(3)	79	(23)
Catastrophe losses, excluding reserve reestimates	(3)	(24)	(28)	(13)
Catastrophe reserve reestimates	45	—	55	2
Non-catastrophe reserve reestimates	(1)	(4)	(6)	(7)
Losses subtotal	70	(31)	100	(41)
Shelter-in-Place Payback expense	—	—	(21)	—
(Increase) decrease expenses	(2)	1	2	12
Underwriting income (loss)	**$ 43**	**$ (15)**	**$ 63**	**$ (10)**

(1) The 2020 column presents changes in 2020 compared to 2019. The 2019 column presents changes in 2019 compared to 2018.

Underwriting income was $43 million in the third quarter of 2020 compared to a loss of $15 million in the third quarter of 2019 primarily due to favorable catastrophe reserve reestimates in personal lines homeowners driven by subrogation settlements and lower auto and homeowners non-catastrophe losses, partially offset by decreased premiums. Underwriting income was $63 million in the first nine months of 2020 compared to a loss of $10 million the first nine months of 2019, primarily due to lower auto and homeowners non-catastrophe losses and favorable catastrophe reserve reestimates in personal lines homeowners driven by subrogation settlements, partially offset by higher catastrophe losses and Shelter-in-Place Payback expense.

Premiums written and earned by line of business

($ in millions)	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Premiums written				
Auto	$ 134	$ 147	$ 388	$ 413
Homeowners	105	110	298	307
Other personal lines	21	21	59	60
Total	**$ 260**	**$ 278**	**$ 745**	**$ 780**
Premiums earned				
Auto	$ 129	$ 136	$ 399	$ 405
Homeowners	99	101	299	299
Other personal lines	20	20	59	60
Total	**$ 248**	**$ 257**	**$ 757**	**$ 764**

Auto premium measures and statistics

	Three months ended September 30,			Nine months ended September 30,		
	2020	2019	Change	2020	2019	Change
PIF (thousands)	460	496	(7.3)%	460	496	(7.3)%
New issued applications (thousands)	14	21	(33.3)%	44	63	(30.2)%
Average premium	$ 1,142	$ 1,137	0.4 %	$ 1,156	$ 1,134	1.9 %
Renewal ratio (%)	76.7	78.9	(2.2)	76.9	78.3	(1.4)
Total brand rate changes (%)	—	0.3	(0.3)	(0.1)	0.8	(0.9)

Auto insurance premiums written decreased 8.8% or $13 million in the third quarter of 2020 compared to the third quarter of 2019 and decreased 6.1% or $25 million in the first nine months of 2020 compared to the first nine months of 2019, primarily due to decreased new issued applications and lower retention, partially offset by higher average premiums, with the top 10 states representing approximately 70% of premiums written. PIF decreased 7.3% or 36 thousand to 460 thousand as of September 30, 2020 compared to September 30, 2019.

Homeowners premium measure and statistics

	Three months ended September 30,			Nine months ended September 30,		
	2020	2019	Change	2020	2019	Change
PIF (thousands)	220	235	(6.4)%	220	235	(6.4)%
New issued applications (thousands)	9	12	(25.0)%	25	33	(24.2)%
Average premium	$ 1,902	$ 1,807	5.3 %	$ 1,895	$ 1,787	6.0 %
Renewal ratio (%)	80.7	83.0	(2.3)	81.0	82.6	(1.6)
Total brand rate changes (%)	1.0	3.5	(2.5)	3.5	6.3	(2.8)

Homeowners insurance premiums written decreased 4.5% or $5 million in the third quarter of 2020 compared to the third quarter of 2019 and decreased 2.9% or $9 million in the first nine months of 2020 compared to the first nine months of 2019, primarily due to decreased new issued applications and lower retention, partially offset by higher average premiums due to rate changes over the past 12 months, with the top 10 states representing approximately 70% of premiums written. PIF decreased 6.4% or 15 thousand to 220 thousand as of September 30, 2020 compared to September 30, 2019.

Combined ratios by line of business

	Loss ratio		Expense ratio (1)		Combined ratio	
	2020	2019	2020	2019	2020	2019
Three months ended September 30,						
Auto	59.7	69.1	33.3	30.2	93.0	99.3
Homeowners	41.4	81.2	32.3	31.7	73.7	112.9
Other personal lines	25.0	85.0	35.0	30.0	60.0	115.0
Total	**49.6**	**75.1**	**33.1**	**30.7**	**82.7**	**105.8**
Impact of restructuring and related charges (2)	—	—	*1.6*	*0.4*	*1.6*	*0.4*
Nine months ended September 30,						
Auto	53.4	67.2	36.8	31.3	90.2	98.5
Impact of Shelter-in-Place Payback	—	—	*5.3*	—	*5.3*	—
Homeowners	62.2	73.6	31.4	31.4	93.6	105.0
Other personal lines	59.3	70.0	32.2	31.7	91.5	101.7
Total	**57.3**	**69.9**	**34.4**	**31.4**	**91.7**	**101.3**
Impact of restructuring and related charges (2)	—	—	*0.7*	*0.4*	*0.7*	*0.4*
Impact of Shelter-in-Place Payback	—	—	*2.8*	—	*2.8*	—

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

(2) Restructuring and related charges for the third quarter and first nine months of 2020 primarily related to the TGP.

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 (1)	
	2020	2019	2020	2019	2020	2019	2020	2019
Three months ended September 30,								
Auto	59.7	69.1	2.3	2.9	0.8	(0.7)	(0.8)	—
Homeowners	41.4	81.2	3.0	40.6	(38.4)	3.0	(40.4)	3.0
Other personal lines	25.0	85.0	(5.0)	10.0	(30.0)	(5.0)	(10.0)	(5.0)
Total	**49.6**	**75.1**	**2.1**	**18.3**	**(17.3)**	**0.4**	**(17.3)**	**0.8**
Nine months ended September 30,								
Auto	53.4	67.2	1.8	2.5	0.2	(2.5)	(0.5)	—
Homeowners	62.2	73.6	22.1	29.4	(13.1)	5.1	(13.7)	3.7
Other personal lines	59.3	70.0	5.1	8.3	(13.6)	(3.3)	(3.4)	(1.7)
Total	**57.3**	**69.9**	**10.0**	**13.5**	**(6.1)**	**0.4**	**(6.0)**	**1.3**

(1) 2020 includes $43 million of favorable reserve reestimates related to subrogation settlements, which primarily impacted homeowners. See Note 8 of the condensed consolidated financial statements for additional details.

Auto loss ratio decreased 9.4 points and 13.8 points in the third quarter and first nine months of 2020, respectively, compared to the same periods of 2019, primarily due to lower claim frequency, partially offset by increased claim severity.

Homeowners loss ratio decreased 39.8 points and 11.4 points in the third quarter and first nine months of 2020, respectively, compared to the same periods of 2019, primarily due to favorable catastrophe reserve reestimates driven by subrogation settlements and lower non-catastrophe claim frequency, partially offset by higher catastrophe losses.

Impact of specific costs and expenses on the expense ratio

	Three months ended September 30,		Nine months ended September 30,	
	2020	**2019**	**2020**	**2019**
Amortization of DAC	19.4	18.7	19.2	18.8
Advertising expense	—	—	0.1	0.1
Other costs and expenses	12.1	11.6	11.6	12.1
Subtotal	31.5	30.3	30.9	31.0
Restructuring and related charges (1)	1.6	0.4	0.7	0.4
Shelter-in-Place Payback expense	—	—	2.8	—
Total expense ratio	**33.1**	**30.7**	**34.4**	**31.4**

(1) Restructuring and related charges for the third quarter and first nine months of 2020 primarily related to the TGP.

Expense ratio increased 2.4 points in the third quarter of 2020 compared to the same period of 2019, primarily due to higher restructuring charges related to the TGP. Expense ratio increased 3.0 points in the first nine months of 2020 compared to the same period of 2019, primarily due to Shelter-in-Place Payback expense, higher restructuring charges related to the TGP, partially offset by lower operating costs.

Discontinued Lines and Coverages Segment

Underwriting results

($ in millions)	Three months ended September 30, 2020	Three months ended September 30, 2019	Nine months ended September 30, 2020	Nine months ended September 30, 2019
Claims and claims expense				
Asbestos claims	$ (78)	$ (28)	$ (78)	$ (28)
Environmental claims	(44)	(36)	(44)	(36)
Other discontinued lines	(13)	(34)	(17)	(39)
Total claims and claims expense	(135)	(98)	(139)	(103)
Operating costs and expenses	—	(1)	(2)	(2)
Underwriting loss	**$ (135)**	**$ (99)**	**$ (141)**	**$ (105)**

Annual reserve review In the third quarter of 2020 and 2019, we performed our annual reserve review using established industry and actuarial best practices. The annual review resulted in unfavorable reserve reestimates totaling $132 million and $95 million in 2020 and 2019, net of $1 million and $6 million reduction in the allowance for future uncollectible reinsurance, respectively. The reserve reestimates are included as part of claims and claims expense.

The third quarter 2020 reserve reestimates primarily related to new reported information, court decisions and policy buyback settlements for asbestos exposures and higher than expected reported losses for environmental and other discontinued lines exposures.

The third quarter 2019 reserve reestimates primarily related to new reported information and settlement agreements, including bankruptcy proceedings, impacting asbestos and other discontinued lines and additional environmental clean-up sites.

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 (e.g., 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, 2020	December 31, 2019
Asbestos claims		
Gross reserves	$ 1,240	$ 1,172
Reinsurance	(396)	(362)
Net reserves	844	810
Environmental claims		
Gross reserves	253	219
Reinsurance	(43)	(40)
Net reserves	210	179
Other discontinued lines		
Gross reserves	437	427
Reinsurance	(59)	(51)
Net reserves	378	376
Total		
Gross reserves	1,930	1,818
Reinsurance	(498)	(453)
Net reserves	**$ 1,432**	**$ 1,365**

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

($ in millions)	September 30, 2020	December 31, 2019
Direct excess commercial insurance		
Gross reserves	$ 1,047	$ 948
Reinsurance	(375)	(332)
Net reserves	672	616
Assumed reinsurance coverage		
Gross reserves	644	606
Reinsurance	(61)	(53)
Net reserves	583	553
Direct primary commercial insurance		
Gross reserves	157	169
Reinsurance	(61)	(54)
Net reserves	96	115
Other run-off business		
Gross reserves	2	15
Reinsurance	—	(13)
Net reserves	2	2
Unallocated loss adjustment expenses		
Gross reserves	80	80
Reinsurance	(1)	(1)
Net reserves	79	79
Total		
Gross reserves	1,930	1,818
Reinsurance	(498)	(453)
Net reserves	**$ 1,432**	**$ 1,365**

Percentage of gross and ceded reserves by case and incurred but not reported ("IBNR")

	September 30, 2020		December 31, 2019	
	Case	IBNR	Case	IBNR
Direct excess commercial insurance				
Gross reserves [(1)]	66%	34%	68%	32%
Ceded [(2)]	73	27	78	22
Assumed reinsurance coverage				
Gross reserves	34	66	34	66
Ceded	34	66	35	65
Direct primary commercial insurance				
Gross reserves	55	45	56	44
Ceded	79	21	78	22

(1) Approximately 67% of gross case reserves as of September 30, 2020 are subject to settlement agreements.

(2) Approximately 75% of ceded case reserves as of September 30, 2020 are subject to settlement agreements.

Gross payments from case reserves by type of exposure

($ in millions)	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Direct excess commercial insurance				
Gross [(1)]	$ 15	$ 17	$ 53	$ 71
Ceded [(2)]	(6)	(7)	(20)	(28)
Assumed reinsurance coverage				
Gross	11	7	33	25
Ceded	(2)	—	(4)	(1)
Direct primary commercial insurance				
Gross	4	2	7	12
Ceded	(3)	—	(4)	(1)

(1) In the third quarter and first nine months 61% and 73% of 2020 payments related to settlement agreements.

(2) In the third quarter and first nine months 63% and 76% of 2020 payments related to settlement agreements.

Total net reserves as of September 30, 2020, included $699 million or 49% of estimated IBNR reserves compared to $660 million or 48% of estimated IBNR reserves as of December 31, 2019.

Total gross payments were $28 million and $92 million for the third quarter and first nine months of 2020, respectively. Payments for the third quarter of 2020 primarily related to asbestos claims. Payments for the first nine months of 2020 primarily related to settlement agreements reached with several insureds on large claims, mainly asbestos related losses, where the scope of coverages has been agreed upon. The claims associated with these settlement agreements are expected to be substantially paid out over the next several years as qualified claims are submitted by these insureds.

Reinsurance collections were $11 million and $43 million for the third quarter and first nine months of 2020, respectively. The allowance for uncollectible reinsurance recoverables was $59 million and $60 million as of September 30, 2020 and December 31, 2019, respectively. The allowance represents 10.4% and 11.1% of the related reinsurance recoverable balances as of September 30, 2020 and December 31, 2019, respectively.

Service Businesses Segment

Allstate PROTECTION PLANS · Allstate Dealer Services · arity founded by Allstate · Allstate IDENTITY PROTECTION · Allstate ROADSIDE

Summarized financial information

($ in millions)	Three months ended September 30, 2020	Three months ended September 30, 2019	Nine months ended September 30, 2020	Nine months ended September 30, 2019
Premiums written	$ 485	$ 364	$ 1,331	$ 1,082
Revenues				
Premiums	$ 384	$ 312	$ 1,098	$ 912
Other revenue	52	47	155	142
Intersegment insurance premiums and service fees [1]	36	44	109	110
Net investment income	12	11	33	30
Realized capital gains (losses)	14	4	9	21
Total revenues	**498**	**418**	**1,404**	**1,215**
Costs and expenses				
Claims and claims expense	(107)	(93)	(284)	(271)
Amortization of DAC	(169)	(139)	(482)	(400)
Operating costs and expenses	(160)	(171)	(484)	(480)
Restructuring and related charges	2	(1)	(1)	—
Amortization of purchased intangibles	(28)	(31)	(81)	(93)
Impairment of purchased intangibles	—	—	—	(55)
Total costs and expenses	**(462)**	**(435)**	**(1,332)**	**(1,299)**
Income tax (expense) benefit	(6)	4	(13)	19
Net income (loss) applicable to common shareholders	**$ 30**	**$ (13)**	**$ 59**	**$ (65)**
Adjusted net income	**$ 40**	**$ 8**	**$ 115**	**$ 35**
Realized capital gains (losses), after-tax	11	4	7	17
Amortization of purchased intangibles, after-tax	(21)	(25)	(63)	(74)
Impairment of purchased intangibles, after-tax	—	—	—	(43)
Net income (loss) applicable to common shareholders	**$ 30**	**$ (13)**	**$ 59**	**$ (65)**
Allstate Protection Plans	$ 36	$ 15	$ 105	$ 48
Allstate Dealer Services	7	6	22	19
Allstate Roadside Services	4	(5)	8	(14)
Arity	(3)	(1)	(9)	(4)
Allstate Identity Protection	(4)	(7)	(11)	(14)
Adjusted net income	**$ 40**	**$ 8**	**$ 115**	**$ 35**
Allstate Protection Plans			125,831	89,783
Allstate Dealer Services			4,075	4,224
Allstate Roadside Services			558	617
Allstate Identity Protection			2,490	1,318
Policies in force as of September 30 (in thousands)			**132,954**	**95,942**

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

Net income (loss) applicable to common shareholders increased $43 million in the third quarter of 2020 compared to the third quarter of 2019 and increased $124 million in the first nine months of 2020 compared to the first nine months of 2019. The first nine months of 2019 included a $55 million intangible impairment related to the SquareTrade trade name that occurred in the second quarter of 2019.

Adjusted net income increased $32 million in the third quarter of 2020 compared to the third quarter of 2019 and increased $80 million in the first nine months of 2020 compared to the first nine months of 2019. The increase in both periods was primarily due to growth of Allstate Protection Plans and improved profitability at Allstate Roadside Services, partially offset by investments at Allstate Identity Protection.

Total revenues increased 19.1% or $80 million in the third quarter of 2020 compared to the third quarter of 2019 and increased 15.6% or $189 million in the first nine months of 2020 compared to the first nine months of 2019. The increase in both periods was primarily due to Allstate Protection Plans' growth through its U.S. retail and international channels partially offset by declines in revenue at Allstate Roadside Services.

Premiums written increased 33.2% or $121 million in the third quarter of 2020 compared to the third quarter of 2019 and increased 23.0% or $249 million in the first nine months of 2020 compared to the first nine months of 2019. The increase in both periods was primarily due to growth at Allstate Protection Plans.

PIF increased 38.6% or 37 million to 133 million as of September 30, 2020 compared to September 30, 2019 due to continued growth at Allstate Protection Plans.

Intersegment premiums and service fees decreased 18.2% or $8 million in the third quarter of 2020 compared to the third quarter of 2019 and decreased 0.9% or $1 million in the first nine months of 2020 compared to the first nine months of 2019. The decrease in both periods was primarily related to decreased device sales through Arity's device and mobile data collection services and analytic solutions.

Other revenue increased 10.6% or $5 million in the third quarter of 2020 compared to the third quarter of 2019 and increased 9.2% or $13 million in the first nine months of 2020 compared to the first nine months of 2019. The increase in both periods was primarily due to increased sales at Allstate Identity Protection.

Claims and claims expense increased 15.1% or $14 million in the third quarter 2020 compared to the third quarter of 2019 and increased 4.8% or $13 million in the first nine months of 2020 compared to the first nine months of 2019. The increase in both periods was primarily due to higher levels of claims at Allstate Protection Plans driven by growth of the business, partially offset by lower losses at Allstate Roadside Services and Allstate Dealer Services due to declines in auto miles driven related to the Coronavirus.

Amortization of DAC increased 21.6% or $30 million in the third quarter of 2020 compared to the third quarter of 2019 and increased 20.5% or $82 million in the first nine months of 2020 compared to the first nine months of 2019. The increase is driven by the growth experienced at Allstate Protection Plans.

Operating costs and expenses decreased 6.4% or $11 million in the third quarter of 2020 compared to the third quarter of 2019 primarily due to lower operating costs at Allstate Roadside Services, partially offset by growth experienced at Allstate Protection Plans. Operating costs and expenses increased 0.8% or $4 million in the first nine months of 2020 compared to the first nine months of 2019 primarily due to higher costs related to increased revenue and continued growth investments at Allstate Protection Plans and technology and product investments at Allstate Identity Protection, partially offset by lower operating costs at Allstate Roadside Services.

Amortization of purchased intangibles relates to the acquisitions of Allstate Protection Plans in 2017 and Allstate Identity Protection in 2018. We recorded amortization expense of $28 million and $81 million in the third quarter and first nine months of 2020, respectively, compared to $31 million and $93 million in the third quarter and first nine months of 2019, respectively.

Allstate Life Segment

Summarized financial information

($ in millions)	Three months ended September 30, 2020	Three months ended September 30, 2019	Nine months ended September 30, 2020	Nine months ended September 30, 2019
Revenues				
Premiums and contract charges	$ 330	$ 331	$ 1,002	$ 1,001
Other revenue	28	31	84	91
Net investment income	123	128	374	380
Realized capital gains (losses)	9	5	(3)	1
Total revenues	**490**	**495**	**1,457**	**1,473**
Costs and expenses				
Contract benefits	(248)	(202)	(698)	(632)
Interest credited to contractholder funds	(76)	(85)	(246)	(227)
Amortization of DAC	(106)	(84)	(144)	(141)
Operating costs and expenses	(81)	(77)	(240)	(259)
Restructuring and related charges	(2)	—	(5)	(1)
Total costs and expenses	**(513)**	**(448)**	**(1,333)**	**(1,260)**
Income tax benefit (expense)	10	(7)	(9)	(39)
Net (loss) income applicable to common shareholders	**$ (13)**	**$ 40**	**$ 115**	**$ 174**
Adjusted net (loss) income	**$ (14)**	**$ 44**	**$ 138**	**$ 185**
Realized capital gains (losses), after-tax	6	4	(3)	—
Valuation changes on embedded derivatives not hedged, after-tax	(1)	(9)	(24)	(9)
DAC and DSI amortization related to realized capital gains and losses and valuation changes on embedded derivatives not hedged, after-tax	(4)	1	4	(2)
Net (loss) income applicable to common shareholders	**$ (13)**	**$ 40**	**$ 115**	**$ 174**
Reserve for life-contingent contract benefits as of September 30			$ 2,726	$ 2,718
Contractholder funds as of September 30			$ 7,932	$ 7,733
Policies in force as of September 30 by distribution channel (in thousands)				
Allstate agencies			1,774	1,818
Closed channels			100	108
Total			1,874	1,926

Net loss applicable to common shareholders was $13 million in the third quarter of 2020 compared to net income of $40 million in the third quarter of 2019. Net income applicable to common shareholders decreased 33.9% or $59 million in the first nine months of 2020 compared to the same period of 2019.

Adjusted net loss was $14 million in the third quarter of 2020 compared to adjusted net income of $44 million in the third quarter of 2019, primarily due to higher contract benefits and amortization of DAC related to our annual review of assumptions. Adjusted net income decreased 25.4% or $47 million in the first nine months of 2020 compared the same period of 2019, primarily due to higher contract benefits, partially offset by lower operating costs and expenses.

Premiums and contract charges decreased 0.3% or $1 million in the third quarter of 2020 compared to the third quarter of 2019. Premiums and contract charges increased 0.1% or $1 million in the first nine months of 2020 compared to the same period of 2019, primarily due to higher premiums from traditional life insurance, partially offset by lower contract charges on interest-sensitive life insurance from a decline in business in force.

Effective March 31, 2020, in light of uncertainty around the impacts of the Coronavirus, we implemented temporary underwriting restrictions on new life insurance applications. We are approving standard and preferred rate classes only, with a maximum issue age of 69, and suspended sales of our simplified issue term life product that does not require underwriting. While these restrictions are in place, we expect sales to slow. Allstate agents and exclusive financial specialists are able to offer coverage to customers outside these guidelines through non-proprietary carriers.

Premiums and contract charges by product

($ in millions)	Three months ended September 30, 2020	Three months ended September 30, 2019	Nine months ended September 30, 2020	Nine months ended September 30, 2019
Traditional life insurance premiums	$ 154	$ 155	$ 471	$ 465
Accident and health insurance premiums	—	—	1	1
Interest-sensitive life insurance contract charges [1]	176	176	530	535
Premiums and contract charges	**$ 330**	**$ 331**	**$ 1,002**	**$ 1,001**

[1] Contract charges related to the cost of insurance totaled $125 million and $123 million for the third quarter of 2020 and 2019, respectively, and $379 million and $375 million for the first nine months of 2020 and 2019, respectively.

Other revenue decreased 9.7% or $3 million in the third quarter of 2020 and decreased 7.7% or $7 million in the first nine months of 2020 compared to the same periods of 2019, primarily due to lower gross dealer concessions earned on Allstate agents' sales of non-proprietary fixed and variable annuities.

Contract benefits increased 22.8% or $46 million in the third quarter of 2020 and increased 10.4% or $66 million in the first nine months of 2020 compared to the same periods of 2019, primarily due to higher claim experience related to Coronavirus on both interest-sensitive and traditional life insurance and an increase in reserves for secondary guarantees on interest-sensitive life insurance. Estimated Coronavirus claims, net of reinsurance and reserve releases, totaled $22 million and $48 million in the third quarter and first nine months of 2020, respectively.

Our annual review of assumptions in third quarter 2020 resulted in a $24 million increase in reserves primarily for secondary guarantees on interest-sensitive life insurance due to decreased projected interest rates that result in lower projected policyholder account values which increases guaranteed benefits. In third quarter 2019, the review resulted in a $5 million decrease in reserves primarily for secondary guarantees on interest-sensitive life insurance due to utilizing more refined policy level information and assumptions.

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 59.2% to $31 million in the third quarter of 2020 and decreased 26.8% to $153 million in the first nine months of 2020 compared to the same periods in 2019, primarily due to higher claim experience on both interest-sensitive and traditional life insurance and an increase in reserves for secondary guarantees on interest-sensitive life insurance.

Interest credited to contractholder funds decreased 10.6% or $9 million in the third quarter of 2020 and increased 8.4% or $19 million in the first nine months of 2020 compared to the same periods of 2019. Valuation changes on derivatives embedded in equity-indexed universal life contracts that are not hedged increased interest credited to contractholder funds by $2 million and $31 million in the third quarter and first nine months of 2020 compared to $12 in both of the same periods of 2019. These valuation changes are primarily driven by changes in interest rates.

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

($ in millions)	Three months ended September 30, 2020	Three months ended September 30, 2019	Nine months ended September 30, 2020	Nine months ended September 30, 2019
Investment spread before valuation changes on embedded derivatives not hedged	$ 49	$ 55	$ 159	$ 165
Valuation changes on derivatives embedded in equity-indexed universal life contracts that are not hedged	(2)	(12)	(31)	(12)
Total investment spread	**$ 47**	**$ 43**	**$ 128**	**$ 153**

Investment spread before valuation changes on embedded derivatives not hedged decreased 10.9% or $6 million in the third quarter of 2020 and decreased 3.6% or $6 million compared to the same periods of 2019, primarily due to lower net investment income.

Amortization of DAC increased 26.2% or $22 million in the third quarter of 2020 and increased 2.1% or $3 million in the first nine months of 2020 compared to the same periods of 2019, primarily due to higher amortization acceleration for changes in assumptions, partially offset by lower amortization due to lower gross profits on interest-sensitive life insurance.

Components of amortization of DAC

($ in millions)	Three months ended September 30, 2020	Three months ended September 30, 2019	Nine months ended September 30, 2020	Nine months ended September 30, 2019
Amortization of DAC before amortization relating to realized capital gains and losses, valuation changes on embedded derivatives that are not hedged and changes in assumptions	$ 21	$ 27	$ 69	$ 80
Amortization relating to realized capital gains and losses [(1)] and valuation changes on embedded derivatives that are not hedged	4	(1)	(6)	3
Amortization acceleration for changes in assumptions (“DAC unlocking”)	81	58	81	58
Total amortization of DAC	**$ 106**	**$ 84**	**$ 144**	**$ 141**

(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. An assessment is made of future projections to ensure the reported DAC balances reflect current expectations.

In third quarter 2020, the review resulted in an acceleration of DAC amortization (decrease to income) of $81 million compared to $58 million in the prior year period.

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

($ in millions)	Nine months ended September 30, 2020	Nine months ended September 30, 2019
Investment margin	$ 125	$ 20
Benefit margin	(3)	38
Expense margin	(41)	—
Net acceleration	**$ 81**	**$ 58**

In 2020, DAC amortization acceleration for changes in the investment margin component of estimated gross profits was due to lower projected future interest rates and investment returns compared to our previous expectations. The deceleration related to benefit margin was due to decreased projected mortality. The expense margin deceleration was due to a decrease in projected expenses.

In 2019, DAC amortization acceleration for changes in the investment margin component of estimated gross profits was due to lower projected future interest rates and investment returns compared to our previous expectations. The acceleration related to benefit margin was due to decreased projected interest rates that result in lower projected policyholder account values which increases benefits on guaranteed products and more refined policy level information and assumptions.

Operating costs and expenses increased 5.2% or $4 million in the third quarter of 2020 compared to the third quarter of 2019, primarily due to the reduction in the prior year of a loss contingency expense related to reinsurance, partially offset by lower employee-related, marketing and technology costs. Operating costs and expenses decreased 7.3% or $19 million in the first nine months of 2020 compared to the same periods of 2019, primarily due to lower employee-related, marketing and technology costs.

Analysis of reserves and contractholder funds

Reserve for life-contingent contract benefits

($ in millions)	September 30, 2020	December 31, 2019
Traditional life insurance	$ 2,608	$ 2,612
Accident and health insurance	118	124
Reserve for life-contingent contract benefits	**$ 2,726**	**$ 2,736**

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

Change in contractholder funds

($ in millions)	Three months ended September 30, 2020	Three months ended September 30, 2019	Nine months ended September 30, 2020	Nine months ended September 30, 2019
Contractholder funds, beginning balance	$ 7,857	$ 7,711	$ 7,805	$ 7,656
Deposits	232	236	692	712
Interest credited	74	83	244	225
Benefits, withdrawals and other adjustments				
Benefits	(57)	(60)	(171)	(184)
Surrenders and partial withdrawals	(54)	(65)	(171)	(198)
Contract charges	(177)	(176)	(527)	(526)
Net transfers from separate accounts	1	2	3	8
Other adjustments (1)	56	2	57	40
Total benefits, withdrawals and other adjustments	(231)	(297)	(809)	(860)
Contractholder funds, ending balance	**$ 7,932**	**$ 7,733**	**$ 7,932**	**$ 7,733**

(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, 2020	Three months ended September 30, 2019	Nine months ended September 30, 2020	Nine months ended September 30, 2019
Revenues				
Premiums and contract charges	$ 287	$ 291	$ 832	$ 863
Net investment income	18	21	58	61
Realized capital gains (losses)	3	2	—	8
Total revenues	**308**	**314**	**890**	**932**
Costs and expenses				
Contract benefits	(128)	(161)	(392)	(449)
Interest credited to contractholder funds	(8)	(9)	(26)	(26)
Amortization of DAC	(59)	(33)	(139)	(111)
Operating costs and expenses	(68)	(69)	(253)	(211)
Restructuring and related charges	—	—	(1)	—
Total costs and expenses	**(263)**	**(272)**	**(811)**	**(797)**
Income tax expense	(9)	(9)	(17)	(29)
Net income applicable to common shareholders	**$ 36**	**$ 33**	**$ 62**	**$ 106**
Adjusted net income	**$ 33**	**$ 31**	**$ 62**	**$ 99**
Realized capital gains (losses), after-tax	3	2	—	7
Net income applicable to common shareholders	**$ 36**	**$ 33**	**$ 62**	**$ 106**
Benefit ratio (1)	44.6	55.3	47.1	52.0
Operating expense ratio (2)	23.7	23.7	30.4	24.4
Reserve for life-contingent contract benefits as of September 30			$ 1,038	$ 1,033
Contractholder funds as of September 30			$ 855	$ 912
Policies in force as of September 30 (in thousands)			4,092	4,287

(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 increased 9.1% or $3 million in the third quarter of 2020 and decreased 41.5% or $44 million in the first nine months of 2020 compared to the same periods of 2019.

Adjusted net income increased 6.5% or $2 million in the third quarter of 2020 compared to the third quarter of 2019, primarily due to lower contract benefits, partially offset by higher DAC amortization related to our annual review of assumptions. Adjusted net income decreased 37.4% or $37 million in the first nine months of 2020 compared to the same period of 2019, primarily due to higher operating costs and expenses driven by a $41 million, pre-tax, write-off of capitalized software costs associated with a billing system in the second quarter of 2020 and lower premiums, partially offset by lower contract benefits.

Premiums and contract charges decreased 1.4% or $4 million in the third quarter of 2020 and decreased 3.6% or $31 million in the first nine months of 2020 compared to the same periods of 2019, primarily due to decreases in disability products and decreased premium collections due to Coronavirus-related layoffs and furloughs, partially offset by an increase in contract charges associated with the annual review of assumptions.

Premiums and contract charges by product

($ in millions)	Three months ended September 30, 2020	Three months ended September 30, 2019	Nine months ended September 30, 2020	Nine months ended September 30, 2019
Life	$ 52	$ 41	$ 128	$ 117
Accident	72	76	214	226
Critical illness	118	121	355	363
Short-term disability	19	27	56	80
Other health	26	26	79	77
Premiums and contract charges	**$ 287**	**$ 291**	**$ 832**	**$ 863**

Contract benefits decreased 20.5% or $33 million in the third quarter of 2020 and decreased 12.7% or $57 million in the first nine months of 2020 compared to the same periods of 2019, primarily due to lower reported claim experience on critical illness, disability and accident products, driven by limited activities and deferral of non-essential medical procedures from the Coronavirus and the non-renewal of a large underperforming account in the fourth quarter of 2019.

Benefit ratio decreased to 44.6 and 47.1 in the third quarter and the first nine months of 2020, respectively, compared to 55.3 and 52.0 in the same periods of 2019, primarily due to lower contract benefits for critical illness and accident products and an increase in contract charges associated with the annual review of assumptions.

Amortization of DAC increased 78.8% or $26 million in the third quarter of 2020 and increased 25.2% or $28 million in the first nine months of 2020 compared to the same periods of 2019, primarily due to an unfavorable 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 an acceleration of DAC amortization (decrease to income) of $28 million or 5.8% of the unamortized DAC asset balance in the third quarter of 2020 compared to $2 million in the third quarter of 2019. In both 2020 and 2019, DAC amortization acceleration primarily related to lower projected investment returns, partially offset by favorable projected mortality.

Operating costs and expenses

($ in millions)	Three months ended September 30, 2020	Three months ended September 30, 2019	Nine months ended September 30, 2020	Nine months ended September 30, 2019
Non-deferrable commissions	$ 25	$ 26	$ 76	$ 78
General and administrative expenses	43	43	177	133
Total operating costs and expenses	**$ 68**	**$ 69**	**$ 253**	**$ 211**

Operating costs and expenses decreased 1.4% or $1 million in the third quarter of 2020 compared to the third quarter of 2019, primarily due to lower employee-related costs, partially offset by higher technology expenses. Operating costs and expenses increased 19.9% or $42 million in the first nine months of 2020 compared to the first nine months of 2019, primarily due to a $41 million, pre-tax, write-off of capitalized software costs associated with a billing system in the second quarter of 2020 and higher technology expenses.

Operating expense ratio of 23.7 in the third quarter of 2020 was comparable to the third quarter of 2019. Operating expense ratio increased to 30.4 in the first nine months of 2020 compared to 24.4 in the first nine months of 2019, primarily due to a $41 million, pre-tax, write-off of capitalized software costs associated with a billing system in the second quarter of 2020.

Analysis of reserves

Reserve for life-contingent contract benefits

($ in millions)	September 30, 2020	December 31, 2019
Traditional life insurance	$ 294	$ 285
Accident and health insurance	744	749
Reserve for life-contingent contract benefits	**$ 1,038**	**$ 1,034**

Allstate Annuities Segment

Summarized financial information

($ in millions)	Three months ended September 30, 2020	Three months ended September 30, 2019	Nine months ended September 30, 2020	Nine months ended September 30, 2019
Revenues				
Contract charges	$ 3	$ 3	$ 7	$ 10
Net investment income	245	251	358	737
Realized capital gains (losses)	112	20	88	224
Total revenues	**360**	**274**	**453**	**971**
Costs and expenses				
Contract benefits	(351)	(150)	(635)	(440)
Interest credited to contractholder funds	(66)	(75)	(210)	(234)
Amortization of DAC	—	(2)	(3)	(5)
Operating costs and expenses	(6)	(7)	(19)	(22)
Restructuring and related charges	(2)	—	(2)	—
Total costs and expenses	**(425)**	**(234)**	**(869)**	**(701)**
Gain on disposition of operations	1	—	3	3
Income tax benefit (expense)	13	(9)	91	(57)
Net (loss) income applicable to common shareholders	**$ (51)**	**$ 31**	**$ (322)**	**$ 216**
Adjusted net income	**$ 37**	**$ 16**	**$ (213)**	**$ 43**
Realized capital gains (losses), after-tax	89	16	70	177
Valuation changes on embedded derivatives not hedged, after-tax	1	(1)	(3)	(6)
Premium deficiency for immediate annuities, after-tax	(178)	—	(178)	—
Gain on disposition of operations, after-tax	—	—	2	2
Net (loss) income applicable to common shareholders	**$ (51)**	**$ 31**	**$ (322)**	**$ 216**
Reserve for life-contingent contract benefits as of September 30			$ 8,995	$ 8,627
Contractholder funds as of September 30			$ 8,501	$ 9,159
Policies in force as of September 30 (in thousands)				
Deferred annuities			107	117
Immediate annuities			74	80
Total			181	197

Net loss applicable to common shareholders was $51 million in the third quarter of 2020 and $322 million in the first nine months of 2020 compared to net income of $31 million in the third quarter of 2019 and $216 million in the first nine months of 2019. Both periods of 2020 include a $178 million, after-tax, ($225 million, pre-tax) premium deficiency for immediate annuities with life contingencies.

We periodically review the adequacy of reserves for immediate annuities with life contingencies using actual experience and current assumptions. In the event actual experience and current assumptions are adverse compared to the original assumptions and a premium deficiency is determined to exist, the establishment of a premium deficiency reserve ("PDR") is required.

In third quarter 2020, our long-term investment yield assumption was lowered, which resulted in the prior sufficiency changing to a deficiency. The deficiency was recognized as an increase in the reserve for life-contingent contract benefits. The original assumptions used to establish reserves were updated to reflect current assumptions, and the primary changes included mortality expectations, where annuitants are living longer than originally anticipated, and long-term investment yields.

Our annual review of assumptions also resulted in a $5 million increase in reserves primarily for guaranteed withdrawal benefits on equity-indexed annuities due to higher projected guaranteed benefits. In the third quarter of 2019, the review resulted in no adjustment to reserves for guaranteed benefits.

Adjusted net income increased $21 million in the third quarter of 2020 compared to the third quarter of 2019, primarily due to lower contract benefits, partially offset by lower net investment income. Adjusted net loss was $213 million in the first nine months of 2020 compared to adjusted net income of $43 million in the first nine months of 2019, primarily due to lower net investment income.

Net investment income decreased 2.4% or $6 million in the third quarter of 2020 compared to the third quarter of 2019, primarily due to lower interest-bearing investment yields. Net investment income decreased 51.4% or $379 million in the first nine months of 2020 compared to the same period of 2019, primarily due to lower performance-based investment results, lower interest-bearing investment yields and lower average investment balances.

The investment portfolio supporting immediate annuities is managed to ensure the assets match the characteristics of the liabilities and provide the long-term returns needed to support this business. To better match the long-term nature of our immediate annuities, we use performance-based investments in which we have ownership interests, and a greater proportion of return is derived from idiosyncratic asset or operating performance. Performance-based income can vary significantly between periods and is influenced by economic conditions, equity market performance, comparable public company earnings multiples, capitalization rates, operating performance of the underlying investments and the timing of asset sales.

Net realized capital gains in both the third quarter and first nine months of 2020 primarily related to increased valuation of equity investments.

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

Contract benefits increased $201 million in the third quarter of 2020 and 44.3% or $195 million in the first nine months of 2020 compared to the same periods of 2019, primarily due to the premium deficiency for immediate annuities, partially offset by immediate annuity mortality experience that was favorable in comparison to the prior year periods.

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 $124 million and $357 million in the third quarter and first nine months of 2020, respectively, compared to $120 million and $360 million in the same periods of 2019. Total benefit spread was $(224) million and $(272) million in the third quarter and first nine months of 2020, respectively, compared to $(28) million and $(74) million in same periods of 2019.

Interest credited to contractholder funds decreased 12.0% or $9 million in the third quarter of 2020 and decreased 10.3% or $24 million in the first nine months of 2020 compared to the same periods of 2019, 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 $1 million in the third quarter of 2020 and increased interest credited to contractholder funds by $4 million in the first nine months of 2020, compared to an increase of $2 million and $8 million in the third quarter and first nine months of 2019, respectively. These valuation changes are primarily driven by changes in interest rates.

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, 2020	Three months ended September 30, 2019	Nine months ended September 30, 2020	Nine months ended September 30, 2019
Investment spread before valuation changes on embedded derivatives not hedged	$ 54	$ 58	$ (205)	$ 151
Valuation changes on derivatives embedded in equity-indexed annuity contracts that are not hedged	1	(2)	(4)	(8)
Total investment spread	**$ 55**	**$ 56**	**$ (209)**	**$ 143**

Investment spread before valuation changes on embedded derivatives not hedged decreased $4 million in the third quarter of 2020 and decreased $356 million in the first nine months of 2020 compared to the same periods of 2019, primarily due to lower investment income, partially offset by lower interest credited to contractholder funds.

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

Analysis of investment spread

	Three months ended September 30,					
	Weighted average investment yield		Weighted average interest crediting rate		Weighted average investment spreads	
	2020	2019	2020	2019	2020	2019
Deferred fixed annuities	3.9%	4.3%	2.7%	2.8%	1.2 %	1.5 %
Immediate fixed annuities with and without life contingencies	6.2	5.9	6.2	5.9	—	—

	Nine months ended September 30,					
	Weighted average investment yield		Weighted average interest crediting rate		Weighted average investment spreads	
	2020	2019	2020	2019	2020	2019
Deferred fixed annuities	4.0%	4.3%	2.7%	2.7%	1.3 %	1.6 %
Immediate fixed annuities with and without life contingencies	1.6	5.6	5.9	5.9	(4.3)	(0.3)

Operating costs and expenses decreased 14.3% or $1 million in the third quarter of 2020 and decreased 13.6% or $3 million in the first nine months of 2020 compared to the same periods of 2019, primarily due to lower technology and employee-related costs. In July 2020, we entered into an agreement to transition the servicing of annuities to a third-party administrator. The migration is expected to be completed by mid-2022. Restructuring charges were recorded in the third quarter of 2020 related to employee severance costs in connection with the migration.

Analysis of reserves and contractholder funds

Product liabilities

($ in millions)	September 30, 2020	December 31, 2019
Immediate fixed annuities with life contingencies:		
Sub-standard structured settlements and group pension terminations (1)	$ 5,761	$ 5,085
Standard structured settlements and SPIA (2)	3,162	3,367
Other	72	78
Reserve for life-contingent contract benefits	**$ 8,995**	**$ 8,530**
Deferred fixed annuities	$ 6,143	$ 6,499
Immediate fixed annuities without life contingencies	2,205	2,346
Other	153	127
Contractholder funds	**$ 8,501**	**$ 8,972**

(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.

Changes in contractholder funds

($ in millions)	Three months ended September 30, 2020	Three months ended September 30, 2019	Nine months ended September 30, 2020	Nine months ended September 30, 2019
Contractholder funds, beginning balance	$ 8,653	$ 9,347	$ 8,972	$ 9,817
Deposits	5	3	15	12
Interest credited	65	75	208	233
Benefits, withdrawals and other adjustments				
Benefits	(130)	(143)	(390)	(419)
Surrenders and partial withdrawals	(89)	(133)	(337)	(464)
Contract charges	(2)	(2)	(6)	(6)
Net transfers from separate accounts	—	—	—	(1)
Other adjustments [1]	(1)	12	39	(13)
Total benefits, withdrawals and other adjustments	(222)	(266)	(694)	(903)
Contractholder funds, ending balance	**$ 8,501**	**$ 9,159**	**$ 8,501**	**$ 9,159**

(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 1.8% and 5.2% in the third quarter and first nine months of 2020, respectively, primarily due to the continued runoff of our deferred fixed annuity business. We discontinued the sale of annuities but still accept additional deposits on existing contracts.

Surrenders and partial withdrawals decreased 33.1% or $44 million in the third quarter of 2020 and decreased 27.4% or $127 million in the first nine months of 2020 compared to the same periods of 2019.

The annualized surrender and partial withdrawal rate on deferred fixed annuities, based on the beginning of year contractholder funds, was 7.6% in the first nine months of 2020 compared to 9.5% in the first nine months of 2019.

Investments

Portfolio composition and strategy by reporting segment (1)

($ in millions)	September 30, 2020						
	Property-Liability	Service Businesses	Allstate Life	Allstate Benefits	Allstate Annuities	Corporate and Other	Total
Fixed income securities (2)	$ 39,200	$ 1,639	$ 8,810	$ 1,407	$ 14,058	$ 1,437	$ 66,551
Equity securities (3)	2,327	173	113	124	1,305	353	4,395
Mortgage loans, net	588	—	1,708	200	2,159	—	4,655
Limited partnership interests	4,283	—	—	—	2,948	1	7,232
Short-term investments (4)	1,863	138	378	33	1,036	1,111	4,559
Other, net	1,582	—	1,331	276	614	2	3,805
Total	**$ 49,843**	**$ 1,950**	**$ 12,340**	**$ 2,040**	**$ 22,120**	**$ 2,904**	**$ 91,197**
Percent to total	**54.7%**	**2.1%**	**13.5%**	**2.2%**	**24.3%**	**3.2%**	**100.0%**
Market-based	$ 44,635	$ 1,950	$ 12,340	$ 2,040	$ 18,875	$ 2,903	$ 82,743
Performance-based	5,208	—	—	—	3,245	1	8,454
Total	**$ 49,843**	**$ 1,950**	**$ 12,340**	**$ 2,040**	**$ 22,120**	**$ 2,904**	**$ 91,197**

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

(2) Fixed income securities are carried at fair value. Amortized cost, net for these securities was $37.35 billion, $1.55 billion, $7.89 billion, $1.29 billion, $12.82 billion, $1.37 billion and $62.27 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, 2020, was $528 million in excess of cost. These net gains were primarily concentrated in the technology, consumer goods and banking sectors. Equity securities include $1.49 billion of funds with underlying investments in fixed income securities as of September 30, 2020.

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

Investments totaled $91.20 billion as of September 30, 2020, increasing from $88.36 billion as of December 31, 2019, primarily due to higher fixed income valuations and positive operating cash flows, partially offset by common share repurchases, dividends paid to shareholders and net reductions in contractholder funds.

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. It seeks to deliver predictable earnings aligned to business needs and take advantage of short-term opportunities primarily through public and private fixed income investments and public equity securities.

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. These investments include investee level expenses, reflecting asset level operating expenses on directly held real estate and other consolidated investments.

Low interest rate environment In September 2020, the Federal Open Market Committee ("FOMC") maintained the target range for federal funds at 0 percent to 1/4 percent. The FOMC noted that the ongoing public health crisis will continue to weigh on economic activity, employment and inflation in the near term and poses considerable risks to the economic outlook over the medium term. In light of these developments, the FOMC expects to maintain this target range until labor market conditions have reached levels consistent with the Committee's assessments of maximum employment and inflation has risen to 2 percent and is on track to moderately exceed 2 percent for some time.

Investing activity will continue to decrease our portfolio yield as long as market yields remain below the current portfolio yield. Any decline in market-based portfolio yield is expected to result in lower net investment income in future periods.

Interest-bearing investments are comprised of fixed income securities, mortgage loans, short-term investments and other investments, including bank and agent loans.

Coronavirus impacts Ongoing uncertainty related to the future path of the pandemic has and may continue to create market volatility that impacted the valuations, liquidity, prospects and risks of fixed income securities, equity securities and performance-based investments, primarily limited partnership interests, during the first nine months of 2020. Fixed income securities in certain sectors such as energy, automotive, retail, travel, lodging and airlines were negatively impacted. Although fixed income and equity security values generally increased since the first quarter, future investment results will depend on developments, including the duration and spread of the outbreak, preventive measures to combat the spread of the virus, and capital market conditions, including the pace of economic recovery and effectiveness of the fiscal and monetary policy responses.

The ongoing impact of the Coronavirus on financial markets and the overall economy remain uncertain. Some of the restrictions implemented to contain the pandemic have been relaxed, but reduced economic activity, limits on large gatherings and events and higher unemployment continue. Additionally, there is no way of predicting with certainty how long the pandemic might last, including the potential for restrictions being restored or new restrictions being implemented that could result in further economic volatility.

Portfolio composition by investment strategy

	September 30, 2020		
($ in millions)	Market-based	Performance-based	Total
Fixed income securities	$ 66,455	$ 96	$ 66,551
Equity securities	4,069	326	4,395
Mortgage loans, net	4,655	—	4,655
Limited partnership interests	287	6,945	7,232
Short-term investments	4,559	—	4,559
Other, net	2,718	1,087	3,805
Total	**$ 82,743**	**$ 8,454**	**$ 91,197**
Percent to total	**90.7%**	**9.3%**	**100.0%**
Unrealized net capital gains and losses			
Fixed income securities	$ 4,283	$ 1	$ 4,284
Limited partnership interests	—	(4)	(4)
Other	(3)	—	(3)
Total	**$ 4,280**	**$ (3)**	**$ 4,277**

Fixed income securities by type

	Fair value as of	
($ in millions)	September 30, 2020	December 31, 2019
U.S. government and agencies	$ 2,850	$ 5,086
Municipal	9,709	8,620
Corporate	51,677	43,078
Foreign government	1,017	979
Asset-backed securities ("ABS")	1,206	862
Mortgage-backed securities ("MBS")	92	419
Total fixed income securities	**$ 66,551**	**$ 59,044**

Fixed income securities are rated by third-party credit rating agencies and/or are internally rated. As of September 30, 2020, 87.4% of the consolidated fixed income securities portfolio was rated investment grade, which is defined as a security having a rating of Aaa, Aa, A or Baa from Moody's, a rating of AAA, AA, A or BBB from S&P, a comparable rating from another nationally recognized rating agency, or a comparable internal rating if an externally provided rating is not available. Credit ratings below these designations are considered lower 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 due diligence process which includes, but is not limited to, an assessment of the credit quality, sector, structure, and liquidity risks of each issue.

Fair value and unrealized net capital gains (losses) for fixed income securities by credit rating

($ in millions)	September 30, 2020 A and above Fair value	A and above Unrealized gain (loss)	BBB Fair value	BBB Unrealized gain (loss)	BB Fair value	BB Unrealized gain (loss)
U.S. government and agencies	$ 2,850	$ 113	$ —	$ —	$ —	$ —
Municipal	9,336	727	308	31	8	—
Corporate						
Public	15,155	1,243	18,672	1,359	2,836	114
Privately placed	4,400	329	5,210	287	2,546	38
Total corporate	19,555	1,572	23,882	1,646	5,382	152
Foreign government	1,001	43	11	2	5	—
ABS	1,108	2	12	(3)	11	(1)
MBS	49	3	26	—	3	—
Total fixed income securities	**$ 33,899**	**$ 2,460**	**$ 24,239**	**$ 1,676**	**$ 5,409**	**$ 151**

	B Fair value	B Unrealized gain (loss)	CCC and lower Fair value	CCC and lower Unrealized gain (loss)	Total Fair value	Total Unrealized gain (loss)
U.S. government and agencies	$ —	$ —	$ —	$ —	$ 2,850	$ 113
Municipal	11	—	46	3	9,709	761
Corporate						
Public	547	(13)	44	(7)	37,254	2,696
Privately placed	2,043	16	224	(6)	14,423	664
Total corporate	2,590	3	268	(13)	51,677	3,360
Foreign government	—	—	—	—	1,017	45
ABS	24	(4)	51	1	1,206	(5)
MBS	—	—	14	7	92	10
Total fixed income securities	**$ 2,625**	**$ (1)**	**$ 379**	**$ (2)**	**$ 66,551**	**$ 4,284**

Municipal bonds, including tax-exempt and taxable securities, include general obligations of state and local issuers and revenue bonds.

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

ABS includes collateralized debt obligations, consumer and other ABS. Credit risk is managed by monitoring the performance of the underlying collateral. Many of the securities in the ABS portfolio have credit enhancement with features such as overcollateralization, subordinated structures, reserve funds, guarantees and/or insurance.

MBS includes residential mortgage-backed securities ("RMBS") and commercial mortgage-backed securities ("CMBS"). RMBS is subject to interest rate risk, but unlike other fixed income securities, is additionally subject to prepayment risk from the underlying residential mortgage loans. RMBS consists of a U.S. Agency portfolio having collateral issued or guaranteed by U.S. government agencies and a non-agency portfolio consisting of securities collateralized by Prime, Alt-A and Subprime loans. CMBS investments are primarily traditional conduit transactions collateralized by commercial mortgage loans and typically are 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 ("REIT") equity investments. Certain exchange traded and mutual funds have fixed income securities as their underlying investments.

Mortgage loans mainly comprise loans secured by first mortgages on developed commercial real estate. Key considerations used to manage our exposure include property type and geographic diversification.

Types of properties collateralizing the mortgage loan portfolio

(% of mortgage loan portfolio carrying value)	September 30, 2020
Apartment complex	38.0%
Office buildings	22.3
Warehouse	15.1
Retail	12.7
Other	11.9
Total	**100.0%**

For further detail on our mortgage loan portfolio, see Note 5 of the condensed consolidated financial statements.

Limited partnership interests include $5.83 billion of interests in private equity funds, $1.12 billion of interests in real estate funds and $287 million of interests in other funds as of September 30, 2020. We have commitments to invest additional amounts in limited partnership interests totaling $2.84 billion as of September 30, 2020.

Private equity limited partnerships by sector

(% of carrying value)	September 30, 2020
Industrial	18.5%
Consumer staples	11.9
Consumer discretionary	10.5
Utilities	10.3
Information technology	9.7
Healthcare	9.0
Other	30.1
Total	**100.0%**

Real estate limited partnerships by sector

(% of carrying value)	September 30, 2020
Industrial	31.2%
Residential	25.2
Office	12.8
Other	30.8
Total	**100.0%**

Other investments include $1.03 billion of direct investments in real estate as of September 30, 2020.

Direct real estate investments by sector

(% of carrying value)	September 30, 2020
Residential	41.0%
Industrial	18.1
Retail	13.5
Agriculture	10.8
Timber	10.1
Other	6.5
Total	**100.0%**

Unrealized net capital gains (losses)

($ in millions)	September 30, 2020	December 31, 2019
U.S. government and agencies	$ 113	$ 115
Municipal	761	540
Corporate	3,360	1,988
Foreign government	45	11
ABS	(5)	2
MBS	10	95
Fixed income securities	**4,284**	**2,751**
Derivatives	(3)	(3)
EMA limited partnerships	(4)	(4)
Unrealized net capital gains and losses, pre-tax	**$ 4,277**	**$ 2,744**

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

	September 30, 2020			
		Gross unrealized		
($ in millions)	**Amortized cost, net**	**Gains**	**Losses**	**Fair value**
Corporate:				
Energy				
Midstream	$ 1,657	$ 85	$ (18)	$ 1,724
Independent/upstream	302	19	(17)	304
Integrated	515	53	(1)	567
Other	251	12	(6)	257
Total energy	2,725	169	(42)	2,852
Transportation				
Airlines	341	4	(30)	315
Railroad and other	1,623	192	(5)	1,810
Total transportation	1,964	196	(35)	2,125
Financial services				
Finance companies	500	16	(28)	488
Life insurance	942	59	(1)	1,000
Other	1,419	98	(1)	1,516
Total financial services	2,861	173	(30)	3,004
Consumer goods				
Cyclical				
Gaming, lodging and leisure	611	24	(3)	632
Automotive	1,855	92	(1)	1,946
Retailers	1,163	116	(1)	1,278
Restaurants	525	40	—	565
Other	1,144	71	(7)	1,208
Total cyclical	5,298	343	(12)	5,629
Non-cyclical	8,506	606	(8)	9,104
Total consumer goods	13,804	949	(20)	14,733
Banking	5,541	300	(18)	5,823
Utilities	6,071	601	(16)	6,656
Communications	3,464	285	(13)	3,736
Basic industry	2,438	190	(8)	2,620
Capital goods	5,442	397	(7)	5,832
Technology	3,738	286	(4)	4,020
Other	269	8	(1)	276
Total corporate fixed income portfolio	**48,317**	**3,554**	**(194)**	**51,677**
U.S. government and agencies	2,737	114	(1)	2,850
Municipal	8,948	769	(8)	9,709
Foreign government	972	45	—	1,017
ABS	1,211	9	(14)	1,206
MBS	82	10	—	92
Total fixed income securities	**$ 62,267**	**$ 4,501**	**$ (217)**	**$ 66,551**

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

($ in millions)	December 31, 2019 Amortized cost	Gross unrealized Gains	Losses	Fair value
Corporate:				
Energy				
Midstream	$ 1,570	$ 77	$ (4)	$ 1,643
Independent/upstream	422	19	(10)	431
Integrated	406	32	—	438
Other	237	11	—	248
Total energy	2,635	139	(14)	2,760
Transportation				
Airlines	418	12	—	430
Railroad and other	1,613	120	—	1,733
Total transportation	2,031	132	—	2,163
Financial services				
Finance companies	582	24	—	606
Life insurance	725	30	—	755
Other	1,169	53	(2)	1,220
Total financial services	2,476	107	(2)	2,581
Consumer goods				
Cyclical				
Gaming, lodging and leisure	596	28	—	624
Automotive	1,463	42	(1)	1,504
Retailers	920	52	—	972
Restaurants	390	19	—	409
Other	1,056	49	(3)	1,102
Total cyclical	4,425	190	(4)	4,611
Non-cyclical	7,112	316	(1)	7,427
Total consumer goods	11,537	506	(5)	12,038
Banking	4,610	143	(14)	4,739
Utilities	5,197	385	(6)	5,576
Communications	2,721	158	(2)	2,877
Basic industry	1,897	114	(2)	2,009
Capital goods	4,945	229	(1)	5,173
Technology	2,765	112	(1)	2,876
Other	276	10	—	286
Total corporate fixed income portfolio	**41,090**	**2,035**	**(47)**	**43,078**
U.S. government and agencies	4,971	141	(26)	5,086
Municipal	8,080	551	(11)	8,620
Foreign government	968	16	(5)	979
ABS	860	8	(6)	862
MBS	324	96	(1)	419
Total fixed income securities	**$ 56,293**	**$ 2,847**	**$ (96)**	**$ 59,044**

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.

Equity securities by sector

($ in millions)	September 30, 2020 Cost	Over (under) cost	Fair value	December 31, 2019 Cost	Over (under) cost	Fair value
Energy	$ 102	$ (12)	$ 90	$ 275	$ 15	$ 290
Capital goods	155	(11)	144	331	91	422
Utilities	53	8	61	116	38	154
Transportation	38	13	51	81	32	113
Basic industry	46	19	65	135	40	175
Other (1)	1,198	425	1,623	2,526	1,062	3,588
Funds						
Fixed income	1,463	27	1,490	1,727	62	1,789
Equities	812	59	871	1,377	254	1,631
Total funds	2,275	86	2,361	3,104	316	3,420
Total equity securities	**$ 3,867**	**$ 528**	**$ 4,395**	**$ 6,568**	**$ 1,594**	**$ 8,162**

(1) Other is comprised of REITs, communications, financial services, banking, consumer goods and technology sectors.

Net investment income

($ in millions)	Three months ended September 30, 2020	2019	Nine months ended September 30, 2020	2019
Fixed income securities	$ 541	$ 546	$ 1,597	$ 1,627
Equity securities	24	57	61	155
Mortgage loans	54	54	165	161
Limited partnership interests	200	197	(212)	460
Short-term investments	2	28	21	80
Other	59	66	184	196
Investment income, before expense	880	948	1,816	2,679
Investment expense				
Investee level expenses (1)	(11)	(19)	(38)	(59)
Securities lending expense	—	(10)	(6)	(32)
Operating costs and expenses	(37)	(39)	(110)	(118)
Total investment expense	(48)	(68)	(154)	(209)
Net investment income	**$ 832**	**$ 880**	**$ 1,662**	**$ 2,470**
Market-based	660	728	1,990	2,156
Performance-based	220	220	(174)	523
Investment income, before expense	**$ 880**	**$ 948**	**$ 1,816**	**$ 2,679**

(1) Beginning January 1, 2020, depreciation previously included in investee level expenses is reported as realized capital gains or losses.

Net investment income decreased 5.5% or $48 million in the third quarter of 2020 compared to the third quarter of 2019, primarily due to a decline in market-based income resulting from lower interest-bearing portfolio yields. Net investment income decreased 32.7% or $808 million in the first nine months of 2020 compared to the same period of 2019, primarily due to lower performance-based investment results, mainly from limited partnership interests, and a decline in market-based income due to lower interest-bearing portfolio yields.

Performance-based investment income

($ in millions)	Three months ended September 30, 2020	Three months ended September 30, 2019	Nine months ended September 30, 2020	Nine months ended September 30, 2019
Limited partnerships				
Private equity	$ 211	$ 125	$ (201)	$ 336
Real estate	(10)	71	(10)	121
Performance-based - limited partnerships	**201**	**196**	**(211)**	**457**
Non-limited partnerships				
Private equity	1	5	(16)	18
Real estate	18	19	53	48
Performance-based - non-limited partnerships	**19**	**24**	**37**	**66**
Total				
Private equity	212	130	(217)	354
Real estate	8	90	43	169
Total performance-based income before investee level expenses	**$ 220**	**$ 220**	**$ (174)**	**$ 523**
Investee level expenses [1]	(10)	(18)	(35)	(54)
Total performance-based income	**$ 210**	**$ 202**	**$ (209)**	**$ 469**

[1] Investee level expenses include asset level operating expenses reported in investment expense. Beginning January 1, 2020, depreciation previously included in investee level expenses is reported as realized capital gains or losses.

Performance-based investment income increased $8 million in the third quarter of 2020 compared to the third quarter of 2019, primarily due to higher valuations of private equity investments, partially offset by lower gains on sales of underlying investments. Performance-based investment income decreased $678 million in the first nine months of 2020 compared to the first nine months of 2019, primarily due to lower valuations of private equity investments.

Performance-based investment results and income can vary significantly between periods and are influenced by economic conditions, equity market performance, comparable public company earnings multiples, capitalization rates, operating performance of the underlying investments and the timing of asset sales.

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

($ in millions)	Three months ended September 30, 2020	Three months ended September 30, 2019	Nine months ended September 30, 2020	Nine months ended September 30, 2019
Sales [1]	$ 233	$ 147	$ 800	$ 359
Credit losses [2]				
Fixed income securities	(2)	(1)	(10)	(12)
Mortgage Loans	1	—	(40)	—
Limited partnership interests	—	(1)	(10)	(4)
Other investments	11	(12)	(19)	(27)
Total credit losses	**10**	**(14)**	**(79)**	**(43)**
Valuation of equity investments - appreciation (decline):				
Equity securities	180	23	(52)	689
Equity fund investments in fixed income securities	22	17	(16)	82
Limited partnerships [3]	29	(16)	(43)	80
Total valuation of equity investments	**231**	**24**	**(111)**	**851**
Valuation and settlements of derivative instruments	(34)	40	72	16
Realized capital gains (losses), pre-tax	**440**	**197**	**682**	**1,183**
Income tax expense	(94)	(42)	(148)	(248)
Realized capital gains (losses), after-tax	**$ 346**	**$ 155**	**$ 534**	**$ 935**
Market-based	459	171	656	1,063
Performance-based	(19)	26	26	120
Realized capital gains (losses), pre-tax	**$ 440**	**$ 197**	**$ 682**	**$ 1,183**

(1) Beginning January 1, 2020, depreciation previously included in investee level expenses is reported as realized capital gains or losses.

(2) Due to the adoption of the measurement of credit losses on financial instruments accounting standard, realized capital losses previously reported as other-than-temporary impairment write-downs are now presented as credit losses.

(3) Relates to limited partnerships where the underlying assets are predominately public equity securities.

Realized capital gains in the third quarter of 2020 related primarily to gains on sales of fixed income securities and increased valuation of equity investments. Realized capital gains in the first nine months of 2020 related primarily to gains on sales of fixed income securities and increased valuation and settlements of derivative instruments, partially offset by lower valuation of equity investments in the first quarter.

Sales in the third quarter and the first nine months of 2020 related primarily to fixed income securities in connection with ongoing portfolio management.

Valuation and settlements of derivative instruments in the third quarter of 2020 primarily comprised of losses on foreign currency contracts due to the weakening of the U.S. dollar and losses on equity options used for risk management due to increases in indices. Valuation and settlements of derivative instruments in the first nine months of 2020 primarily comprised of gains on interest rate futures used to increase asset duration, equity futures used for risk management due to a decrease in indices and foreign currency contracts due to the strengthening of the U.S. dollar, partially offset by losses on interest rate futures used for risk management.

Realized capital gains (losses) for performance-based investments

($ in millions)	Three months ended September 30, 2020	Three months ended September 30, 2019	Nine months ended September 30, 2020	Nine months ended September 30, 2019
Sales [1]	$ (7)	$ (1)	$ (5)	$ 59
Credit losses [2]	2	(1)	(11)	(4)
Valuation of equity investments	8	7	33	34
Valuation and settlements of derivative instruments	(22)	21	9	31
Total performance-based	**$ (19)**	**$ 26**	**$ 26**	**$ 120**

(1) Beginning January 1, 2020, depreciation previously included in investee level expenses is reported as realized capital gains or losses.

(2) Due to the adoption of the measurement of credit losses on financial instruments accounting standard, realized capital losses previously reported as other-than-temporary impairment write-downs are now presented as credit losses.

Realized capital losses for performance-based investments in the third quarter of 2020 primarily related to losses on valuation and settlement of derivative instruments. Realized capital gains for performance-based investments in the first nine months of 2020 primarily related to increased valuation of equity investments.

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, 2020	December 31, 2019
Preferred stock, common stock, treasury stock, retained income and other shareholders' equity items	$ 24,430	$ 24,048
Accumulated other comprehensive income	2,833	1,950
Total shareholders' equity	**27,263**	**25,998**
Debt	6,635	6,631
Total capital resources	**$ 33,898**	**$ 32,629**
Ratio of debt to shareholders' equity	24.3%	25.5%
Ratio of debt to capital resources	19.6	20.3

Shareholders' equity increased in the first nine months of 2020, primarily due to net income and increased unrealized capital gains on investments, partially offset by common share repurchases, dividends paid to shareholders and redemption of preferred stock. In the nine months ended September 30, 2020, we paid dividends of $500 million and $82 million related to our common and preferred shares, respectively.

Debt maturities $250 million of floating rate senior notes are scheduled to mature in March 2021. We do not have any scheduled debt maturities in 2020.

Debt maturities for each of the next five years and thereafter (excluding issuance costs)

($ in millions)	
2020	$ —
2021	250
2022	—
2023	750
2024	—
2025	—
Thereafter	5,691
Total long-term debt principal	**$ 6,691**

Common share repurchases As of September 30, 2020, there was $1.56 billion remaining on the $3.00 billion common share repurchase program that is expected to be completed by the end of 2021.

In September 2020, we entered into an accelerated share repurchase agreement ("ASR agreement") with Goldman Sachs & Co. LLC ("Goldman Sachs") to purchase $750 million of our outstanding common stock. Under the ASR agreement, we paid $750 million upfront and initially acquired 7.0 million shares. The actual number of shares we repurchase under this ASR agreement, and the average price paid per share, will be determined at the completion of the ASR agreement based on the volume weighted average price of Allstate's common stock during the period of Goldman Sachs' purchases. This ASR agreement is expected to be completed on or before January 12, 2021.

During the first nine months of 2020, we repurchased 17.4 million common shares, or 5.5% of total common shares outstanding at December 31, 2019, for $1.7 billion.

Common shareholder dividends On January 2, 2020, April 1, 2020 and July 1, 2020, we paid common shareholder dividends of $0.50, $0.54 and $0.54, respectively. On July 16, 2020, we declared a common shareholder dividend of $0.54 payable on October 1, 2020.

Financial ratings and strength Our ratings are influenced by many factors including our operating and financial performance, asset quality, liquidity, asset/liability management, overall portfolio mix, financial leverage (i.e., debt), exposure to risks such as catastrophes and the current level of operating leverage. The preferred stock and subordinated debentures are viewed as having a common equity component by certain rating agencies and are given equity credit up to a pre-determined limit in our capital structure as determined by their respective methodologies. These respective methodologies consider the existence of certain terms and features in the instruments such as the noncumulative dividend feature in the preferred stock.

In June 2020, A.M. Best affirmed The Allstate Corporation's (the "Corporation's") debt and short-term issuer ratings of a and AMB-1+, respectively, and 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 July 2020, S&P affirmed the Corporation's debt and short-term issuer ratings of A- and A-2, respectively, and the insurance financial strength rating of AA- for AIC. The outlook for the ratings is stable. Effective June 25, 2020, we are no longer requesting a rating from S&P for ALIC, which was rated A+ with a stable outlook at the time of the withdrawal.

There have been no changes to the Corporation's debt and short-term issuer ratings of A3 and P-2, respectively, the insurance financial strength rating of Aa3 for AIC and A2 for ALIC and AAC from Moody's since December 31, 2019.

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 Corporation is party to an Amended and Restated Intercompany Liquidity Agreement ("Liquidity Agreement") with certain subsidiaries, which include but are not limited to ALIC and AIC. The Liquidity Agreement allows for short-term advances of funds to be made between parties for liquidity and other general corporate purposes. The Liquidity Agreement does not establish a commitment to advance funds on the part of any party. ALIC and AIC each serve as a lender and borrower, certain other subsidiaries serve only as borrowers, and the Corporation serves only as a lender. AIC also has a capital support agreement with ALIC. Under the capital support agreement, AIC is committed to providing capital to ALIC to maintain an adequate capital level. The maximum amount of potential funding under each of these agreements is $1.00 billion.

In addition to the Liquidity Agreement, the Corporation also has an intercompany loan agreement with certain of its subsidiaries, which include, but are not limited to, AIC and ALIC. The amount of intercompany loans available to the Corporation's subsidiaries is at the discretion of the Corporation. The maximum amount of loans the Corporation will have outstanding to all its eligible subsidiaries at any given point in time is limited to $1.00 billion. The Corporation may use commercial paper borrowings, bank lines of credit and securities lending to fund intercompany borrowings.

Parent company capital capacity Parent holding company deployable assets totaled $2.83 billion as of September 30, 2020, primarily comprised of cash and investments that are generally saleable within one quarter. The substantial earnings capacity of the operating subsidiaries is the primary source of capital generation for the Corporation.

As of September 30, 2020, we held $6.84 billion of cash, U.S. government and agencies fixed income securities, and public equity securities which we would expect to be able to liquidate within one week.

Intercompany dividends were paid in the first nine months of 2020 between the following companies: AIC, Allstate Insurance Holdings, LLC ("AIH") and the Corporation.

Intercompany dividends

($ in millions)	September 30, 2020
AIC to AIH	$ 3,133
AIH to the Corporation	3,133

Based on the greater of 2019 statutory net income or 10% of statutory surplus, the maximum amount of dividends that AIC will be able to pay, without prior Illinois Department of Insurance approval, at a given point in time in 2020 is estimated at $3.73 billion, less dividends paid during the preceding twelve months measured at that point in time. As of September 30, 2020, we paid dividends of $3.13 billion.

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 Series G 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, 2020, we satisfied all the requirements 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 2020, we did not defer interest payments on the subordinated debentures.

Additional resources to support liquidity are as follows:

- 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, subject to the lenders' commitment. 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 15.7% as of September 30, 2020. 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 2020.
- The Corporation can issue commercial paper for short-term borrowings up to $1.00 billion. The combined total amount outstanding at any one point from commercial paper borrowings and the credit facility cannot exceed the amount that can be borrowed under the credit facility. As of

September 30, 2020, there were no commercial paper borrowings outstanding.

- The Corporation has access to a universal shelf registration statement with the Securities and Exchange Commission that expires in 2021. We can use this shelf registration to issue an unspecified amount of debt securities, common stock (including 596 million shares of treasury stock as of September 30, 2020), preferred stock, depositary shares, warrants, stock purchase contracts, stock purchase units and securities of trust subsidiaries. The specific terms of any securities we issue under this registration statement will be provided in the applicable prospectus supplements.

Liquidity exposure Contractholder funds were $17.29 billion as of September 30, 2020.

Contractholder funds by contractual withdrawal provisions

($ in millions)	September 30, 2020	Percent to total
Not subject to discretionary withdrawal	$ 2,638	15.3%
Subject to discretionary withdrawal with adjustments:		
Specified surrender charges (1)	4,872	28.2
Market value adjustments (2)	717	4.1
Subject to discretionary withdrawal without adjustments (3)	9,061	52.4
Total contractholder funds	**$ 17,288**	**100.0%**

(1) Includes $1.67 billion of liabilities with a contractual surrender charge of less than 5% of the account balance.

(2) $307 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) 90% of these contracts have a minimum interest crediting rate guarantee of 3% or higher.

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 5.3% and 6.1% in the first nine months of 2020 and 2019, respectively. We strive to promptly pay customers who request cash surrenders; however, statutory regulations generally provide up to six months in most states to fulfill surrender requests.

Our asset-liability management practices enable us to manage the differences between the cash flows generated by our investment portfolio and the expected cash flow requirements of our life insurance and annuity product obligations.

Forward-Looking Statements

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

Insurance and Financial Risks (1) unexpected increases in claim frequency and severity; (2) catastrophes and severe weather events; (3) limitations in analytical models used for loss cost estimates; (4) price competition and changes in underwriting standards; (5) actual claims costs exceeding current reserves; (6) market risk and declines in credit quality of our investment portfolio; (7) our subjective determination of fair value and the amount of realized capital losses recorded for impairments of our investments; (8) the impact of changes in market interest rates or performance-based investment returns on our annuity business; (9) the impact of changes in reserve estimates and amortization of deferred acquisition costs on our life, benefits and annuity businesses; (10) our participation in indemnification programs, including state industry pools and facilities; (11) our ability to mitigate the capital impact associated with statutory reserving and capital requirements; (12) a downgrade in financial strength ratings; (13) changes in tax laws;

Business, Strategy and Operations (14) competition in the insurance industry and new or changing technologies; (15) implementation of our Transformative Growth Plan; (16) our catastrophe management strategy; (17) restrictions on our subsidiaries’ ability to pay dividends; (18) restrictions under terms of certain of our securities on our ability to pay dividends or repurchase our stock; (19) the availability of reinsurance at current level and prices; (20) counterparty risk related to reinsurance; (21) acquisitions and divestitures of businesses; (22) intellectual property infringement, misappropriation and third-party claims;

Macro, Regulatory and Risk Environment (23) conditions in the global economy and capital and credit markets; (24) a large scale pandemic, such as the Novel Coronavirus Pandemic or COVID-19 and its impacts, or occurrence of terrorism or military actions; (25) the failure in cyber or other information security controls, or the occurrence of events unanticipated in our disaster recovery processes and business continuity planning; (26) changing climate and weather conditions; (27) restrictive regulations and regulatory reforms, including limitations on rate increases and requirements to underwrite business and participate in loss sharing arrangements; (28) losses from legal and regulatory actions; (29) changes in or the application of accounting standards; (30) loss of key vendor relationships or failure of a vendor to protect our data or confidential, proprietary and personal information; (31) our ability to attract, develop and retain key personnel, including availability and productivity of employees during the Coronavirus; and (32) misconduct or fraudulent acts by employees, agents and third parties.

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

Item 4. Controls and Procedures

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

Changes in Internal Control over Financial Reporting. During the fiscal quarter ended September 30, 2020, 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, 2019.

A pandemic such as the Coronavirus and its impacts were contemplated in the risk factors set forth under "Item 1A. Risks Factors'' in our Annual Report on Form 10-K for the year ended December 31, 2019, including the risk factors titled "A large-scale pandemic, the occurrence of terrorism or military actions may have an adverse effect on our business" and "Conditions in the global economy and capital markets could adversely affect our business and results of operations".

Currently, it is not possible to reliably estimate the length and severity of the pandemic or its impact to our operations, but the effects could be material. See the Coronavirus discussion in the Highlights section of the MD&A.

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 [(3)]	Maximum number (or approximate dollar value) of shares (or units) that may yet be purchased under the plans or programs [(4)]
July 1, 2020 - July 31, 2020				
Open Market Purchases	697,583	$ 91.91	695,815	
August 1, 2020 - August 31, 2020				
Open Market Purchases	627,139	$ 95.25	626,854	
September 1, 2020 - September 30, 2020				
Open Market Purchases	391,342	$ 93.99	391,166	
ASR Agreement [(2)]	6,984,005		6,984,005	
Total	**8,700,069**		**8,697,840**	**$ 1.56 billion**

(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: 1,768
August: 285
September: 176

(2) On September 18, 2020, Allstate entered into an accelerated share repurchase agreement ("ASR agreement") with Goldman Sachs & Co. LLC ("Goldman Sachs"), to purchase $750 million of our outstanding shares of common stock. In exchange for an upfront payment of $750 million, Goldman Sachs initially delivered 6,984,005 shares to Allstate. The actual number of shares we repurchase under the ASR agreement, and the average price paid per share, will be determined at the completion of the ASR agreement based on the volume weighted average price of Allstate's common stock during the period of Goldman Sachs' purchases, which will end by January 2021.

(3) 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.

(4) In February 2020, we announced the approval of a common share repurchase program for $3 billion, which is expected to be completed on or before January 12, 2021.

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					
15	Acknowledgment of awareness from Deloitte & Touche LLP, dated November 4, 2020, 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	Inline XBRL Instance Document (the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document					X
101.SCH	Inline XBRL Taxonomy Extension Schema Document					X
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document					X
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document					X
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document					X
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document					X
104	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)					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)

November 4, 2020	By	/s/ John C. Pintozzi
		John C. Pintozzi
		Senior Vice President, Controller and Chief Accounting Officer
		(Authorized Signatory and Principal Accounting Officer)

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, 2020 and 2019, as indicated in our report dated November 4, 2020; 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, 2020, is incorporated by reference in the following Registration Statements:

Form S-3 Registration Statement Nos.	Form S-8 Registration Statement Nos.
333-224541	333-04919
	333-40283
	333-134243
	333-175526
	333-188821
	333-200390
	333-218343
	333-228490
	333-228491
	333-228492
	333-231753

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

/s/ DELOITTE & TOUCHE LLP

Chicago, Illinois
November 4, 2020

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: November 4, 2020

/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: November 4, 2020

/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, 2020 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: November 4, 2020

/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