UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 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 July 20, 2020, the registrant had 312,316,158 common shares, $.01 par value, outstanding.

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

Part I Financial Information

Part II Other Information

Part I. Financial Information
Item 1. Financial Statements

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

($ in millions, except per share data)	Three months ended June 30, 2020	Three months ended June 30, 2019	Six months ended June 30, 2020	Six months ended June 30, 2019
Revenues				
Property and casualty insurance premiums	$ 9,223	$ 8,986	$ 18,458	$ 17,788
Life premiums and contract charges	604	621	1,221	1,249
Other revenue	257	271	522	521
Net investment income	409	942	830	1,590
Realized capital gains (losses)	704	324	242	986
Total revenues	**11,197**	**11,144**	**21,273**	**22,134**
Costs and expenses				
Property and casualty insurance claims and claims expense	5,222	6,356	10,563	12,176
Shelter-in-Place Payback expense	738	—	948	—
Life contract benefits	497	511	998	1,008
Interest credited to contractholder funds	200	156	332	318
Amortization of deferred policy acquisition costs	1,349	1,362	2,750	2,726
Operating costs and expenses	1,451	1,380	2,850	2,760
Pension and other postretirement remeasurement (gains) losses	73	125	391	140
Restructuring and related charges	14	9	19	27
Amortization of purchased intangibles	29	32	57	64
Impairment of purchased intangibles	—	55	—	55
Interest expense	79	82	160	165
Total costs and expenses	**9,652**	**10,068**	**19,068**	**19,439**
Gain on disposition of operations	1	2	2	3
Income from operations before income tax expense	**1,546**	**1,078**	**2,207**	**2,698**
Income tax expense	296	227	408	555
Net income	**1,250**	**851**	**1,799**	**2,143**
Preferred stock dividends	26	30	62	61
Net income applicable to common shareholders	**$ 1,224**	**$ 821**	**$ 1,737**	**$ 2,082**
Earnings per common share				
Net income applicable to common shareholders per common share - Basic	$ 3.90	$ 2.47	$ 5.50	$ 6.27
Weighted average common shares - Basic	313.7	332.0	315.6	332.3
Net income applicable to common shareholders per common share - Diluted	$ 3.86	$ 2.44	$ 5.43	$ 6.17
Weighted average common shares - Diluted	317.0	336.9	319.8	337.2

See notes to condensed consolidated financial statements.

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

($ in millions)	Three months ended June 30, 2020	Three months ended June 30, 2019	Six months ended June 30, 2020	Six months ended June 30, 2019
Net income	$ 1,250	$ 851	$ 1,799	$ 2,143
Other comprehensive income, after-tax				
Changes in:				
Unrealized net capital gains and losses	2,072	682	715	1,656
Unrealized foreign currency translation adjustments	9	4	(30)	9
Unamortized pension and other postretirement prior service credit	(11)	(11)	(7)	(23)
Other comprehensive income, after-tax	**2,070**	**675**	**678**	**1,642**
Comprehensive income	**$ 3,320**	**$ 1,526**	**$ 2,477**	**$ 3,785**

See notes to condensed consolidated financial statements.

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

($ in millions, except par value data)	June 30, 2020	December 31, 2019
Assets		
Investments		
Fixed income securities, at fair value (amortized cost, net $60,534 and $56,293)	$ 64,448	$ 59,044
Equity securities, at fair value (cost $3,817 and $6,568)	4,212	8,162
Mortgage loans, net	4,774	4,817
Limited partnership interests	6,941	8,078
Short-term, at fair value (amortized cost $5,343 and $4,256)	5,344	4,256
Other, net	3,918	4,005
Total investments	**89,637**	**88,362**
Cash	547	338
Premium installment receivables, net	6,367	6,472
Deferred policy acquisition costs	4,683	4,699
Reinsurance and indemnification recoverables, net	9,290	9,211
Accrued investment income	605	600
Property and equipment, net	1,100	1,145
Goodwill	2,544	2,545
Other assets, net	3,587	3,534
Separate Accounts	2,906	3,044
Total assets	**$ 121,266**	**$ 119,950**
Liabilities		
Reserve for property and casualty insurance claims and claims expense	$ 27,426	$ 27,712
Reserve for life-contingent contract benefits	12,471	12,300
Contractholder funds	17,396	17,692
Unearned premiums	15,448	15,343
Claim payments outstanding	882	929
Deferred income taxes	842	1,154
Other liabilities and accrued expenses	10,275	9,147
Long-term debt	6,634	6,631
Separate Accounts	2,906	3,044
Total liabilities	**94,280**	**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, $.01 par value, 3.0 billion shares authorized and 900 million issued, 313 million and 319 million shares outstanding	9	9
Additional capital paid-in	3,541	3,463
Retained income	49,380	48,074
Treasury stock, at cost (587 million and 581 million shares)	(30,542)	(29,746)
Accumulated other comprehensive income:		
Unrealized net capital gains and losses on fixed income securities with credit losses	(1)	70
Other unrealized net capital gains and losses	3,079	2,094
Unrealized adjustment to DAC, DSI and insurance reserves	(476)	(277)
Total unrealized net capital gains and losses	**2,602**	**1,887**
Unrealized foreign currency translation adjustments	(89)	(59)
Unamortized pension and other postretirement prior service credit	115	122
Total accumulated other comprehensive income ("AOCI")	**2,628**	**1,950**
Total shareholders' equity	**26,986**	**25,998**
Total liabilities and shareholders' equity	**$ 121,266**	**$ 119,950**

See notes to condensed consolidated financial statements.

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

($ in millions, except per share data)	Three months ended June 30, 2020	Three months ended June 30, 2019	Six months ended June 30, 2020	Six months ended June 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 redemption	—	—	(278)	—
Balance, end of period	**1,970**	**1,930**	**1,970**	**1,930**
Common stock par value	**9**	**9**	**9**	**9**
Common stock additional capital paid-in				
Balance, beginning of period	3,519	3,291	3,463	3,310
Forward contract on accelerated share repurchase agreement	—	150	75	150
Equity incentive plans activity	22	36	3	17
Balance, end of period	**3,541**	**3,477**	**3,541**	**3,477**
Retained income				
Balance, beginning of period	48,326	45,148	48,074	44,033
Cumulative effect of change in accounting principle	—	—	(88)	21
Net income	1,250	851	1,799	2,143
Dividends on common stock (declared per share of $0.54, $0.50, $1.08 and $1.00)	(170)	(166)	(343)	(333)
Dividends on preferred stock	(26)	(30)	(62)	(61)
Balance, end of period	**49,380**	**45,803**	**49,380**	**45,803**
Deferred ESOP expense	**—**	**(3)**	**—**	**(3)**
Treasury stock				
Balance, beginning of period	(30,209)	(28,042)	(29,746)	(28,085)
Shares acquired	(391)	(498)	(902)	(498)
Shares reissued under equity incentive plans, net	58	40	106	83
Balance, end of period	**(30,542)**	**(28,500)**	**(30,542)**	**(28,500)**
Accumulated other comprehensive income				
Balance, beginning of period	558	1,085	1,950	118
Change in unrealized net capital gains and losses	2,072	682	715	1,656
Change in unrealized foreign currency translation adjustments	9	4	(30)	9
Change in unamortized pension and other postretirement prior service credit	(11)	(11)	(7)	(23)
Balance, end of period	**2,628**	**1,760**	**2,628**	**1,760**
Total shareholders' equity	**$ 26,986**	**$ 24,476**	**$ 26,986**	**$ 24,476**

See notes to condensed consolidated financial statements.

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

($ in millions)	Six months ended June 30, 2020	2019
Cash flows from operating activities		
Net income	$ 1,799	$ 2,143
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and other non-cash items	318	317
Realized capital (gains) losses	(242)	(986)
Pension and other postretirement remeasurement (gains) losses	391	140
Gain on disposition of operations	(2)	(3)
Interest credited to contractholder funds	332	318
Impairment of purchased intangibles	—	55
Changes in:		
Policy benefits and other insurance reserves	(594)	211
Unearned premiums	143	214
Deferred policy acquisition costs	(42)	(27)
Premium installment receivables, net	81	(209)
Reinsurance recoverables, net	(56)	235
Income taxes	257	159
Other operating assets and liabilities	491	(505)
Net cash provided by operating activities	**2,876**	**2,062**
Cash flows from investing activities		
Proceeds from sales		
Fixed income securities	19,952	17,811
Equity securities	6,473	2,098
Limited partnership interests	862	391
Other investments	135	223
Investment collections		
Fixed income securities	1,054	1,243
Mortgage loans	156	294
Other investments	81	138
Investment purchases		
Fixed income securities	(24,214)	(17,436)
Equity securities	(2,907)	(4,189)
Limited partnership interests	(513)	(672)
Mortgage loans	(196)	(311)
Other investments	(199)	(394)
Change in short-term and other investments, net	(1,477)	(147)
Purchases of property and equipment, net	(166)	(173)
Acquisition of operations	1	(18)
Net cash used in investing activities	**(958)**	**(1,142)**
Cash flows from financing activities		
Proceeds from issuance of long-term debt	—	492
Redemption and repayment of long-term debt	—	(317)
Redemption of preferred stock	(288)	—
Contractholder fund deposits	494	504
Contractholder fund withdrawals	(791)	(876)
Dividends paid on common stock	(331)	(324)
Dividends paid on preferred stock	(56)	(61)
Treasury stock purchases	(821)	(332)
Shares reissued under equity incentive plans, net	52	44
Other	32	50
Net cash used in financing activities	**(1,709)**	**(820)**
Net increase in cash	**209**	**100**
Cash at beginning of period	338	499
Cash at end of period	**$ 547**	**$ 599**

See notes to condensed consolidated financial statements.

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

Note 1 General

Basis of presentation

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

The condensed consolidated financial statements and notes as of June 30, 2020 and for the three and six month periods ended June 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, shared economy demand, severity costs, driving behavior and auto frequency, 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, or 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)	June 30, 2020	March 31, 2020	January 1, 2020
Fixed income securities	$ 7	$ 4	$ —
Mortgage loans	86	85	45
Other investments			
Bank loans	76	79	53
Agent loans	5	5	5
Investments	**174**	**173**	**103**
Premium installment receivables	139	96	91
Reinsurance recoverables	74	74	74
Other assets	23	18	18
Assets	**410**	**361**	**286**
Commitments to fund mortgage loans, bank loans and agent loans	3	4	3
Liabilities	**3**	**4**	**3**
Total	**$ 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 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 billed to indemnitors on losses paid 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 receivable

($ in millions)	Three months ended June 30, 2020	Six months ended June 30, 2020
Beginning balance	$ 96	$ 91
Increase in the provision for credit losses	94	136
Write-off of uncollectible premium installment receivable amounts	(51)	(88)
Ending balance	**$ 139**	**$ 139**

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 new guidance will be applied to affected contracts and DAC on the basis of existing carrying amounts at the earliest period presented or retrospectively using actual historical experience as of contract inception. The new guidance for market risk benefits is required to be adopted retrospectively. In July 2020, the FASB exposed for a forty-five day comment period a proposal to delay the effective date of the new guidance for public business entities that are Securities and Exchange Commission ("SEC") filers to reporting periods beginning after December 15, 2022. If adopted, the proposal would extend the effective date of the new guidance for public business entities that are SEC filers by one year. The proposal also includes a revision to the existing restatement provisions and would allow a one-year transition period instead of the normal two-year transition period if the new guidance is early adopted.

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 and updates to mortality assumptions. The Company expects the most significant impacts will occur in the run-off annuity segment. The revised accounting for DAC will be applied prospectively using the new model and any DAC effects existing in AOCI as a result of applying existing GAAP at the date of adoption will be 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

	Three months ended June 30,		Six months ended June 30,	
(In millions, except per share data)	**2020**	**2019**	**2020**	**2019**
Numerator:				
Net income	$ 1,250	$ 851	$ 1,799	$ 2,143
Less: Preferred stock dividends	26	30	62	61
Net income applicable to common shareholders	**$ 1,224**	**$ 821**	**$ 1,737**	**$ 2,082**
Denominator:				
Weighted average common shares outstanding	313.7	332.0	315.6	332.3
Effect of dilutive potential common shares:				
Stock options	2.1	3.3	2.7	3.2
Restricted stock units (non-participating) and performance stock awards	1.2	1.6	1.5	1.7
Weighted average common and dilutive potential common shares outstanding	**317.0**	**336.9**	**319.8**	**337.2**
Earnings per common share - Basic	$ 3.90	$ 2.47	$ 5.50	$ 6.27
Earnings per common share - Diluted	3.86	2.44	5.43	6.17
Anti-dilutive options excluded from diluted earnings per common share	3.2	4.1	1.4	4.5

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.

Subsequent event On July 7, 2020, the Company entered into a definitive agreement to acquire National General Holdings Corp. (“National General”), a predominantly specialty personal lines insurance holding company serving a wide range of customer segments through a network of independent agents for property and casualty and accident and health products for approximately $4 billion in cash.

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 will fund the acquisition by deploying $2.2 billion in combined cash resources at the Company and National General and, subject to market conditions, issuing $1.5 billion of new senior debt. The Company expects to maintain its current $3.00 billion share repurchase program. The transaction is expected to close in early 2021, subject to regulatory approvals, a shareholder vote at National General and other customary closing conditions.

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 integration of the Allstate Independent Agency and Encompass organizations. These businesses will be integrated into National General.

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 June 30, 2020	Three months ended June 30, 2019	Six months ended June 30, 2020	Six months ended June 30, 2019
Property-Liability				
Insurance premiums				
Auto	$ 6,173	$ 6,035	$ 12,327	$ 11,965
Homeowners	2,053	1,958	4,091	3,893
Other personal lines	478	462	949	921
Commercial lines	159	226	377	409
Allstate Protection	8,863	8,681	17,744	17,188
Discontinued Lines and Coverages	—	—	—	—
Total Property-Liability insurance premiums	8,863	8,681	17,744	17,188
Other revenue	182	190	363	366
Net investment income	178	471	380	762
Realized capital gains (losses)	382	256	279	753
Total Property-Liability	**9,605**	**9,598**	**18,766**	**19,069**
Service Businesses				
Consumer product protection plans	219	153	425	298
Roadside assistance	44	63	95	126
Finance and insurance products	97	89	194	176
Intersegment premiums and service fees (1)	35	33	73	66
Other revenue	51	48	103	95
Net investment income	11	10	21	19
Realized capital gains (losses)	19	9	(5)	17
Total Service Businesses	**476**	**405**	**906**	**797**
Allstate Life				
Traditional life insurance premiums	164	156	317	310
Accident and health insurance premiums	1	1	1	1
Interest-sensitive life insurance contract charges	174	176	354	359
Other revenue	24	33	56	60
Net investment income	123	125	251	252
Realized capital gains (losses)	19	1	(12)	(4)
Total Allstate Life	**505**	**492**	**967**	**978**
Allstate Benefits				
Traditional life insurance premiums	12	10	21	19
Accident and health insurance premiums	225	246	469	496
Interest-sensitive life insurance contract charges	26	28	55	57
Net investment income	20	21	40	40
Realized capital gains (losses)	11	2	(3)	6
Total Allstate Benefits	**294**	**307**	**582**	**618**
Allstate Annuities				
Fixed annuities contract charges	2	4	4	7
Net investment income	66	296	113	486
Realized capital gains (losses)	245	48	(24)	204
Total Allstate Annuities	**313**	**348**	**93**	**697**
Corporate and Other				
Net investment income	11	19	25	31
Realized capital gains (losses)	28	8	7	10
Total Corporate and Other	**39**	**27**	**32**	**41**
Intersegment eliminations (1)	(35)	(33)	(73)	(66)
Consolidated revenues	**$ 11,197**	**$ 11,144**	**$ 21,273**	**$ 22,134**

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

Reportable segments financial performance

($ in millions)	Three months ended June 30, 2020	Three months ended June 30, 2019	Six months ended June 30, 2020	Six months ended June 30, 2019
Property-Liability				
Allstate Protection [(1)]	$ 907	$ 370	$ 2,255	$ 1,073
Discontinued Lines and Coverages	(3)	(3)	(6)	(6)
Total underwriting income	**904**	**367**	**2,249**	**1,067**
Net investment income	178	471	380	762
Income tax expense on operations	(209)	(179)	(512)	(381)
Realized capital gains (losses), after-tax	299	204	217	597
Property-Liability net income applicable to common shareholders	**1,172**	**863**	**2,334**	**2,045**
Service Businesses				
Adjusted net income	38	16	75	27
Realized capital gains (losses), after-tax	15	6	(4)	13
Amortization of purchased intangibles, after-tax	(21)	(25)	(42)	(49)
Impairment of purchased intangibles, after-tax	—	(43)	—	(43)
Service Businesses net income (loss) applicable to common shareholders	**32**	**(46)**	**29**	**(52)**
Allstate Life				
Adjusted net income	72	68	152	141
Realized capital gains (losses), after-tax	16	—	(9)	(4)
Valuation changes on embedded derivatives not hedged, after-tax	(35)	—	(23)	—
DAC and DSI amortization related to realized capital gains and losses, after-tax	11	(1)	8	(3)
Allstate Life net income applicable to common shareholders	**64**	**67**	**128**	**134**
Allstate Benefits				
Adjusted net income	5	37	29	68
Realized capital gains (losses), after-tax	7	2	(3)	5
Allstate Benefits net income applicable to common shareholders	**12**	**39**	**26**	**73**
Allstate Annuities				
Adjusted net (loss) income	(111)	52	(250)	27
Realized capital gains (losses), after-tax	194	37	(19)	161
Valuation changes on embedded derivatives not hedged, after-tax	(6)	(2)	(4)	(5)
Gain on disposition of operations, after-tax	1	1	2	2
Allstate Annuities net income (loss) applicable to common shareholders	**78**	**88**	**(271)**	**185**
Corporate and Other				
Adjusted net loss	(99)	(98)	(206)	(201)
Realized capital gains (losses), after-tax	23	7	6	8
Pension and other postretirement remeasurement gains (losses), after-tax	(58)	(99)	(309)	(110)
Corporate and Other net loss applicable to common shareholders	**(134)**	**(190)**	**(509)**	**(303)**
Consolidated net income applicable to common shareholders	**$ 1,224**	**$ 821**	**$ 1,737**	**$ 2,082**

(1) 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, auto and commercial lines customers received a Shelter-in-Place Payback of $948 million with $210 million recognized in first quarter 2020 and $738 million recognized in second quarter 2020.

Note 5 Investments

Portfolio composition

($ in millions)	June 30, 2020	December 31, 2019
Fixed income securities, at fair value	$ 64,448	$ 59,044
Equity securities, at fair value	4,212	8,162
Mortgage loans, net	4,774	4,817
Limited partnership interests	6,941	8,078
Short-term investments, at fair value	5,344	4,256
Other, net	3,918	4,005
Total	**$ 89,637**	**$ 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
June 30, 2020				
U.S. government and agencies	$ 3,312	$ 208	$ (1)	$ 3,519
Municipal	8,579	712	(6)	9,285
Corporate	46,797	3,227	(284)	49,740
Foreign government	915	46	—	961
ABS	779	4	(24)	759
MBS	152	32	—	184
Total fixed income securities	**$ 60,534**	**$ 4,229**	**$ (315)**	**$ 64,448**
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)	June 30, 2020 Amortized cost, net	June 30, 2020 Fair value
Due in one year or less	$ 3,300	$ 3,343
Due after one year through five years	24,971	26,036
Due after five years through ten years	21,627	23,204
Due after ten years	9,705	10,922
	59,603	**63,505**
ABS and MBS	931	943
Total	**$ 60,534**	**$ 64,448**

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 June 30, 2020	Three months ended June 30, 2019	Six months ended June 30, 2020	Six months ended June 30, 2019
Fixed income securities	$ 531	$ 543	$ 1,056	$ 1,081
Equity securities	31	68	37	98
Mortgage loans	51	54	111	107
Limited partnership interests	(220)	254	(412)	263
Short-term investments	2	26	19	52
Other	62	67	125	130
Investment income, before expense	**457**	**1,012**	**936**	**1,731**
Investment expense	(48)	(70)	(106)	(141)
Net investment income	**$ 409**	**$ 942**	**$ 830**	**$ 1,590**

Realized capital gains (losses) by asset type

($ in millions)	Three months ended June 30, 2020	Three months ended June 30, 2019	Six months ended June 30, 2020	Six months ended June 30, 2019
Fixed income securities	$ 187	$ 79	$ 562	$ 143
Equity securities	480	178	(270)	731
Mortgage loans	—	—	(41)	—
Limited partnership interests	33	21	(83)	93
Derivatives	18	22	106	(24)
Other	(14)	24	(32)	43
Realized capital gains (losses)	**$ 704**	**$ 324**	**$ 242**	**$ 986**

Realized capital gains (losses) by transaction type

($ in millions)	Three months ended June 30, 2020	Three months ended June 30, 2019	Six months ended June 30, 2020	Six months ended June 30, 2019
Sales	$ 179	$ 117	$ 567	$ 212
Credit losses (1)	(10)	(15)	(89)	(29)
Valuation of equity investments (2)	517	200	(342)	827
Valuation and settlements of derivative instruments	18	22	106	(24)
Realized capital gains (losses)	**$ 704**	**$ 324**	**$ 242**	**$ 986**

(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.

Sales of fixed income securities resulted in gross gains of $304 million and $115 million and gross losses of $113 million and $27 million during the three months ended June 30, 2020 and 2019, respectively.

Sales of fixed income securities resulted in gross gains of $760 million and $241 million and gross losses of $190 million and $87 million during the six months ended June 30, 2020 and 2019, respectively.

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 June 30, 2020 and 2019, respectively.

Net appreciation (decline) recognized in net income

($ in millions)	Three months ended June 30, 2020	Three months ended June 30, 2019	Six months ended June 30, 2020	Six months ended June 30, 2019
Equity securities	$ 390	$ 207	$ (45)	$ 688
Limited partnership interests carried at fair value	(54)	95	(109)	59
Total	**$ 336**	**$ 302**	**$ (154)**	**$ 747**

Credit losses recognized in net income (1)

($ in millions)	Three months ended June 30, 2020	Three months ended June 30, 2019	Six months ended June 30, 2020	Six months ended June 30, 2019
Assets				
Fixed income securities:				
Municipal	$ (3)	$ —	$ (3)	$ —
Corporate	—	(7)	(1)	(7)
ABS	(2)	(2)	(2)	(3)
MBS	1	—	(2)	(1)
Total fixed income securities	**(4)**	**(9)**	**(8)**	**(11)**
Mortgage loans	(1)	—	(41)	—
Limited partnership interests	(3)	(2)	(10)	(3)
Other investments				
Bank loans	(3)	(4)	(30)	(15)
Total credit losses by asset type	**$ (11)**	**$ (15)**	**$ (89)**	**$ (29)**
Liabilities				
Commitments to fund commercial mortgage loans, bank loans and agent loans	1	—	—	—
Total	**$ (10)**	**$ (15)**	**$ (89)**	**$ (29)**

(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) June 30, 2020	Fair value	Gross unrealized Gains	Gross unrealized Losses	Unrealized net gains (losses)
Fixed income securities	$ 64,448	$ 4,229	$ (315)	$ 3,914
Short-term investments	5,344	1	—	1
Derivative instruments	—	—	(3)	(3)
Equity method of accounting (“EMA”) limited partnerships (1)				(8)
Unrealized net capital gains and losses, pre-tax				**3,904**
Amounts recognized for:				
Insurance reserves (2)				(319)
DAC and DSI (3)				(284)
Amounts recognized				**(603)**
Deferred income taxes				(699)
Unrealized net capital gains and losses, after-tax				**$ 2,602**
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)	Six months ended June 30, 2020
Fixed income securities	$ 1,163
Short-term investments	1
Derivative instruments	—
EMA limited partnerships	(4)
Total	**1,160**
Amounts recognized for:	
Insurance reserves	(193)
DAC and DSI	(60)
Amounts recognized	**(253)**
Deferred income taxes	(192)
Increase in unrealized net capital gains and losses, after-tax	**$ 715**

Carrying value for limited partnership interests

	June 30, 2020			December 31, 2019		
($ in millions)	EMA	Fair Value	Total	EMA	Fair Value	Total
Private equity	$ 4,043	$ 1,532	$ 5,575	$ 4,463	$ 1,668	$ 6,131
Real estate	982	130	1,112	899	142	1,041
Other (1)	251	3	254	902	4	906
Total	**$ 5,276**	**$ 1,665**	**$ 6,941**	**$ 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 June 30, 2020 and December 31, 2019, the fair value of short-term investments totaled $5.34 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)	June 30, 2020	December 31, 2019
Bank loans, net	$ 1,118	$ 1,204
Real estate	986	1,005
Policy loans	878	894
Agent loans, net	649	666
Derivatives and other	287	236
Total	**$ 3,918**	**$ 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 are considered when developing the estimate of cash flows expected to be collected. That information generally includes, but is not limited to, the remaining payment terms of the security, prepayment speeds, 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 $538 million as of June 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 June 30, 2020	Six months ended June 30, 2020
Beginning balance	$ (4)	$ —
Credit losses on securities for which credit losses not previously reported	(5)	(8)
Net decreases related to credit losses previously reported	1	—
Reduction of allowance related to sales	1	1
Ending balance [1]	**$ (7)**	**$ (7)**

[1] Allowance for fixed income securities as of June 30, 2020 comprised $3 million, $1 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
June 30, 2020							
Fixed income securities							
U.S. government and agencies	3	$ 20	$ (1)	—	$ —	$ —	$ (1)
Municipal	171	343	(6)	—	—	—	(6)
Corporate	527	4,326	(232)	36	213	(52)	(284)
Foreign government	1	1	—	—	—	—	—
ABS	53	479	(15)	16	64	(9)	(24)
MBS	28	16	—	85	3	—	—
Total fixed income securities	**783**	**$ 5,185**	**$ (254)**	**137**	**$ 280**	**$ (61)**	**$ (315)**
Investment grade fixed income securities	402	$ 2,253	$ (86)	102	$ 114	$ (25)	$ (111)
Below investment grade fixed income securities	381	2,932	(168)	35	166	(36)	(204)
Total fixed income securities	**783**	**$ 5,185**	**$ (254)**	**137**	**$ 280**	**$ (61)**	**$ (315)**
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 June 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)	$ (82)	$ (124)	$ (206)
Fixed income securities with unrealized loss position greater than or equal to 20% of amortized cost, net (3) (4)	(29)	(80)	(109)
Total unrealized losses	**$ (111)**	**$ (204)**	**$ (315)**

(1) Below investment grade fixed income securities include $109 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 June 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 June 30, 2020, accrued interest totaled $17 million, $5 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)	June 30, 2020							December 31, 2019
	2015 and prior	2016	2017	2018	2019	Current	Total	Total
Below 1.0	$ 38	$ —	$ 33	$ —	$ —	$ —	$ 71	$ 56
1.0 - 1.25	170	27	36	87	15	30	365	225
1.26 - 1.50	494	27	123	231	369	16	1,260	1,237
Above 1.50	1,299	493	361	369	499	143	3,164	3,302
Amortized cost before allowance	**$ 2,001**	**$ 547**	**$ 553**	**$ 687**	**$ 883**	**$ 189**	**$ 4,860**	**$ 4,820**
Allowance (1)							(86)	(3)
Amortized cost, net							**$ 4,774**	**$ 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 June 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. 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 June 30, 2020	Six months ended June 30, 2020
Beginning balance	$ (85)	$ (3)
Cumulative effect of change in accounting principle	—	(42)
Net increases related to credit losses	(1)	(41)
Ending balance	**$ (86)**	**$ (86)**

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)	June 30, 2020						
	2015 and prior	2016	2017	2018	2019	Current	Total
BBB	$ —	$ —	$ 9	$ 13	$ 9	$ 12	$ 43
BB	31	2	36	72	64	36	241
B	12	34	142	219	173	104	684
CCC and below	8	32	46	55	59	26	226
Amortized cost before allowance	**51**	**68**	**233**	**359**	**305**	**178**	**1,194**
Allowance							(76)
Amortized cost, net							**$ 1,118**

Rollforward of credit loss allowance for bank loans

($ in millions)	Three months ended June 30, 2020	Six months ended June 30, 2020
Beginning balance	$ (79)	$ —
Cumulative effect of change in accounting principle	—	(53)
Net increases related to credit losses	(3)	(30)
Reduction of allowance related to sales	1	2
Write-offs	5	5
Ending balance	**$ (76)**	**$ (76)**

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 June 30, 2020, 86% of agent loans balance represents the top three highest credit quality categories. The allowance for agent loans totaled $5 million as of June 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 investments such as mortgage loans, bank loans, agent loans and policy loans. Accordingly, such investments are only included in the fair value hierarchy disclosure when the individual investment's amortized cost, net is reflected at fair value in the condensed consolidated financial statements.

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

Summary of significant 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 June 30, 2020, the Company has commitments to invest $424 million in these limited partnerships interests.

Assets and liabilities measured at fair value

($ in millions)	June 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	$ 3,146	$ 373	$ —		$ 3,519
Municipal	—	9,202	83		9,285
Corporate - public	—	35,944	67		36,011
Corporate - privately placed	—	13,603	126		13,729
Foreign government	—	961	—		961
ABS	—	709	50		759
MBS	—	139	45		184
Total fixed income securities	**3,146**	**60,931**	**371**		**64,448**
Equity securities	3,481	338	393		4,212
Short-term investments	4,907	427	10		5,344
Other investments: Free-standing derivatives	—	229	—	$ (43)	186
Separate account assets	2,906	—	—		2,906
Other assets	2	—	—		2
Total recurring basis assets	**14,442**	**61,925**	**774**	**(43)**	**77,098**
Total assets at fair value	**$ 14,442**	**$ 61,925**	**$ 774**	**$ (43)**	**$ 77,098**
% of total assets at fair value	18.7%	80.3%	1.0%	— %	100.0%
Investments reported at NAV					1,665
Total					**$ 78,763**
Liabilities					
Contractholder funds: Derivatives embedded in life and annuity contracts	$ —	$ —	$ (488)		$ (488)
Other liabilities: Free-standing derivatives	—	(109)	—	$ 8	(101)
Total recurring basis liabilities	**$ —**	**$ (109)**	**$ (488)**	**$ 8**	**$ (589)**
% of total liabilities at fair value	—%	18.5%	82.9%	(1.4)%	100.0%

Assets and liabilities measured at fair value

	December 31, 2019				
($ in millions)	**Quoted prices in active markets for identical assets (Level 1)**	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Counterparty and cash collateral netting**	**Total**
Assets					
Fixed income securities:					
U.S. government and agencies	$ 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**
June 30, 2020					
Derivatives embedded in life and annuity contracts – Equity-indexed and forward starting options	$ (442)	Stochastic cash flow model	Projected option cost	1.0 - 4.2%	2.73%
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 June 30, 2020 and December 31, 2019, Level 3 fair value measurements of fixed income securities total $371 million and $342 million, respectively, and include $116 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 $35 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 June 30, 2020

($ in millions)	Balance as of March 31, 2020	Total gains (losses) included in: Net income	OCI	Transfers: Into Level 3	Out of Level 3	Purchases	Sales	Issues	Settlements	Balance as of June 30, 2020
Assets										
Fixed income securities:										
Municipal	$ 58	$ 1	$ 2	$ 15	$ —	$ 8	$ (1)	$ —	$ —	$ 83
Corporate - public	60	—	(8)	—	—	15	—	—	—	67
Corporate - privately placed	88	1	(4)	11	—	37	(6)	—	(1)	126
ABS	39	1	(2)	43	(25)	4	(10)	—	—	50
MBS	40	1	(1)	—	—	9	(4)	—	—	45
Total fixed income securities	**285**	**4**	**(13)**	**69**	**(25)**	**73**	**(21)**	**—**	**(1)**	**371**
Equity securities	342	12	—	—	—	39	—	—	—	393
Short-term investments	50	—	—	—	(40)	—	—	—	—	10
Total recurring Level 3 assets	**677**	**16**	**(13)**	**69**	**(65)**	**112**	**(21)**	**—**	**(1)**	**774**
Liabilities										
Contractholder funds: Derivatives embedded in life and annuity contracts	(417)	(69)	—	—	—	—	—	(7)	5	(488)
Total recurring Level 3 liabilities	**$ (417)**	**$ (69)**	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**	**$ (7)**	**$ 5**	**$ (488)**

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

	Net investment income	Realized capital gains (losses)	Life contract benefits	Interest credited to contractholder funds	Total
Components of net income	$ 1	$ 15	$ 10	$ (79)	$ (53)

Rollforward of Level 3 assets and liabilities held at fair value during the six month period ended June 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 June 30, 2020
Assets										
Fixed income securities:										
Municipal	$ 62	$ 1	$ 2	$ 14	$ —	$ 8	$ (2)	$ —	$ (2)	$ 83
Corporate - public	61	—	(8)	—	—	15	—	—	(1)	67
Corporate - privately placed	114	1	(5)	11	(25)	38	(6)	—	(2)	126
ABS	65	—	(3)	55	(49)	19	(10)	—	(27)	50
MBS	40	1	(1)	—	—	10	(4)	—	(1)	45
Total fixed income securities	**342**	**3**	**(15)**	**80**	**(74)**	**90**	**(22)**	**—**	**(33)**	**371**
Equity securities	371	(18)	—	—	—	40	—	—	—	393
Short-term investments	25	—	—	—	(25)	10	—	—	—	10
Total recurring Level 3 assets	**738**	**(15)**	**(15)**	**80**	**(99)**	**140**	**(22)**	**—**	**(33)**	**774**
Liabilities										
Contractholder funds: Derivatives embedded in life and annuity contracts	(462)	(21)	—	—	—	—	—	(15)	10	(488)
Total recurring Level 3 liabilities	**$ (462)**	**$ (21)**	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**	**$ (15)**	**$ 10**	**$ (488)**

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

	Net investment income	Realized capital gains (losses)	Life contract benefits	Interest credited to contractholder funds	Total
Components of net income	$ (23)	$ 8	$ (14)	$ (7)	$ (36)

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

		Total gains (losses) included in:		Transfers						
($ in millions)	Balance as of March 31, 2019	Net income	OCI	Into Level 3	Out of Level 3	Purchases	Sales	Issues	Settlements	Balance as of June 30, 2019
Assets										
Fixed income securities:										
Municipal	$ 68	$ —	$ 1	$ —	$ (5)	$ —	$ (1)	$ —	$ —	$ 63
Corporate - public	90	—	1	—	(40)	—	(5)	—	—	46
Corporate - privately placed	90	1	—	—	(2)	1	—	—	(1)	89
ABS	87	—	—	1	(68)	46	(12)	—	(1)	53
MBS	35	—	—	1	—	—	—	—	(1)	35
Total fixed income securities	**370**	**1**	**2**	**2**	**(115)**	**47**	**(18)**	**—**	**(3)**	**286**
Equity securities	303	10	—	—	—	20	(14)	—	—	319
Short-term investments	40	—	—	—	—	5	(40)	—	—	5
Free-standing derivatives, net	1	(1)	—	—	—	—	—	—	—	—
Total recurring Level 3 assets	**714**	**10**	**2**	**2**	**(115)**	**72**	**(72)**	**—**	**(3)**	**610**
Liabilities										
Contractholder funds: Derivatives embedded in life and annuity contracts	(251)	(12)	—	(175)	—	—	—	—	1	(437)
Total recurring Level 3 liabilities	**$ (251)**	**$ (12)**	**$ —**	**$ (175)**	**$ —**	**$ —**	**$ —**	**$ —**	**$ 1**	**$ (437)**

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

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

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

		Total gains (losses) included in:		Transfers						
($ in millions)	Balance as of December 31, 2018	Net income	OCI	Into Level 3	Out of Level 3	Purchases	Sales	Issues	Settlements	Balance as of June 30, 2019
Assets										
Fixed income securities:										
Municipal	$ 70	$ —	$ 2	$ —	$ (5)	$ —	$ (3)	$ —	$ (1)	$ 63
Corporate - public	70	—	2	—	(40)	20	(5)	—	(1)	46
Corporate - privately placed	90	(1)	2	15	(2)	1	(13)	—	(3)	89
ABS	69	—	—	1	(115)	124	(22)	—	(4)	53
MBS	26	—	—	4	—	6	—	—	(1)	35
Total fixed income securities	**325**	**(1)**	**6**	**20**	**(162)**	**151**	**(43)**	**—**	**(10)**	**286**
Equity securities	341	38	—	—	—	22	(82)	—	—	319
Short-term investments	30	—	—	—	—	15	(40)	—	—	5
Free-standing derivatives, net	1	(1)	—	—	—	—	—	—	—	—
Total recurring Level 3 assets	**697**	**36**	**6**	**20**	**(162)**	**188**	**(165)**	**—**	**(10)**	**610**
Liabilities										
Contractholder funds: Derivatives embedded in life and annuity contracts	(224)	(40)	—	(175)	—	—	—	—	2	(437)
Total recurring Level 3 liabilities	**$ (224)**	**$ (40)**	**$ —**	**$ (175)**	**$ —**	**$ —**	**$ —**	**$ —**	**$ 2**	**$ (437)**

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

	Net investment income	Realized capital gains (losses)	Life contract benefits	Interest credited to contractholder funds	Total
Components of net income	$ 5	$ 31	$ 3	$ (43)	$ (4)

Transfers into Level 3 during the three and six months ended June 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 six months ended June 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 June 30,

	Three months ended June 30,		Six months ended June 30,	
($ in millions)	**2020**	**2019**	**2020**	**2019**
Assets				
Fixed income securities:				
Municipal	$ 1	$ —	$ 1	$ —
Corporate	—	—	1	—
Total fixed income securities	1	—	2	—
Equity securities	$ 12	$ 10	$ (18)	$ 14
Free-standing derivatives, net	—	(1)	—	(1)
Total recurring Level 3 assets	**$ 13**	**$ 9**	**$ (16)**	**$ 13**
Liabilities				
Contractholder funds: Derivatives embedded in life and annuity contracts	$ (69)	$ (12)	$ (21)	$ (40)
Total recurring Level 3 liabilities	**(69)**	**(12)**	**(21)**	**(40)**
Total included in net income	**$ (56)**	**$ (3)**	**$ (37)**	**$ (27)**
Components of net income				
Net investment income	$ —	$ 5	$ (23)	$ 5
Realized capital gains (losses)	13	4	7	8
Life contract benefits	10	(5)	(14)	3
Interest credited to contractholder funds	(79)	(7)	(7)	(43)
Total included in net income	**$ (56)**	**$ (3)**	**$ (37)**	**$ (27)**
Assets				
Municipal	$ 2		$ 2	
Corporate - public	(8)		(7)	
Corporate - privately placed	(3)		(5)	
ABS	(3)		(3)	
Changes in unrealized net capital gains and losses reported in OCI (1)	**$ (12)**		**$ (13)**	

(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)		June 30, 2020		December 31, 2019	
Financial assets	**Fair value level**	**Amortized cost, net**	**Fair value**	**Amortized cost, net**	**Fair value**
Mortgage loans	Level 3	$ 4,774	$ 5,073	$ 4,817	$ 5,012
Bank loans	Level 3	1,118	1,107	1,204	1,185
Agent loans	Level 3	649	658	666	664
Financial liabilities	**Fair value level**	**Carrying value** (1)	**Fair value**	**Carrying value** (1)	**Fair value**
Contractholder funds on investment contracts	Level 3	$ 8,080	$ 9,318	$ 8,438	$ 9,158
Long-term debt	Level 2	6,634	8,037	6,631	7,738
Liability for collateral	Level 2	1,381	1,381	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 June 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	$ 2	n/a	$ —	$ —	$ —
Derivatives not designated as accounting hedging instruments						
Interest rate contracts						
Futures	Other assets	—	1,358	—	—	—
Equity and index contracts						
Options	Other investments	—	8,038	175	175	—
Futures	Other assets	—	1,267	2	2	—
Total return index contracts						
Total return swap agreements – fixed income	Other investments	50	n/a	1	1	—
Total return swap agreements – equity index	Other investments	7	n/a	—	—	—
Foreign currency contracts						
Foreign currency forwards	Other investments	161	n/a	9	10	(1)
Credit default contracts						
Credit default swaps – buying protection	Other investments	88	n/a	—	2	(2)
Credit default swaps – selling protection	Other investments	752	n/a	9	9	—
Subtotal		**1,058**	**10,663**	**196**	**199**	**(3)**
Total asset derivatives		**$ 1,060**	**10,663**	**$ 196**	**$ 199**	**$ (3)**
Liability derivatives						
Derivatives not designated as accounting hedging instruments						
Interest rate contracts						
Interest rate cap agreements	Other liabilities & accrued expenses	$ 33	n/a	$ —	$ —	$ —
Futures	Other liabilities & accrued expenses	—	1,266	—	—	—
Equity and index contracts						
Options	Other liabilities & accrued expenses	—	7,881	(100)	—	(100)
Futures	Other liabilities & accrued expenses	—	401	—	—	—
Foreign currency contracts						
Foreign currency forwards	Other liabilities & accrued expenses	588	n/a	28	32	(4)
Embedded derivative financial instruments						
Guaranteed accumulation benefits	Contractholder funds	133	n/a	(26)	—	(26)
Guaranteed withdrawal benefits	Contractholder funds	180	n/a	(20)	—	(20)
Equity-indexed and forward starting options in life and annuity product contracts	Contractholder funds	1,774	n/a	(442)	—	(442)
Credit default contracts						
Credit default swaps – buying protection	Other liabilities & accrued expenses	56	n/a	(2)	—	(2)
Credit default swaps – selling protection	Other liabilities & accrued expenses	7	n/a	—	—	—
Total liability derivatives		**2,771**	**9,548**	**(562)**	**$ 32**	**$ (594)**
Total derivatives		**$ 3,831**	**20,211**	**$ (366)**		

(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		Fair value, net	Gross asset	Gross liability
		Notional amount	Number of contracts			
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	—	3,668	—	—	—
Equity and index contracts						
Options	Other investments	—	5,539	140	140	—
Futures	Other assets	—	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	—	1,089	—	—	—
Equity and index contracts						
Options	Other liabilities & accrued expenses	—	5,400	(68)	—	(68)
Futures	Other liabilities & accrued expenses	—	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
June 30, 2020						
Asset derivatives	$ 45	$ (35)	$ (8)	$ 2	$ —	$ 2
Liability derivatives	(9)	35	(27)	(1)	—	(1)
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 June 30, 2020					
Interest rate contracts	$ 1	$ —	$ —	$ —	$ 1
Equity and index contracts	2	—	32	31	65
Embedded derivative financial instruments	—	10	(81)	—	(71)
Foreign currency contracts	(5)	—	—	—	(5)
Credit default contracts	12	—	—	—	12
Total return swaps - fixed income	7	—	—	—	7
Total return swaps - equity index	1	—	—	—	1
Total	**$ 18**	**$ 10**	**$ (49)**	**$ 31**	**$ 10**
Six months ended June 30, 2020					
Interest rate contracts	$ 40	$ —	$ —	$ —	$ 40
Equity and index contracts	30	—	(18)	(14)	(2)
Embedded derivative financial instruments	—	(14)	(12)	—	(26)
Foreign currency contracts	31	—	—	—	31
Credit default contracts	4	—	—	—	4
Total return swaps - fixed income	(2)	—	—	—	(2)
Total return swaps - equity index	3	—	—	—	3
Total	**$ 106**	**$ (14)**	**$ (30)**	**$ (14)**	**$ 48**
Three months ended June 30, 2019					
Interest rate contracts	$ 19	$ —	$ —	$ —	$ 19
Equity and index contracts	(17)	—	11	5	(1)
Embedded derivative financial instruments	—	(5)	(6)	—	(11)
Foreign currency contracts	5	—	—	—	5
Credit default contracts	(1)	—	—	—	(1)
Total return swaps - fixed income	8	—	—	—	8
Total return swaps - equity index	8	—	—	—	8
Total	**$ 22**	**$ (5)**	**$ 5**	**$ 5**	**$ 27**
Six months ended June 30, 2019					
Interest rate contracts	$ 26	$ —	$ —	$ —	$ 26
Equity and index contracts	(88)	—	42	26	(20)
Embedded derivative financial instruments	—	3	(41)	—	(38)
Foreign currency contracts	10	—	—	—	10
Credit default contracts	(5)	—	—	—	(5)
Total return swaps - fixed income	10	—	—	—	10
Total return swaps - equity index	23	—	—	—	23
Total	**$ (24)**	**$ 3**	**$ 1**	**$ 26**	**$ 6**

The Company manages its exposure to credit risk by utilizing highly rated counterparties, establishing risk control limits, executing legally enforceable master netting agreements ("MNAs") and obtaining collateral where appropriate. The Company uses MNAs for OTC derivative transactions that permit either party to net payments due for transactions and collateral is either pledged or obtained when certain predetermined exposure limits are exceeded. As of June 30, 2020, counterparties pledged $36 million in collateral to the Company, and the Company pledged $1 million in cash and securities to counterparties which includes $1 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)	June 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+	4	$ 744	$ 30	$ 1	6	$ 868	$ 29	$ —
A	1	187	6	—	—	—	—	—
Total	**5**	**$ 931**	**$ 36**	**$ 1**	**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 June 30, 2020, the Company pledged $66 million and received $8 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)	June 30, 2020	December 31, 2019
Gross liability fair value of contracts containing credit-risk-contingent features	$ 9	$ 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	(1)	(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
June 30, 2020							
Single name							
Corporate debt	$ —	$ —	$ —	$ —	$ 9	$ 9	$ —
Index							
Corporate debt	6	12	156	498	78	750	9
Total	**$ 6**	**$ 12**	**$ 156**	**$ 498**	**$ 87**	**$ 759**	**$ 9**
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 pa tterns, 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 actu arial 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 $779 million and $810 million, net of recoverables of $347 million and $362 million, as of June 30, 2020 and December 31, 2019, respectively. Reserves for environmental claims were $171 million and $179 million, net of recoverables of $38 million and $40 million, as of June 30, 2020 and December 31, 2019, respectively.

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

	Six months ended June 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	10,566	12,250
Prior years	(3)	(74)
Total incurred	**10,563**	**12,176**
Claims and claims expense paid related to:		
Current year	(5,777)	(6,125)
Prior years	(5,173)	(5,237)
Total paid	**(10,950)**	**(11,362)**
Net balance as of June 30	20,413	21,082
Plus recoverables	7,013	7,023
Balance as of June 30	**$ 27,426**	**$ 28,105**

[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 $1.40 billion and $1.75 billion in the six months ended June 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)]

	Six months ended June 30,					
	Non-catastrophes losses		Catastrophes losses		Total	
($ in millions)	2020	2019	2020	2019	2020	2019
Auto	$ (26)	$ (151)	$ (15)	$ (7)	$ (41)	$ (158)
Homeowners	(3)	—	19	57	16	57
Other personal lines	(6)	2	(2)	6	(8)	8
Commercial lines	24	17	3	—	27	17
Discontinued Lines and Coverages	4	5	—	—	4	5
Service Businesses	(1)	(3)	—	—	(1)	(3)
Total prior year reserve reestimates	**$ (8)**	**$ (130)**	**$ 5**	**$ 56**	**$ (3)**	**$ (74)**

(1) Favorable reserve reestimates are shown in parentheses.

California wildfire subrogation subsequent event

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 is one of the insurance companies that is party to the agreement with subrogating insurers.

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.

The Company expects to recognize a favorable impact of approximately $400 million to $450 million, pre-tax, net of expenses and adjustments to reinsurance, in the third quarter 2020, which will be reflected as prior year catastrophe reserve reestimates in the Condensed Consolidated Statement of Operations. On July 24, 2020, the Company received an initial distribution from the trust representing approximately 80% of the expected recovery.

Note 9 Reinsurance and indemnification

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

	Three months ended June 30,		Six months ended June 30,	
($ in millions)	2020	2019	2020	2019
Property and casualty insurance premiums earned	$ (279)	$ (287)	$ (568)	$ (547)
Life premiums and contract charges	(67)	(69)	(111)	(132)

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

	Three months ended June 30,		Six months ended June 30,	
($ in millions)	2020	2019	2020	2019
Property and casualty insurance claims and claims expense	$ (210)	$ (158)	$ (341)	$ (249)
Life contract benefits	(45)	5	(136)	(18)
Interest credited to contractholder funds	(7)	(5)	(12)	(8)

Reinsurance and indemnification recoverables

Reinsurance and indemnification recoverables, net

($ in millions)	June 30, 2020	December 31, 2019
Property and casualty		
Paid and due from reinsurers and indemnitors	$ 86	$ 112
Unpaid losses estimated (including IBNR)	7,014	6,912
Total property and casualty	**$ 7,100**	**$ 7,024**
Annuities	**1,367**	**1,305**
Life insurance	**737**	**794**
Other	**86**	**88**
Total	**$ 9,290**	**$ 9,211**

Rollforward of credit loss allowance for reinsurance recoverables

($ in millions)	Three months ended June 30, 2020	Six months ended June 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) decrease in the provision for credit losses	—	(1)
Ending balance	**$ (15)**	**$ (15)**

(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 June 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 (the “Rehabilitation 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.) submitted a proposed Plan of Rehabilitation for consideration by the Court. 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 $14 million and $9 million during the three months ended June 30, 2020 and 2019, respectively, and $19 million and $27 million during the six months ended June 30, 2020 and 2019, respectively. Restructuring expenses in 2020 are primarily related to actions designed to modify business practices and deliver services more efficiently and effectively.

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	17	2	19
Payments	(6)	(2)	(8)
Restructuring liability as of June 30, 2020	**$ 25**	**$ 8**	**$ 33**

As of June 30, 2020, the cumulative amount incurred to date for active programs related to employee severance, relocation benefits and exit expenses totaled $119 million for employee costs and $10 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 June 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 $75 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 preliminary approval, and Revival Chiropractic v. Allstate Insurance Company, et al. (M.D. Fla. filed January 2019), regarding which a class has not been certified, 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 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). No classes have been certified in any of these 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 fully briefed and scheduled for hearing on August 27, 2020.

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's response to the complaint, and the responses of the individual defendants, are due on August 24, 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 is scheduled to conclude on September 4, 2020.

Note 13 Benefit Plans

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

($ in millions)	Three months ended June 30, 2020	Three months ended June 30, 2019	Six months ended June 30, 2020	Six months ended June 30, 2019
Pension benefits				
Service cost	$ 25	$ 28	$ 53	$ 56
Interest cost	56	62	112	127
Expected return on plan assets	(95)	(101)	(199)	(194)
Amortization of prior service credit	(14)	(14)	(28)	(28)
Costs and expenses	**(28)**	**(25)**	**(62)**	**(39)**
Remeasurement of projected benefit obligation	672	344	556	731
Remeasurement of plan assets	(623)	(225)	(189)	(616)
Remeasurement (gains) losses	**49**	**119**	**367**	**115**
Pension net cost	**$ 21**	**$ 94**	**$ 305**	**$ 76**
Postretirement benefits				
Service cost	$ 2	$ 2	$ 3	$ 4
Interest cost	3	3	6	7
Amortization of prior service credit	(1)	(1)	(2)	(2)
Costs and expenses	**4**	**4**	**7**	**9**
Remeasurement of projected benefit obligation	24	6	24	25
Remeasurement of plan assets	—	—	—	—
Remeasurement (gains) losses	**24**	**6**	**24**	**25**
Postretirement net cost	**$ 28**	**$ 10**	**$ 31**	**$ 34**
Pension and postretirement benefits				
Costs and expenses	**$ (24)**	**$ (21)**	**$ (55)**	**$ (30)**
Remeasurement (gains) losses	**73**	**125**	**391**	**140**
Total net cost	**$ 49**	**$ 104**	**$ 336**	**$ 110**

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 postretirement benefits remeasurement gains and losses

($ in millions)	Three months ended June 30, 2020	Three months ended June 30, 2019	Six months ended June 30, 2020	Six months ended June 30, 2019
Remeasurement of projected benefit obligation (gains) losses:				
Discount rate	$ 433	$ 228	$ 397	$ 493
Other assumptions	263	122	183	263
Remeasurement of plan assets (gains) losses	(623)	(225)	(189)	(616)
Remeasurement (gains) losses	**$ 73**	**$ 125**	**$ 391**	**$ 140**

The losses for the second quarter and first six 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 2.74% at June 30, 2020 compared to 3.37% at March 31, 2020 and 3.31% at December 31, 2019 resulting in losses for the second quarter and first six months of 2020. The decrease in discount rates was primarily driven by a tightening in credit spreads in the second quarter as well as lower projected yields.

The losses for the second quarter and first six months of 2020 due to changes in actuarial assumptions that affect pension and other postretirement obligations primarily related to a decrease in lump sum interest rates. The second quarter of 2020 also included losses that resulted from recognizing participant experience different from demographic assumptions for mortality, terminations and retirements and the percentage of employees taking lump sum distributions.

For the second quarter of 2020, the actual return on plan assets was higher than the expected return due to stronger equity market performance compared to the first quarter and tightening of credit spreads which increased the fair value of fixed income investments. For the first six months of 2020, the actual return on plan assets was higher than the expected return due to a decline in interest rates, partially offset by weak equity market performance.

Note 14 Supplemental Cash Flow Information

Non-cash investing activities include $24 million and $179 million related to mergers and exchanges completed with equity securities, fixed income securities and limited partnerships, and modifications of other investments for the six months ended June 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 six months ended June 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 $78 million and $76 million for the six months ended June 30, 2020 and 2019, respectively. Non-cash operating activities include $52 million and $521 million related to right-of-use (“ROU”) assets obtained in exchange for lease obligations for the six months ended June 30, 2020 and 2019, respectively. Non-cash operating activities related to ROU assets obtained in exchange for lease obligations for the six months ended June 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:

($ in millions)	Six months ended June 30, 2020	2019
Net change in proceeds managed		
Net change in fixed income securities	$ —	$ 80
Net change in short-term investments	456	(493)
Operating cash flow provided (used)	**$ 456**	**$ (413)**
Net change in cash	(8)	—
Net change in proceeds managed	**$ 448**	**$ (413)**
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	(1,381)	(1,871)
Operating cash flow (used) provided	**$ (448)**	**$ 413**

Note 15 Other Comprehensive Income

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

($ in millions)	Three months ended June 30, 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	$ 2,796	$ (590)	$ 2,206	$ 921	$ (194)	$ 727
Less: reclassification adjustment of realized capital gains and losses	169	(35)	134	57	(12)	45
Unrealized net capital gains and losses	**2,627**	**(555)**	**2,072**	**864**	**(182)**	**682**
Unrealized foreign currency translation adjustments	**11**	**(2)**	**9**	**5**	**(1)**	**4**
Unamortized pension and other postretirement prior service credit [(1)]	**(14)**	**3**	**(11)**	**(14)**	**3**	**(11)**
Other comprehensive income (loss)	**$ 2,624**	**$ (554)**	**$ 2,070**	**$ 855**	**$ (180)**	**$ 675**

	Six months ended June 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	$ 1,363	$ (288)	$ 1,075	$ 2,208	$ (467)	$ 1,741
Less: reclassification adjustment of realized capital gains and losses	456	(96)	360	108	(23)	85
Unrealized net capital gains and losses	**907**	**(192)**	**715**	**2,100**	**(444)**	**1,656**
Unrealized foreign currency translation adjustments	**(38)**	**8**	**(30)**	**11**	**(2)**	**9**
Unamortized pension and other postretirement prior service credit [(1)]	**(8)**	**1**	**(7)**	**(29)**	**6**	**(23)**
Other comprehensive income (loss)	**$ 861**	**$ (183)**	**$ 678**	**$ 2,082**	**$ (440)**	**$ 1,642**

[(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 June 30, 2020, the related condensed consolidated statements of operations, comprehensive income and shareholders’ equity for the three and six month periods ended June 30, 2020 and 2019, and cash flows for the six month periods ended June 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
August 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. 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, shared economy demand, severity costs, driving behavior and auto frequency, 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:

- Extended 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; $210 million of this cost was accrued in first quarter 2020 and $738 million was recognized in second quarter 2020
- 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 some of 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 second quarter and first six months of 2020 results.

Allstate's operations

- Availability and performance of third party vendors, including technology development, car or home repair and marketing programs
- Increased regulatory restrictions on profitability, rate actions or claim practices, potentially outside the scope of current policies
- Employee availability and productivity
- 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 and 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 auto accident injury claims and fewer elective surgeries reducing hospital product exposure, partially offset by increased claim cost exposure for our hospital indemnity, accident, disability and 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 associated with prolonged low rate environment
- 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

- Adverse 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
- Fixed income securities in certain sectors such as energy, automotive, retail, travel, lodging and airlines were more severely impacted than others in the first quarter of 2020 and some continue to recover slower from the economic downturn
- 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*

Transformative Growth Plan

We have initiated a multi-year Transformative Growth Plan to increase personal property-liability market share. The plan has three components: expand customer access, enhance the customer value proposition and invest in marketing and technology while transforming Allstate agency distribution for effectiveness and efficiency.

A key element of our strategy involves cost reductions we anticipate will result from streamlining and restructuring our sales, service, and administrative operations. Significant elements of the initiative remain under review but are expected to be finalized and approved and the related costs recognized later in the third quarter of 2020.

As part of this plan, Esurance will be integrated into the Allstate brand in the second half of 2020 as we are repositioning the Allstate brand for broader customer access and leverage Esurance's direct distribution expertise. We continue to execute this plan as we manage through the impacts from the Coronavirus.

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"), a predominantly personal lines insurance holding company serving a wide range of customer segments through a network of 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 niche 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 integration 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, which will generate cost synergies.

The transaction will more than double our size in the independent agency channel, increasing our market share in personal property-liability by over one percentage point and enhance our independent agent-facing technology. It will significantly expand our distribution footprint, leading us to be a top five personal lines carrier in the independent agency distribution channel. Additional expansion opportunities through independent agents also exist in standard auto and homeowners insurance by leveraging Allstate's expertise.

The transaction is expected to close in early 2021, subject to regulatory approvals, a shareholder vote at National General 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:

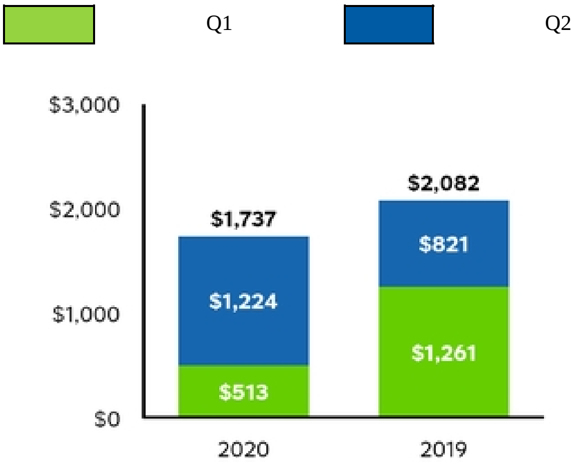
- Realized capital gains and losses, after-tax, except for periodic settlements and accruals on non-hedge derivative instruments, which are reported with realized capital gains and losses but included in adjusted net income
- Pension and other postretirement remeasurement gains and losses, after-tax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



Consolidated net income applicable to common shareholders increased 49.1% to $1.22 billion in the second quarter of 2020 compared to the same period of 2019 primarily due to higher underwriting income in Allstate Protection and higher net realized capital gains, partially offset by Shelter-in-Place Payback and lower net investment income.

Consolidated net income applicable to common shareholders decreased 16.6% to $1.74 billion in first six 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 underwriting income in Allstate Protection.

For the twelve months ended June 30, 2020, return on common shareholders' equity was 18.2%, an increase of 7.0 points from 11.2% for the twelve months ended June 30, 2019.

Total revenue

($ in millions)

Total revenue increased 0.5% to $11.20 billion in the second quarter of 2020 compared to the same prior year period, driven by higher net realized capital gains and a 2.6% increase in property and casualty insurance premiums earned, partially offset by lower net investment income.

Total revenue decreased 3.9% to $21.27 billion in the first six months of 2020 compared to the same prior year period, driven by lower net investment income and lower realized capital gains, partially offset by a 3.8% 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 56.6% to $409 million and 47.8% to $830 million in the second quarter and first six months of 2020, respectively, compared to the same prior year periods.

Performance-based investment income before expense decreased $477 million and $697 million in the second quarter and the first six months of 2020, respectively, compared to the same periods of 2019, primarily due to lower valuations of private equity investments.

Market-based investment income before expense decreased $78 million and $98 million in the second quarter and the first six months of 2020, respectively, compared to the same periods of 2019, primarily due to lower interest-bearing portfolio yields.

Summarized financial results

($ in millions)	Three months ended June 30, 2020	Three months ended June 30, 2019	Six months ended June 30, 2020	Six months ended June 30, 2019
Revenues				
Property and casualty insurance premiums	$ 9,223	$ 8,986	$ 18,458	$ 17,788
Life premiums and contract charges	604	621	1,221	1,249
Other revenue	257	271	522	521
Net investment income	409	942	830	1,590
Realized capital gains (losses)	704	324	242	986
Total revenues	**11,197**	**11,144**	**21,273**	**22,134**
Costs and expenses				
Property and casualty insurance claims and claims expense	(5,222)	(6,356)	(10,563)	(12,176)
Shelter-in-Place Payback expense	(738)	—	(948)	—
Life contract benefits and interest credited to contractholder funds	(697)	(667)	(1,330)	(1,326)
Amortization of deferred policy acquisition costs	(1,349)	(1,362)	(2,750)	(2,726)
Operating, restructuring and interest expenses	(1,544)	(1,471)	(3,029)	(2,952)
Pension and other postretirement remeasurement gains (losses)	(73)	(125)	(391)	(140)
Amortization of purchased intangibles	(29)	(32)	(57)	(64)
Impairment of purchased intangibles	—	(55)	—	(55)
Total costs and expenses	**(9,652)**	**(10,068)**	**(19,068)**	**(19,439)**
Gain on disposition of operations	1	2	2	3
Income tax expense	(296)	(227)	(408)	(555)
Net income	**1,250**	**851**	**1,799**	**2,143**
Preferred stock dividends	(26)	(30)	(62)	(61)
Net income applicable to common shareholders	**$ 1,224**	**$ 821**	**$ 1,737**	**$ 2,082**

Segment highlights

Allstate Protection underwriting income was $907 million in the second quarter of 2020, a $537 million increase from $370 million in the second quarter of 2019. The increase was primarily due to a decline in auto non-catastrophe losses and increased premiums earned, partially offset by Shelter-in-Place Payback expense. Underwriting income totaled $2.26 billion in the first six months of 2020, a $1.18 billion increase from $1.07 billion in the first six months of 2019, primarily due to lower auto non-catastrophe losses, increased premiums earned and lower catastrophe losses, partially offset by Shelter-in-Place Payback expense.

Catastrophe losses were $1.19 billion and $1.40 billion in the second quarter and first six months of 2020, respectively, compared to $1.07 billion and $1.75 billion in the second quarter and first six months of 2019, respectively.

Premiums written increased 1.4% to $9.17 billion in the second quarter of 2020 and 2.3% to $17.76 billion in the first six months of 2020 compared to the same periods of 2019.

Service Businesses adjusted net income was $38 million in the second quarter of 2020 compared to $16 million in the second quarter of 2019. Adjusted net income was $75 million in the first six months of 2020 compared to $27 million in the first six months of 2019. The increase in both periods was primarily due to growth of Allstate Protection Plans and improved loss experience and lower expenses at Allstate Roadside Services, partially offset by higher operating expenses related to investing in Allstate Identity Protection growth.

Total revenues increased 17.5% to $476 million in the second quarter of 2020 and 13.7% to $906 million in the first six 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 income was $72 million in the second quarter of 2020 compared to $68 million in the second quarter of 2019. Adjusted net income was $152 million in the first six months of 2020 compared to $141 million in the first six months of 2019. The increase in both periods was primarily due to lower operating costs and expenses and lower amortization of DAC, partially offset by higher contract benefits.

Premiums and contract charges increased 1.8% to $339 million in the second quarter of 2020 and 0.3% to $672 million in the first six months of 2020 compared to the same periods of 2019.

Allstate Benefits adjusted net income was $5 million in the second quarter of 2020 compared to $37 million in the second quarter of 2019. Adjusted net income was $29 million in the first six months of 2020 compared to $68 million in the first six months of 2019. The decrease in both periods 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.

Premiums and contract charges decreased 7.4% to $263 million in the second quarter of 2020 and 4.7% to $545 million in the first six months of 2020, compared to the same periods of 2019, primarily due to decreases in disability products, driven by the non-renewal of a large underperforming account in the fourth quarter of 2019 and decreased premium collections due to Coronavirus-related layoffs and furloughs.

Allstate Annuities adjusted net loss was $111 million in the second quarter of 2020 and $250 million in the first six months of 2020 compared to adjusted net income of $52 million in the second quarter of 2019 and $27 million in the first six months of 2019, primarily due to lower net investment income.

Net investment income decreased 77.7% to $66 million in the second quarter of 2020 and 76.7% to $113 million in the first six months of 2020, compared to the same periods of 2019, primarily due to lower performance-based investment results, mainly from limited partnerships, lower interest-bearing investment yields and lower average investment balances.

Financial highlights

Investments totaled $89.64 billion as of June 30, 2020, increasing from $88.36 billion as of December 31, 2019.

Shareholders' equity As of June 30, 2020, shareholders' equity was $26.99 billion. This total included $3.63 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 $79.21, an increase of 17.7% from $67.28 as of June 30, 2019, and an increase of 8.3% from $73.12 as of December 31, 2019.

Return on average common shareholders' equity For the twelve months ended June 30, 2020, return on common shareholders' equity was 18.2%, an increase of 7.0 points from 11.2% for the twelve months ended June 30, 2019. The increase was primarily due to higher net income applicable to common shareholders for the trailing twelve-month period ended June 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 losses of $73 million and $391 million in the second quarter and first six months of 2020, respectively. The losses in both periods 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 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.
- *Effect of Shelter-in-Place Payback expense on combined and expense ratios*: the ratio of Shelter-in-Place Payback expense to premiums earned.

Summarized financial data

($ in millions, except ratios)	Three months ended June 30, 2020	Three months ended June 30, 2019	Six months ended June 30, 2020	Six months ended June 30, 2019
Premiums written	$ 9,172	$ 9,043	$ 17,764	$ 17,370
Revenues				
Premiums earned	$ 8,863	$ 8,681	$ 17,744	$ 17,188
Other revenue	182	190	363	366
Net investment income	178	471	380	762
Realized capital gains (losses)	382	256	279	753
Total revenues	**9,605**	**9,598**	**18,766**	**19,069**
Costs and expenses				
Claims and claims expense	(5,139)	(6,272)	(10,390)	(12,002)
Shelter-in-Place Payback expense [1]	(738)	—	(948)	—
Amortization of DAC	(1,149)	(1,163)	(2,316)	(2,327)
Operating costs and expenses [2]	(1,107)	(1,060)	(2,192)	(2,131)
Restructuring and related charges	(8)	(9)	(12)	(27)
Total costs and expenses	**(8,141)**	**(8,504)**	**(15,858)**	**(16,487)**
Income tax expense	(292)	(231)	(574)	(537)
Net income applicable to common shareholders	**$ 1,172**	**$ 863**	**$ 2,334**	**$ 2,045**
Underwriting income	$ 904	$ 367	$ 2,249	$ 1,067
Net investment income	178	471	380	762
Income tax expense on operations	(209)	(179)	(512)	(381)
Realized capital gains (losses), after-tax	299	204	217	597
Net income applicable to common shareholders	**$ 1,172**	**$ 863**	**$ 2,334**	**$ 2,045**
Catastrophe losses				
Catastrophe losses, excluding reserve reestimates	$ 1,161	$ 1,069	$ 1,392	$ 1,696
Catastrophe reserve reestimates [3] [4]	25	3	5	56
Total catastrophe losses	**$ 1,186**	**$ 1,072**	**$ 1,397**	**$ 1,752**
Non-catastrophe reserve reestimates [3]	(35)	(86)	(7)	(127)
Prior year reserve reestimates [3]	(10)	(83)	(2)	(71)
GAAP operating ratios				
Loss ratio	58.0	72.3	58.5	69.8
Expense ratio [5]	31.8	23.5	28.8	24.0
Combined ratio	89.8	95.8	87.3	93.8
Effect of catastrophe losses on combined ratio	13.4	12.3	7.9	10.2
Effect of prior year reserve reestimates on combined ratio	(0.1)	(0.9)	(0.1)	(0.4)
Effect of catastrophe losses included in prior year reserve reestimates on combined ratio	0.3	—	—	0.3
Effect of restructuring and related charges on combined ratio	0.1	0.1	0.1	0.2
Effect of Discontinued Lines and Coverages on combined ratio	—	0.1	—	—
Effect of Shelter-in-Place Payback expense on combined and expense ratios	8.3	—	5.3	—

(1) 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, auto and commercial lines customers received a Shelter-in-Place Payback of $948 million with $210 million recognized in the first quarter of 2020 and $738 million recognized in the second quarter of 2020.

(2) As a result of the Coronavirus, we offered the Allstate Special Payment plan to provide more flexible payment options, including the option to delay payments to customers, resulting in increased bad debt expense of $44 million and $47 million for the three and six months ended June 30, 2020, respectively. This increase added 0.5 points and 0.3 points to the expense ratio for the second quarter and first six months of 2020, respectively.

(3) Favorable reserve reestimates are shown in parentheses.

(4) 2019 includes $5 million and $20 million of reinstatement reinsurance premiums incurred during the period related to the 2018 Camp Fire in the three and six months ended June 30, 2019, respectively.

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

Net investment income decreased 62.2% or $293 million in the second quarter of 2020 and decreased 50.1% or $382 million in the first six months of 2020 compared to the same periods 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

($ in millions)	Three months ended June 30, 2020	Three months ended June 30, 2019	Six months ended June 30, 2020	Six months ended June 30, 2019
Fixed income securities	$ 275	$ 265	$ 542	$ 524
Equity securities	16	49	22	72
Mortgage loans	6	4	12	8
Limited partnership interests	(117)	152	(194)	158
Short-term investments	2	16	11	31
Other	25	27	50	53
Investment income, before expense	207	513	443	846
Investment expense [(1)] [(2)]	(29)	(42)	(63)	(84)
Net investment income	**$ 178**	**$ 471**	**$ 380**	**$ 762**

(1) Investment expense includes $9 million and $14 million of investee level expenses in the second quarter of 2020 and 2019, respectively, and $17 million and $27 million in the first six months of 2020 and 2019, respectively. Investee level expenses include asset level operating expenses on directly held real estate and other consolidated investments. Beginning January 1, 2020, depreciation previously included in investee level expenses is reported as realized capital gains or losses.

(2) Investment expense includes zero and $8 million related to the portion of reinvestment income on securities lending collateral paid to the counterparties in the second quarter of 2020 and 2019, respectively, and $4 million and $15 million in the first six months of 2020 and 2019, respectively.

Realized capital gains and losses Net realized capital gains in the second quarter primarily related to increases in the valuation of equity securities and gains on sales of fixed income securities. Valuation of equity investments for the three months ended June 30, 2020 includes $201 million of appreciation in the valuation of equity securities and $17 million of appreciation primarily related to certain limited partnerships where the underlying assets are predominately public equity securities.

Net realized capital gains in the first six months of 2020 primarily related to gains on sales of fixed income securities, partially offset by decreases in the valuation of equity securities. Valuation of equity investments for the six months ended June 30, 2020 includes $230 million of declines in the valuation of equity securities and $64 million of declines in value primarily related to certain limited partnerships where the underlying assets are predominately public equity securities.

Realized capital gains (losses)

($ in millions)	Three months ended June 30, 2020	Three months ended June 30, 2019	Six months ended June 30, 2020	Six months ended June 30, 2019
Sales [(1)]	$ 150	$ 107	$ 516	$ 208
Credit losses [(2)]	—	(10)	(35)	(17)
Valuation of equity investments	218	141	(294)	594
Valuation and settlements of derivative instruments	14	18	92	(32)
Realized capital gains (losses), pre-tax	382	256	279	753
Income tax expense	(83)	(52)	(62)	(156)
Realized capital gains (losses), after-tax	**$ 299**	**$ 204**	**$ 217**	**$ 597**

(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.

Allstate Protection Segment

Underwriting results

($ in millions)	Three months ended June 30, 2020	Three months ended June 30, 2019	Six months ended June 30, 2020	Six months ended June 30, 2019
Premiums written	$ 9,172	$ 9,043	$17,764	$17,370
Premiums earned	$ 8,863	$ 8,681	$17,744	$17,188
Other revenue	182	190	363	366
Claims and claims expense	(5,137)	(6,269)	(10,386)	(11,997)
Shelter-in-Place Payback expense	(738)	—	(948)	—
Amortization of DAC	(1,149)	(1,163)	(2,316)	(2,327)
Other costs and expenses	(1,106)	(1,060)	(2,190)	(2,130)
Restructuring and related charges	(8)	(9)	(12)	(27)
Underwriting income	**$ 907**	**$ 370**	**$ 2,255**	**$ 1,073**
Catastrophe losses	$ 1,186	$ 1,072	$ 1,397	$ 1,752

Underwriting income (loss) by line of business

Auto	$ 999	$ 401	$ 1,655	$ 911
Homeowners	(140)	(88)	441	54
Other personal lines (1)	43	47	134	80
Commercial lines	(11)	(7)	(6)	—
Other business lines (2)	16	18	30	29
Answer Financial	—	(1)	1	(1)
Underwriting income	**$ 907**	**$ 370**	**$ 2,255**	**$ 1,073**

(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)

	Three months ended June 30,									
	Auto		Homeowners		Other personal lines		Commercial lines		Allstate Protection (2)	
($ in millions)	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Underwriting income (loss) - prior period	$ 401	$ 399	$ (88)	$ 15	$ 47	$ 65	$ (7)	$ (36)	$ 370	$ 458
Changes in underwriting income (loss) from:										
Increase (decrease) premiums earned	138	330	95	94	16	7	(67)	61	182	492
Increase (decrease) other revenue	(6)	—	(1)	—	1	1	—	1	(8)	6
(Increase) decrease incurred claims and claims expense ("losses"):										
Incurred losses, excluding catastrophe losses and reserve reestimates	1,204	(265)	2	(41)	9	—	83	(62)	1,298	(368)
Catastrophe losses, excluding reserve reestimates	57	(14)	(119)	(176)	(26)	(13)	(4)	—	(92)	(203)
Catastrophe reserve reestimates	—	1	(16)	33	(5)	3	(1)	—	(22)	37
Non-catastrophe reserve reestimates	(50)	(54)	(3)	(10)	8	(16)	(7)	32	(52)	(48)
Losses subtotal	1,211	(332)	(136)	(194)	(14)	(26)	71	(30)	1,132	(582)
Shelter-in-Place Payback expense	(734)	—	—	—	—	—	(4)	—	(738)	—
(Increase) decrease expenses	(11)	4	(10)	(3)	(7)	—	(4)	(3)	(31)	(4)
Underwriting income (loss)	**$ 999**	**$ 401**	**$ (140)**	**$ (88)**	**$ 43**	**$ 47**	**$ (11)**	**$ (7)**	**$ 907**	**$ 370**

	Six months ended June 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	$ 911	$ 1,016	$ 54	$ 356	$ 80	$ 115	$ —	$ (42)	$ 1,073	$ 1,466
Changes in underwriting income (loss) from:										
Increase (decrease) premiums earned	362	669	198	181	28	22	(32)	108	556	980
Increase (decrease) other revenue	(2)	3	(1)	—	2	1	—	—	(3)	8
(Increase) decrease losses:										
Incurred losses, excluding catastrophe losses and reserve reestimates	1,334	(533)	(14)	(90)	5	8	52	(112)	1,377	(727)
Catastrophe losses, excluding reserve reestimates	110	(60)	183	(376)	14	(39)	(3)	2	304	(473)
Catastrophe reserve reestimates	8	(25)	38	21	8	(8)	(3)	—	51	(12)
Non-catastrophe reserve reestimates	(125)	(74)	3	(19)	8	(18)	(7)	48	(121)	(63)
Losses subtotal	1,327	(692)	210	(464)	35	(57)	39	(62)	1,611	(1,275)
Shelter-in-Place Payback expense	(944)	—	—	—	—	—	(4)	—	(948)	—
(Increase) decrease expenses	1	(85)	(20)	(19)	(11)	(1)	(9)	(4)	(34)	(106)
Underwriting income (loss)	**$ 1,655**	**$ 911**	**$ 441**	**$ 54**	**$ 134**	**$ 80**	**$ (6)**	**$ —**	**$ 2,255**	**$ 1,073**

(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 $537 million in the second quarter of 2020 compared to the second quarter of 2019 primarily due to a decline in auto non-catastrophe losses and increased premiums earned, partially offset by Shelter-in-Place Payback expense. Underwriting income increased $1.18 billion in the first six months of 2020 compared to the first six months of 2019, primarily due to lower auto non-catastrophe losses, increased premiums earned and lower catastrophe losses, partially offset by Shelter-in-Place Payback expense.

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

Premiums written and earned by line of business

($ in millions)	Three months ended June 30,		Six months ended June 30,	
Premiums written	**2020**	**2019**	**2020**	**2019**
Auto	$ 6,190	$ 6,087	$ 12,399	$ 12,134
Homeowners	2,284	2,219	4,016	3,895
Other personal lines	528	501	958	920
Subtotal – Personal lines	9,002	8,807	17,373	16,949
Commercial lines	170	236	391	421
Total premiums written	**$ 9,172**	**$ 9,043**	**$ 17,764**	**$ 17,370**
Reconciliation of premiums written to premiums earned:				
(Increase) decrease in unearned premiums	(349)	(384)	21	(205)
Other	40	22	(41)	23
Total premiums earned	**$ 8,863**	**$ 8,681**	**$ 17,744**	**$ 17,188**
Auto	$ 6,173	$ 6,035	$ 12,327	$ 11,965
Homeowners	2,053	1,958	4,091	3,893
Other personal lines	478	462	949	921
Subtotal – Personal lines	8,704	8,455	17,367	16,779
Commercial lines	159	226	377	409
Total premiums earned	**$ 8,863**	**$ 8,681**	**$ 17,744**	**$ 17,188**

Combined ratios by line of business

	Loss ratio		Expense ratio (1)		Combined ratio	
	2020	**2019**	**2020**	**2019**	**2020**	**2019**
Three months ended June 30,						
Auto	48.0	69.2	35.8	24.2	83.8	93.4
Impact of Shelter-in-Place Payback	—	—	*11.9*	—	*11.9*	—
Homeowners	84.8	82.0	22.0	22.5	106.8	104.5
Other personal lines	64.9	64.1	26.1	25.7	91.0	89.8
Commercial lines	78.6	86.7	28.3	16.4	106.9	103.1
Impact of Shelter-in-Place Payback	—	—	*2.5*	—	*2.5*	—
Total	**58.0**	**72.2**	**31.8**	**23.5**	**89.8**	**95.7**
Impact of Shelter-in-Place Payback	—	—	*8.3*	—	*8.3*	—
Impact of Allstate Special Payment plan bad debt expense (2)	—	—	*0.5*	—	*0.5*	—
Six months ended June 30,						
Auto	55.1	67.8	31.5	24.6	86.6	92.4
Impact of Shelter-in-Place Payback	—	—	*7.7*	—	*7.7*	—
Homeowners	66.9	75.7	22.3	22.9	89.2	98.6
Other personal lines	59.7	65.2	26.2	26.1	85.9	91.3
Commercial lines	78.5	81.9	23.1	18.1	101.6	100.0
Impact of Shelter-in-Place Payback	—	—	*1.1*	—	*1.1*	—
Total	**58.5**	**69.8**	**28.8**	**24.0**	**87.3**	**93.8**
Impact of Shelter-in-Place Payback	—	—	*5.3*	—	*5.3*	—
Impact of Allstate Special Payment plan bad debt expense (2)	—	—	*0.3*	—	*0.3*	—

(1) Other revenue is deducted from operating costs and expenses in the expense ratio calculation.
(2) 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 June 30,								
Auto	48.0	69.2	2.2	3.2	(0.9)	(1.7)	(0.1)	(0.1)
Homeowners	84.8	82.0	46.4	41.8	1.1	0.2	1.3	0.6
Other personal lines	64.9	64.1	18.6	12.6	(0.4)	0.2	0.4	(0.6)
Commercial lines	78.6	86.7	5.7	1.8	13.2	5.7	1.3	0.4
Total	**58.0**	**72.2**	**13.4**	**12.3**	**(0.1)**	**(1.0)**	**0.3**	**—**
Six months ended June 30,								
Auto	55.1	67.8	1.2	2.2	(0.3)	(1.3)	(0.1)	(0.1)
Homeowners	66.9	75.7	27.8	34.8	0.4	1.5	0.5	1.5
Other personal lines	59.7	65.2	10.7	13.5	(0.8)	0.9	(0.2)	0.7
Commercial lines	78.5	81.9	2.9	1.2	7.2	4.2	0.8	—
Total	**58.5**	**69.8**	**7.9**	**10.2**	**(0.1)**	**(0.4)**	**—**	**0.3**

Catastrophe losses increased 10.6% or $114 million in the second quarter of 2020 compared to the second quarter of 2019 and decreased 20.3% or $355 million in first six months of 2020 compared to the first six 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.

California wildfire subrogation subsequent event

On July 1, 2020, PG&E Corporation and Pacific Gas and Electric Company (together, "PG&E") funded a subrogation trust to resolve claims arising from the 2017 Northern California wildfires and the 2018 Camp Fire. We expect to recognize a favorable impact of approximately $400 million to $450 million, pre-tax, net of expenses and adjustments to reinsurance, in the third quarter 2020, which will be reflected as prior year catastrophe reserve reestimates. See Note 8 of the condensed consolidated financial statements for additional details.

Catastrophe losses by the size of event

($ in millions)	Three months ended June 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	—	—%	$ —	—%	—	$ —
$101 million to $250 million	3	12.5	473	39.9	5.3	158
$50 million to $100 million	6	25.0	375	31.6	4.2	63
Less than $50 million	15	62.5	297	25.0	3.4	20
Total	**24**	**100.0%**	**1,145**	**96.5**	**12.9**	**48**
Prior year reserve reestimates			25	2.1	0.3	
Prior quarter reserve reestimates			16	1.4	0.2	
Total catastrophe losses			**$ 1,186**	**100.0%**	**13.4**	

	Six months ended June 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	—	—%	$ —	—%	—	$ —
$101 million to $250 million	3	8.3	473	33.9	2.7	158
$50 million to $100 million	8	22.2	498	35.6	2.8	62
Less than $50 million	25	69.5	421	30.1	2.4	17
Total	**36**	**100.0%**	**1,392**	**99.6**	**7.9**	**39**
Prior year reserve reestimates			5	0.4	—	
Total catastrophe losses			**$ 1,397**	**100.0%**	**7.9**	

Catastrophe losses by the type of event

($ in millions)	Three months ended June 30,				Six months ended June 30,			
	Number of events	2020	Number of events	2019	Number of events	2020	Number of events	2019
Hurricanes/Tropical storms	—	$ —	—	$ —	—	$ —	—	$ —
Tornadoes	—	—	3	305	2	39	4	320
Wind/Hail	23	1,141	34	776	31	1,340	49	1,256
Wildfires	—	—	—	—	1	2	—	—
Other events	1	4	—	—	2	11	6	120
Prior year reserve reestimates		25		3		5		56
Prior quarter reserve reestimates		16		(12)		—		—
Total catastrophe losses	**24**	**$ 1,186**	**37**	**$ 1,072**	**36**	**$ 1,397**	**59**	**$ 1,752**

Catastrophe reinsurance Our current catastrophe reinsurance program supports our risk tolerance framework that targets less than a 1% likelihood of annual aggregate catastrophe losses from hurricanes and earthquakes, net of reinsurance, exceeding $2 billion. Our program provides reinsurance protection for catastrophes resulting from multiple perils, including hurricanes, windstorms, hail, tornadoes, fires following earthquakes, earthquakes and wildfires.

These reinsurance agreements are part of our catastrophe management strategy, which is intended to provide our shareholders an acceptable return on the risks assumed in our property business, and to reduce variability of earnings, while providing protection to our customers.

During the second quarter of 2020, we completed the Florida component of the program that is designed to address the distinct needs of our separately capitalized companies in that state. Our 2020 Florida program provides coverage up to $633 million of loss less a $20 million retention. The Florida program includes reinsurance agreements placed with the traditional market, the Florida Hurricane Catastrophe Fund ("FHCF"), and the Insurance Linked Securities ("ILS") market as follows:

- The traditional market placement comprises $295 million of reinsurance limits for losses to personal lines property in Florida arising out of multiple perils. The Excess contract, which forms a part of the traditional market placement, with $264 million of limits, subject to a $20 million retention, provides coverage for perils not covered by the FHCF contracts, which only cover hurricanes.
- The FHCF contracts provide approximately $118 million of limits for qualifying losses to personal lines property in Florida caused by storms the National Hurricane Center declares to be hurricanes.
- The ILS placement provides $200 million of reinsurance limits for qualifying losses to personal lines property in Florida caused by a named storm event, a severe weather event, an earthquake event, a fire event, a volcanic eruption event, or a meteorite impact event.

For a complete summary of the 2020 reinsurance placement, please read this in conjunction with the discussion and analysis in Part I. Item 2. Management's Discussion and Analysis - Allstate Protection Segment Results, Catastrophe Reinsurance of The Allstate Corporation Form 10-Q for the quarterly period ended March 31, 2020.

The total cost of our property catastrophe reinsurance program during the second quarter and first six months of 2020 was $105 million and $204 million, respectively, compared to $100 million and $188 million in the second quarter and first six months of 2019, respectively. The increases were due to increases in Nationwide Program costs due to program expansion for aggregate losses, growth in policies and increased rate pressure.

Expense ratio increased 8.3 points and 4.8 points in the second quarter and first six months of 2020, respectively, compared to the same periods of 2019, primarily due to the Coronavirus, resulting in the Shelter-in-Place Payback expense and higher bad debt expense related to the Allstate Special Payment plan.

Excluding the Shelter-in-Place Payback expense and higher bad debt expense, the expense ratio decreased 0.5 points in the second quarter of 2020 compared to the second quarter of 2019 and decreased 0.8 points in the first six months of 2020 compared to the first six months of 2019.

Impact of specific costs and expenses on the expense ratio

	Three months ended June 30,		Six months ended June 30,	
	2020	**2019**	**2020**	**2019**
Amortization of DAC	13.0	13.4	13.1	13.6
Advertising expense	2.4	2.2	2.3	2.2
Other costs and expenses	7.5	7.8	7.7	8.0
Restructuring and related charges	0.1	0.1	0.1	0.2
Subtotal	23.0	23.5	23.2	24.0
Shelter-in-Place Payback expense	8.3	—	5.3	—
Allstate Special Payment plan bad debt expense	0.5	—	0.3	—
Total expense ratio	**31.8**	**23.5**	**28.8**	**24.0**

Reserve reestimates were favorable in the second quarter and first six months of 2020 and primarily related to favorable non-catastrophe and catastrophe reserve reestimates in personal lines auto, partially offset by strengthening in homeowners related to catastrophe reestimates and 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 June 30,				Six months ended June 30,			
	Reserve reestimate (1)		Effect on combined ratio (2)		Reserve reestimate (1)		Effect on combined ratio (2)	
($ in millions, except ratios)	2020	2019	2020	2019	2020	2019	2020	2019
Auto	$ (54)	$ (104)	(0.6)	(1.2)	$ (41)	$ (158)	(0.3)	(0.9)
Homeowners	23	4	0.3	—	16	57	0.1	0.4
Other personal lines	(2)	1	—	—	(8)	8	—	—
Commercial lines	21	13	0.2	0.2	27	17	0.1	0.1
Total Allstate Protection	**$ (12)**	**$ (86)**	**(0.1)**	**(1.0)**	**$ (6)**	**$ (76)**	**(0.1)**	**(0.4)**
Allstate brand	$ (12)	$ (83)	(0.1)	(1.0)	$ (5)	$ (81)	(0.1)	(0.4)
Esurance brand	1	—	—	—	2	3	—	—
Encompass brand	(1)	(3)	—	—	(3)	2	—	—
Total Allstate Protection	**$ (12)**	**$ (86)**	**(0.1)**	**(1.0)**	**$ (6)**	**$ (76)**	**(0.1)**	**(0.4)**

(1) Favorable reserve reestimates are shown in parentheses.
(2) Ratios are calculated using Allstate Protection premiums earned.

The following table presents premiums written, policies in force ("PIF") and underwriting income (loss) by line of business for Allstate brand, Esurance brand, Encompass brand and Allstate Protection as of or for the six months ended June 30, 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		Esurance brand		Encompass brand		Allstate Protection	
Premiums written	**Amount**	**Percent to total brand**	**Amount**	**Percent to total brand**	**Amount**	**Percent to total brand**	**Amount**	**Percent to total**
Auto	$ 11,146	68.7 %	$ 999	93.9%	$ 254	52.4 %	$ 12,399	69.8 %
Homeowners	3,762	23.2	61	5.7	193	39.8	4,016	22.6
Other personal lines	916	5.7	4	0.4	38	7.8	958	5.4
Commercial lines	391	2.4	—	—	—	—	391	2.2
Total	**$ 16,215**	**100.0 %**	**$ 1,064**	**100.0%**	**$ 485**	**100.0 %**	**$ 17,764**	**100.0 %**
Percent to total Allstate Protection		**91.3 %**		**6.0%**		**2.7 %**		**100.0 %**
PIF (thousands)								
Auto	20,464	65.3 %	1,514	90.8%	473	61.3 %	22,451	66.5 %
Homeowners	6,284	20.1	107	6.4	225	29.1	6,616	19.6
Other personal lines	4,369	13.9	46	2.8	74	9.6	4,489	13.3
Commercial lines	221	0.7	—	—	—	—	221	0.6
Total	**31,338**	**100.0 %**	**1,667**	**100.0%**	**772**	**100.0 %**	**33,777**	**100.0 %**
Percent to total Allstate Protection		**92.8 %**		**4.9%**		**2.3 %**		**100.0 %**
Underwriting income (loss)								
Auto	$ 1,546	72.1 %	$ 79	86.8%	$ 30	150.0 %	$ 1,655	73.4 %
Homeowners	437	20.4	11	12.1	(7)	(35.0)	441	19.6
Other personal lines	136	6.4	1	1.1	(3)	(15.0)	134	6.0
Commercial lines	(6)	(0.3)	—	—	—	—	(6)	(0.3)
Other business lines	30	1.4	—	—	—	—	30	1.3
Answer Financial	—	—	—	—	—	—	1	—
Total	**$ 2,143**	**100.0 %**	**$ 91**	**100.0%**	**$ 20**	**100.0 %**	**$ 2,255**	**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 and Esurance brand policy terms are 6 months for auto and 12 months for homeowners. Encompass brand policy terms are generally 12 months for auto and homeowners.
- *Renewal ratio*: Renewal policy item counts issued during the period, based on contract effective dates, divided by the total policy item counts issued 6 months prior for auto (generally 12 months prior for Encompass brand) or 12 months prior for homeowners.
- *Approved rate changes:* Based on historical premiums written in locations where the brands operate, 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 percentages are calculated using approved rate changes during the period as a percentage of:
  - Total brand premiums written
  - Premiums written in respective locations with rate changes

Underwriting results

($ in millions)	Three months ended June 30, 2020	Three months ended June 30, 2019	Six months ended June 30, 2020	Six months ended June 30, 2019
Premiums written	$ 8,391	$ 8,262	$ 16,215	$ 15,806
Premiums earned	$ 8,087	$ 7,902	$ 16,193	$ 15,654
Other revenue	141	151	280	286
Claims and claims expense	(4,685)	(5,683)	(9,404)	(10,853)
Shelter-in-Place Payback expense	(664)	—	(852)	—
Amortization of DAC	(1,090)	(1,103)	(2,197)	(2,208)
Other costs and expenses	(953)	(891)	(1,867)	(1,785)
Restructuring and related charges	(7)	(9)	(10)	(25)
Underwriting income	**$ 829**	**$ 367**	**$ 2,143**	**$ 1,069**
Catastrophe losses	$ 1,109	$ 1,021	$ 1,305	$ 1,665
Underwriting income (loss) by line of business				
Auto	$ 894	$ 387	$ 1,546	$ 899
Homeowners	(118)	(79)	437	63
Other personal lines (1)	48	48	136	78
Commercial lines	(11)	(7)	(6)	—
Other business lines (2)	16	18	30	29
Underwriting income	**$ 829**	**$ 367**	**$ 2,143**	**$ 1,069**

(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 June 30, 2020	Three months ended June 30, 2019	Six months ended June 30, 2020	Six months ended June 30, 2019
Underwriting income (loss) - prior period	$ 367	$ 463	$ 1,069	$ 1,464
Changes in underwriting income (loss) from:				
Increase (decrease) premiums earned	185	432	539	855
Increase (decrease) other revenue	(10)	8	(6)	7
(Increase) decrease incurred claims and claims expense ("losses"):				
Incurred losses, excluding catastrophe losses and reserve reestimates	1,129	(292)	1,204	(590)
Catastrophe losses, excluding reserve reestimates	(60)	(224)	321	(486)
Catastrophe reserve reestimates	(28)	40	39	(13)
Non-catastrophe reserve reestimates	(43)	(49)	(115)	(58)
Losses subtotal	998	(525)	1,449	(1,147)
Shelter-in-Place Payback expense	(664)	—	(852)	—
(Increase) decrease expenses	(47)	(11)	(56)	(110)
Underwriting income	**$ 829**	**$ 367**	**$ 2,143**	**$ 1,069**

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

Underwriting income increased $462 million in the second quarter of 2020 compared to the second quarter of 2019, primarily due to a decline in auto non-catastrophe losses and increased premiums, partially offset by Shelter-in-Place Payback expense.

Underwriting income increased $1.07 billion in the first six months of 2020 compared to the first six months of 2019, primarily due to lower auto non-catastrophe losses, increased earned premiums and lower catastrophe losses, partially offset by Shelter-in-Place Payback expense.

Premiums written and earned by line of business

($ in millions)	Three months ended June 30,		Six months ended June 30,	
Premiums written	**2020**	**2019**	**2020**	**2019**
Auto	$ 5,572	$ 5,472	$ 11,146	$ 10,867
Homeowners [1]	2,144	2,076	3,762	3,641
Other personal lines	505	478	916	877
Subtotal – Personal lines	8,221	8,026	15,824	15,385
Commercial lines	170	236	391	421
Total	**$ 8,391**	**$ 8,262**	**$ 16,215**	**$ 15,806**
Premiums earned				
Auto	$ 5,547	$ 5,404	$ 11,079	$ 10,725
Homeowners	1,924	1,832	3,831	3,643
Other personal lines	457	440	906	877
Subtotal – Personal lines	7,928	7,676	15,816	15,245
Commercial lines	159	226	377	409
Total	**$ 8,087**	**$ 7,902**	**$ 16,193**	**$ 15,654**

(1) The cost of our catastrophe reinsurance program increased $7 million to $80 million in the second quarter of 2020 from $73 million in the second quarter of 2019 and increased $19 million to $155 million in the first six months of 2020 from $136 million in the first six 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 June 30,			Six months ended June 30,		
	2020	**2019**	**Change**	**2020**	**2019**	**Change**
PIF (thousands)	20,464	20,301	0.8 %	20,464	20,301	0.8%
New issued applications (thousands)	751	755	(0.5)%	1,502	1,495	0.5%
Average premium	$ 594	$ 581	2.2 %	$ 596	$ 579	2.9%
Renewal ratio (%)	88.1	88.8	(0.7)	88.1	88.8	(0.7)
Approved rate changes:						
Impact of rate changes ($ in millions)	$ 26	$ 177	$ (151)	$ 111	$ 297	$ (186)
Number of locations [1]	14	20	(6)	23	29	(6)
Total brand (%)	0.1	0.8	(0.7)	0.5	1.4	(0.9)
Location specific (%)	0.4	3.4	(3.0)	1.6	3.9	(2.3)

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

Auto insurance premiums written increased 1.8% or $100 million in the second quarter of 2020 compared to the second quarter of 2019 and increased 2.6% or $279 million in the first six months of 2020 compared to the first six months of 2019, primarily due to an increase in average premium and policy growth. During the second quarter of 2020, we noted growth in premiums written slowed significantly due to lower increases in average premium from less approved rate and a decline in new issued applications, both related to the Coronavirus. PIF increased 0.8% or 163 thousand to 20,464 thousand as of June 30, 2020 compared to June 30, 2019 with increases in 28 states, including 5 of our largest 10 states.

Homeowners premium measures and statistics

	Three months ended June 30,			Six months ended June 30,		
	2020	**2019**	**Change**	**2020**	**2019**	**Change**
PIF (thousands)	6,284	6,221	1.0 %	6,284	6,221	1.0 %
New issued applications (thousands)	224	229	(2.2)%	423	426	(0.7)%
Average premium	$ 1,328	$ 1,295	2.5 %	$ 1,322	$ 1,283	3.0 %
Renewal ratio (%)	87.3	88.2	(0.9)	87.5	88.3	(0.8)
Approved rate changes:						
Impact of rate changes ($ in millions)	$ 11	$ 8	$ 3	$ 110	$ 163	$ (53)
Number of locations [1]	5	4	1	20	24	(4)
Total brand (%)	0.1	0.1	—	1.4	2.2	(0.8)
Location specific (%)	3.4	5.1	(1.7)	4.1	5.4	(1.3)

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

Homeowners insurance premiums written increased 3.3% or $68 million in the second quarter of 2020 compared to the second quarter of 2019 and increased 3.3% or $121 million in the first six months of 2020 compared to the first six months of 2019, primarily due to higher average premiums, including rate changes and inflation in insured home valuations, and policy growth. Homeowners PIF increased in 29 states, including 6 of our largest 10 states, as of June 30, 2020 compared to June 30, 2019.

Other personal lines premiums written increased 5.6% or $27 million in the second quarter of 2020 compared to the second quarter of 2019 and increased 4.4% or $39 million in the first six months of 2020 compared to the first six 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 28.0% or $66 million in the second quarter of 2020 compared to the second quarter of 2019 and decreased 7.1% or $30 million in the first six months of 2020 compared to the first six 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 June 30,						
Auto	47.7	68.4	36.2	24.4	83.9	92.8
Impact of Shelter-in-Place Payback	—	—	*11.9*	—	*11.9*	—
Homeowners	84.5	82.3	21.6	22.0	106.1	104.3
Other personal lines	63.7	63.9	25.8	25.2	89.5	89.1
Commercial lines	78.6	86.7	28.3	16.4	106.9	103.1
Impact of Shelter-in-Place Payback	—	—	*2.5*	—	*2.5*	—
Total	**57.9**	**71.9**	**31.8**	**23.5**	**89.7**	**95.4**
Impact of Shelter-in-Place Payback	—	—	*8.2*	—	*8.2*	—
Impact of Allstate Special Payment plan bad debt expense [2]	—	—	*0.5*	—	*0.5*	—
Six months ended June 30,						
Auto	54.3	67.0	31.7	24.6	86.0	91.6
Impact of Shelter-in-Place Payback	—	—	*7.7*	—	*7.7*	—
Homeowners	66.6	75.8	22.0	22.5	88.6	98.3
Other personal lines	58.9	65.3	26.1	25.8	85.0	91.1
Commercial lines	78.5	81.9	23.1	18.1	101.6	100.0
Impact of Shelter-in-Place Payback	—	—	1.1	—	1.1	—
Total	**58.1**	**69.3**	**28.7**	**23.9**	**86.8**	**93.2**
Impact of Shelter-in-Place Payback	—	—	*5.3*	—	*5.3*	—
Impact of Allstate Special Payment plan bad debt expense [2]	—	—	*0.3*	—	*0.3*	—

(1) Other revenue is deducted from operating costs and expenses in the expense ratio calculation.
(2) 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 June 30,								
Auto	47.7	68.4	2.2	3.3	(0.9)	(1.7)	(0.1)	(0.1)
Homeowners	84.5	82.3	46.3	42.6	1.1	(0.1)	1.4	0.3
Other personal lines	63.7	63.9	18.8	13.0	(0.5)	(0.2)	0.4	(0.6)
Commercial lines	78.6	86.7	5.7	1.8	13.2	5.7	1.3	0.4
Total	**57.9**	**71.9**	**13.7**	**13.0**	**(0.2)**	**(1.0)**	**0.3**	**—**
Six months ended June 30,								
Auto	54.3	67.0	1.2	2.3	(0.4)	(1.4)	(0.1)	—
Homeowners	66.6	75.8	27.7	35.5	0.5	1.2	0.6	1.3
Other personal lines	58.9	65.3	10.8	13.8	(0.7)	1.0	(0.3)	0.7
Commercial lines	78.5	81.9	2.9	1.2	7.2	4.2	0.8	—
Total	**58.1**	**69.3**	**8.1**	**10.7**	**—**	**(0.5)**	**0.1**	**0.3**

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:

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

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

Paid claim frequency trends will often differ from gross claim frequency trends due to differences in the timing of when notices are received and when claims are settled.

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

We 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 20.7 points and 12.7 points in the second quarter and first six 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 frequency and severity statistics

(% change year-over-year)	Three months ended June 30, 2020	Six months ended June 30, 2020
Auto property damage:		
Gross claim frequency	(46.4)%	(29.4)%
Paid claim frequency	(37.8)	(20.6)
Paid claim severity	20.1	12.7
Bodily injury gross claim frequency	(49.2)	(30.5)

Coronavirus may positively or negatively impact frequency and severity statistics including:

- Impacts of 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
- Changes in unemployment levels
- Changes in commuting activity and utilization of public transportation
- Changes in paid claims settlement rates as the low frequency environment creates capacity to settle claims faster
- Changes in mix of claim types due to changes in driving behavior (e.g., speed, time of day)
- 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 and paid claim frequency decreased in the second quarter and the first six months of 2020 compared to the same periods of 2019 due to factors including:

- Declines in auto miles driven related to the Coronavirus
- Gross claim frequency declined by 34.6% in June 2020 compared to June 2019, reflecting an increase in miles driven compared to April and May 2020 as shelter-in-place restrictions were lifted in several states

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

- The timing of payments on property damage claims significantly impacted the average paid severity as the mix of claims paid in the second quarter of 2020 shifted to older claims as there were fewer new claims reported
  - 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
- Continued impact of higher costs to repair more sophisticated newer model vehicles and higher third-party subrogation demands

Bodily injury gross claim frequency decreased in the second quarter and first six months of 2020 compared to the same periods of 2019, 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 2.2 points in the second quarter of 2020 compared to the second quarter of 2019, primarily due to higher catastrophe losses and increased claim severity, partially offset by increased premiums earned and improved claim frequency. Homeowners loss ratio decreased 9.2 points in the first six months of 2020 compared to the first six months of 2019, primarily due to lower catastrophes losses, increased premiums earned and improved claim frequency, partially offset by increased claim severity. Gross and paid claim frequency excluding catastrophe losses decreased 8.7% and 12.4%, respectively, in the second quarter of 2020 and decreased 10.8% and 11.6%, respectively, in the first six months of 2020 compared to the same periods of 2019. Paid claim severity excluding catastrophe losses increased 9.4% and 12.8% in the second quarter and first six months of 2020, respectively, compared to the same periods of 2019, as we experienced increased claim severity in wind/hail, fire and water 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 decreased 0.2 points in the second quarter of 2020 compared to the second quarter of 2019, primarily due to increased premiums earned and lower non-catastrophe losses, partially offset by higher catastrophe losses. Other personal lines loss ratio decreased 6.4 points in first six months of 2020 compared to the first six months of 2019, primarily due to increased premiums earned and lower catastrophe losses.

Commercial lines loss ratio decreased 8.1 points and 3.4 points in the second quarter and first six months of 2020, respectively, compared to the same periods of 2019, primarily due to a decline in non-catastrophe losses driven by favorable 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 June 30,		Six months ended June 30,	
	2020	**2019**	**2020**	**2019**
Amortization of DAC	13.5	14.1	13.5	14.1
Advertising expense	2.2	1.9	2.1	1.9
Other costs and expenses	7.3	7.4	7.4	7.7
Restructuring and related charges	0.1	0.1	0.1	0.2
Subtotal	23.1	23.5	23.1	23.9
Shelter-in-Place Payback expense	8.2	—	5.3	—
Allstate Special Payment plan bad debt expense	0.5	—	0.3	—
Total expense ratio	**31.8**	**23.5**	**28.7**	**23.9**

Expense ratio increased 8.3 points and 4.8 points in the second quarter and first six months of 2020, respectively, compared to the same periods of 2019, primarily due to the Coronavirus, resulting in the Shelter-in-Place Payback expense and higher bad debt expense related to the Allstate Special Payment plan.

Excluding the Shelter-in-Place Payback expense and higher bad debt expense, the expense ratio decreased 0.4 points and 0.8 points in the second quarter and first six months of 2020, respectively, compared to the same periods of 2019, primarily due to lower agent compensation and operating expenses, partially offset by higher advertising costs.

Amortization of DAC primarily includes agent remuneration and premium taxes. Allstate agency total incurred base commissions, variable compensation and bonuses in total in the second quarter and first six months of 2020 were lower than the same periods of 2019.

esurance
an Allstate company

Underwriting results

($ in millions)	Three months ended June 30, 2020	Three months ended June 30, 2019	Six months ended June 30, 2020	Six months ended June 30, 2019
Premiums written	$ 518	$ 503	$ 1,064	$ 1,062
Premiums earned	$ 523	$ 525	$ 1,042	$ 1,027
Other revenue	23	20	46	40
Claims and claims expense	(298)	(419)	(671)	(803)
Shelter-in-Place Payback expense	(58)	—	(75)	—
Amortization of DAC	(11)	(12)	(22)	(23)
Other costs and expenses	(107)	(117)	(228)	(241)
Restructuring and related charges	—	—	(1)	—
Underwriting income (loss)	**$ 72**	**$ (3)**	**$ 91**	**$ —**
Catastrophe losses	$ 18	$ 25	$ 21	$ 31

Underwriting income (loss) by line of business				
Auto	$ 73	$ 8	$ 79	$ 7
Homeowners	(1)	(11)	11	(7)
Other personal lines	—	—	1	—
Underwriting income (loss)	**$ 72**	**$ (3)**	**$ 91**	**$ —**

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

($ in millions)	Three months ended June 30, 2020	Three months ended June 30, 2019	Six months ended June 30, 2020	Six months ended June 30, 2019
Underwriting income (loss) - prior period	$ (3)	$ (9)	$ —	$ (6)
Changes in underwriting income (loss) from:				
Increase (decrease) premiums earned	(2)	62	15	131
Increase (decrease) other revenue	3	—	6	—
(Increase) decrease incurred claims and claims expense (“losses”):				
Incurred losses, excluding catastrophe losses and reserve reestimates	117	(60)	123	(117)
Catastrophe losses, excluding reserve reestimates	5	5	8	2
Catastrophe reserve reestimates	2	(1)	2	(1)
Non-catastrophe reserve reestimates	(3)	1	(1)	(2)
Losses subtotal	121	(55)	132	(118)
Shelter-in-Place Payback expense	(58)	—	(75)	—
(Increase) decrease expenses	11	(1)	13	(7)
Underwriting income (loss)	**$ 72**	**$ (3)**	**$ 91**	**$ —**

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

Underwriting income was $72 million in the second quarter of 2020 compared to a loss of $3 million in the second quarter of 2019 due to lower loss costs and operating expenses, partially offset by Shelter-in-Place Payback expense in 2020.

Underwriting income increased $91 million in the first six months of 2020 primarily due to lower loss costs and operating expenses and increased premiums earned, partially offset by Shelter-in-Place Payback expense compared to the first six months of 2019.

Premiums written and earned by line of business

($ in millions)	Three months ended June 30,		Six months ended June 30,	
Premiums written	**2020**	**2019**	**2020**	**2019**
Auto	$ 482	$ 469	$ 999	$ 1,001
Homeowners	34	32	61	57
Other personal lines	2	2	4	4
Total	**$ 518**	**$ 503**	**$ 1,064**	**$ 1,062**
Premiums earned				
Auto	$ 491	$ 496	$ 978	$ 971
Homeowners	30	27	60	52
Other personal lines	2	2	4	4
Total	**$ 523**	**$ 525**	**$ 1,042**	**$ 1,027**

Auto premium measures and statistics

	Three months ended June 30,			Six months ended June 30,		
	2020	**2019**	**Change**	**2020**	**2019**	**Change**
PIF (thousands)	1,514	1,548	(2.2)%	1,514	1,548	(2.2)%
New issued applications (thousands)	117	145	(19.3)%	247	325	(24.0)%
Average premium	$ 653	$ 611	6.9 %	$ 642	$ 619	3.7 %
Renewal ratio (%)	83.4	84.0	(0.6)	82.7	84.0	(1.3)
Approved rate changes:						
Impact of rate changes ($ in millions)	$ 3	$ 42	$ (39)	$ 53	$ 54	$ (1)
Number of locations (1)	1	6	(5)	11	15	(4)
Total brand (%)	0.1	2.4	(2.3)	2.7	3.0	(0.3)
Location specific (%)	6.6	5.3	1.3	7.2	5.0	2.2

(1) Esurance brand operates in 43 states.

Auto insurance premiums written increased 2.8% or $13 million in the second quarter of 2020 compared to the second quarter of 2019 primarily due to higher average premium, partially offset by fewer new issued applications and lower renewal ratio. Auto insurance premiums written decreased 0.2% or $2 million in the first six months of 2020 compared to the first six months of 2019, primarily due to lower renewal ratio and fewer new issued applications, partially offset by higher average premium.

PIF decreased 2.2% or 34 thousand to 1,514 thousand as of June 30, 2020 compared to June 30, 2019. New issued applications decreased 19.3% and 24.0% in the second quarter and first six months of 2020, respectively, compared to the same periods of 2019, due to rate increases approved in 2019 and 2020 adversely impacting the close ratio, lower advertising and impacts of the Coronavirus.

Homeowners premium measures and statistics

	Three months ended June 30,			Six months ended June 30,		
	2020	**2019**	**Change**	**2020**	**2019**	**Change**
PIF (thousands)	107	101	5.9 %	107	101	5.9 %
New issued applications (thousands)	6	7	(14.3)%	11	14	(21.4)%
Average premium	$ 1,093	$ 1,063	2.8 %	$ 1,088	$ 1,045	4.1 %
Renewal ratio (%) (1)	84.7	85.5	(0.8)	84.3	85.2	(0.9)
Approved rate changes:						
Impact of rate changes ($ in millions)	$ —	$ 3	$ (3)	$ —	$ 5	$ (5)
Number of locations (2)	—	2	(2)	—	4	(4)
Total brand (%)	—	2.7	(2.7)	—	4.7	(4.7)
Location specific (%)	—	19.9	(19.9)	—	19.1	(19.1)

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

(2) Esurance brand operates in 31 states.

Homeowners insurance premiums written increased 6.3% or $2 million in the second quarter of 2020 compared to the second quarter of 2019 and increased 7.0% or $4 million in the first six months of 2020 compared to the first six months of 2019 due to PIF growth and higher average premium.

As of June 30, 2020, Esurance continues to write homeowners insurance in 31 states with lower hurricane risk, contributing to lower average premium compared to the industry. PIF increased 5.9% or 6 thousand to 107 thousand as of June 30, 2020 compared to June 30, 2019.

Combined ratios by line of business

	Loss ratio		Expense ratio [1]		Combined ratio	
	2020	2019	2020	2019	2020	2019
Three months ended June 30,						
Auto	55.4	78.0	29.7	20.4	85.1	98.4
Impact of Shelter-in-Place Payback	—	—	*11.8*	—	*11.8*	—
Homeowners	83.3	114.8	20.0	25.9	103.3	140.7
Total	**57.0**	**79.8**	**29.2**	**20.8**	**86.2**	**100.6**
Impact of Shelter-in-Place Payback	—	—	*11.1*	—	*11.1*	—
Six months ended June 30,						
Auto	64.5	77.7	27.4	21.6	91.9	99.3
Impact of Shelter-in-Place Payback	—	—	*7.7*	—	*7.7*	—
Homeowners	63.4	88.5	18.3	25.0	81.7	113.5
Total	**64.4**	**78.2**	**26.9**	**21.8**	**91.3**	**100.0**
Impact of Shelter-in-Place Payback	—	—	*7.2*	—	*7.2*	—

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

Loss ratios by line of business

	Loss ratio		Effect of catastrophe losses		Effect of prior year reserve reestimates		Effect of catastrophe losses included in prior year reserve reestimates	
	2020	2019	2020	2019	2020	2019	2020	2019
Three months ended June 30,								
Auto	55.4	78.0	1.4	2.0	0.2	(0.2)	—	0.2
Homeowners	83.3	114.8	36.6	55.5	—	3.7	—	3.7
Total	**57.0**	**79.8**	**3.4**	**4.8**	**0.2**	**—**	**—**	**0.4**
Six months ended June 30,								
Auto	64.5	77.7	0.8	1.3	0.4	0.4	—	0.1
Homeowners	63.4	88.5	21.7	34.6	(3.3)	—	—	1.9
Total	**64.4**	**78.2**	**2.0**	**3.0**	**0.2**	**0.3**	**—**	**0.2**

Auto loss ratio decreased 22.6 points and 13.2 points in the second quarter and first six months of 2020, respectively, compared to the same periods of 2019, primarily due to lower claim frequency and higher average premium, partially offset by higher claim severity.

Homeowners loss ratio decreased 31.5 points and 25.1 points in the second quarter and first six months of 2020, respectively, compared to the same periods of 2019, primarily due to higher average premium, favorable claims frequency and lower catastrophe losses.

Impact of specific costs and expenses on the expense ratio

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Amortization of DAC	2.1	2.4	2.1	2.2
Advertising expense	5.9	7.4	7.2	7.8
Amortization of purchased intangibles	0.2	—	0.1	0.1
Other costs and expenses	9.3	11.0	9.8	11.7
Restructuring and related charges	—	—	0.1	—
Subtotal	17.5	20.8	19.3	21.8
Shelter-in-Place Payback expense	11.1	—	7.2	—
Allstate Special Payment plan bad debt expense (1)	0.6	—	0.4	—
Total expense ratio	**29.2**	**20.8**	**26.9**	**21.8**

(1) 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.

Expense ratio increased 8.4 points and 5.1 points in the second quarter and first six months of 2020, respectively, compared to the same periods of 2019, primarily due to the Coronavirus, resulting in the Shelter-in-Place Payback expense and higher bad debt expense related to the Allstate Special Payment plan.

Excluding the impact of Shelter-in-Place Payback expense and higher bad debt expense, the expense ratio decreased 3.3 points and 2.5 points in the second quarter and first six months of 2020, respectively, compared to the same periods of 2019.

Other costs and expenses, including sales personnel and other underwriting costs related to customer acquisition, were 1.7 points and 1.9 points lower in the second quarter and first six months of 2020, respectively, compared to the same periods of 2019, reflecting continued implementation of digital self-service capabilities and a reduction in operating expenses as part of the integration of Esurance into the Allstate brand.

Esurance uses a direct distribution model, therefore its primary acquisition-related costs are advertising as opposed to commissions. The Esurance advertising expense ratio decreased 1.5 points and 0.6 points in the second quarter and first six months of 2020, respectively, compared to the same periods of 2019, due to lower Esurance branded advertising expenses in anticipation of utilizing the Allstate brand with Esurance’s current distribution capabilities.

Encompass
Creating protection around you

Underwriting results

($ in millions)	Three months ended June 30, 2020	Three months ended June 30, 2019	Six months ended June 30, 2020	Six months ended June 30, 2019
Premiums written	$ 263	$ 278	$ 485	$ 502
Premiums earned	$ 253	$ 254	$ 509	$ 507
Other revenue	1	1	2	2
Claims and claims expense	(154)	(167)	(311)	(341)
Shelter-in-Place Payback expense	(16)	—	(21)	—
Amortization of DAC	(48)	(48)	(97)	(96)
Other costs and expenses	(29)	(33)	(61)	(65)
Restructuring and related charges	(1)	—	(1)	(2)
Underwriting income	**$ 6**	**$ 7**	**$ 20**	**$ 5**
Catastrophe losses	$ 59	$ 26	$ 71	$ 56
Underwriting income (loss) by line of business				
Auto	$ 32	$ 6	$ 30	$ 5
Homeowners	(21)	2	(7)	(2)
Other personal lines	(5)	(1)	(3)	2
Underwriting income	**$ 6**	**$ 7**	**$ 20**	**$ 5**

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

($ in millions)	Three months ended June 30, 2020	Three months ended June 30, 2019	Six months ended June 30, 2020	Six months ended June 30, 2019
Underwriting income (loss) - prior period	$ 7	$ 5	$ 5	$ 11
Changes in underwriting loss from:				
Increase (decrease) premiums earned	(1)	(2)	2	(6)
Increase (decrease) other revenue	—	(1)	—	(1)
(Increase) decrease incurred claims and claims expense ("losses"):				
Incurred losses, excluding catastrophe losses and reserve reestimates	52	(16)	50	(20)
Catastrophe losses, excluding reserve reestimates	(37)	16	(25)	11
Catastrophe reserve reestimates	4	(2)	10	2
Non-catastrophe reserve reestimates	(6)	—	(5)	(3)
Losses subtotal	13	(2)	30	(10)
Shelter-in-Place Payback expense	(16)	—	(21)	—
(Increase) decrease expenses	3	7	4	11
Underwriting income	**$ 6**	**$ 7**	**$ 20**	**$ 5**

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

Underwriting income decreased 14.3% or $1 million in the second quarter of 2020 primarily due to higher catastrophe losses and Shelter-in-Place Payback expense, partially offset by lower auto and homeowners non-catastrophe losses compared to the second quarter of 2019. Underwriting income increased $15 million in the first six months of 2020 compared to the first six months of 2019, primarily due to lower auto and homeowners non-catastrophe losses, partially offset by Shelter-in-Place Payback expense and higher catastrophe losses in 2020.

Premiums written and earned by line of business

($ in millions)	Three months ended June 30, 2020	Three months ended June 30, 2019	Six months ended June 30, 2020	Six months ended June 30, 2019
Premiums written				
Auto	$ 136	$ 146	$ 254	$ 266
Homeowners	106	111	193	197
Other personal lines	21	21	38	39
Total	**$ 263**	**$ 278**	**$ 485**	**$ 502**
Premiums earned				
Auto	$ 135	$ 135	$ 270	$ 269
Homeowners	99	99	200	198
Other personal lines	19	20	39	40
Total	**$ 253**	**$ 254**	**$ 509**	**$ 507**

Auto premium measures and statistics

	Three months ended June 30, 2020	Three months ended June 30, 2019	Change	Six months ended June 30, 2020	Six months ended June 30, 2019	Change
PIF (thousands)	473	497	(4.8)%	473	497	(4.8)%
New issued applications (thousands)	14	22	(36.4)%	30	42	(28.6)%
Average premium	$ 1,166	$ 1,130	3.2 %	$ 1,164	$ 1,132	2.8 %
Renewal ratio (%)	76.5	78.1	(1.6)	76.9	77.9	(1.0)
Approved rate changes:						
Impact of rate changes ($ in millions)	$ (1)	$ —	$ (1)	$ (1)	$ 2	$ (3)
Number of locations (1)	2	1	1	7	4	3
Total brand (%)	(0.1)	—	(0.1)	(0.1)	0.5	(0.6)
Location specific (%)	(1.9) (2)	3.6	(5.5)	(0.6)	4.5	(5.1)

(1) Encompass brand operates in 40 states and the District of Columbia.

(2) Primarily related to rate declines in Michigan and the absence of approved rates related to the Coronavirus.

Auto insurance premiums written decreased 6.8% or $10 million in the second quarter of 2020 compared to the second quarter of 2019 and decreased 4.5% or $12 million in the first six months of 2020 compared to the first six months of 2019, primarily due to decreased

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 4.7% or 11 thousand to 225 thousand as of June 30, 2020 compared to June 30, 2019.

new business in the quarter and lower retention, partially offset by higher average premiums, with the top 10 states representing approximately 70% of premiums written. PIF decreased 4.8% or 24 thousand to 473 thousand as of June 30, 2020 compared to

June 30, 2019.

Homeowners premium measure and statistics

	Three months ended June 30, 2020	Three months ended June 30, 2019	Change	Six months ended June 30, 2020	Six months ended June 30, 2019	Change
PIF (thousands)	225	236	(4.7)%	225	236	(4.7)%
New issued applications (thousands)	8	12	(33.3)%	16	21	(23.8)%
Average premium	$ 1,901	$ 1,782	6.7 %	$ 1,891	$ 1,775	6.5 %
Renewal ratio (%)	80.5	82.5	(2.0)	81.1	82.3	(1.2)
Approved rate changes:						
Impact of rate changes ($ in millions)	$ 3	$ 6	$ (3)	$ 10	$ 12	$ (2)
Number of locations (1)	6	8	(2)	10	11	(1)
Total brand (%)	0.7	1.4	(0.7)	2.5	2.8	(0.3)
Location specific (%)	6.3	6.5	(0.2)	10.0	8.1	1.9

(1) Encompass brand operates in 40 states and the District of Columbia.

Homeowners insurance premiums written decreased 4.5% or $5 million in the second quarter of 2020 compared to the second quarter of 2019 and decreased 2.0% or $4 million in the first six months of 2020 compared to the first six months of 2019,

Combined ratios by line of business

	Loss ratio		Expense ratio (1)		Combined ratio	
	2020	2019	2020	2019	2020	2019
Three months ended June 30,						
Auto	34.1	64.5	42.2	31.1	76.3	95.6
Impact of Shelter-in-Place Payback	—	—	*11.9*	—	*11.9*	—
Homeowners	90.9	66.7	30.3	31.3	121.2	98.0
Other personal lines	94.7	70.0	31.6	35.0	126.3	105.0
Total	**60.9**	**65.7**	**36.7**	**31.5**	**97.6**	**97.2**
Impact of Shelter-in-Place Payback	—	—	*6.3*	—	*6.3*	—
Six months ended June 30,						
Auto	50.4	66.2	38.5	31.9	88.9	98.1
Impact of Shelter-in-Place Payback	—	—	*7.8*	—	*7.8*	—
Homeowners	72.5	69.7	31.0	31.3	103.5	101.0
Other personal lines	76.9	62.5	30.8	32.5	107.7	95.0
Total	**61.1**	**67.3**	**35.0**	**31.7**	**96.1**	**99.0**
Impact of Shelter-in-Place Payback	—	—	*4.1*	—	*4.1*	—

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

Loss ratios by line of business

	Loss ratio		Effect of catastrophe losses		Effect of prior year reserve reestimates		Effect of catastrophe losses included in prior year reserve reestimates	
	2020	2019	2020	2019	2020	2019	2020	2019
Three months ended June 30,								
Auto	34.1	64.5	3.0	2.2	(0.8)	(6.6)	—	—
Homeowners	90.9	66.7	52.5	22.2	—	4.0	—	4.0
Other personal lines	94.7	70.0	15.8	5.0	—	10.0	—	—
Total	**60.9**	**65.7**	**23.3**	**10.2**	**(0.4)**	**(1.2)**	**—**	**1.6**
Six months ended June 30,								
Auto	50.4	66.2	1.5	2.2	—	(3.4)	(0.4)	—
Homeowners	72.5	69.7	31.5	23.7	(0.5)	6.0	(0.5)	4.0
Other personal lines	76.9	62.5	10.2	7.5	(5.1)	(2.5)	—	—
Total	**61.1**	**67.3**	**13.9**	**11.0**	**(0.5)**	**0.4**	**(0.4)**	**1.6**

Auto loss ratio decreased 30.4 points and 15.8 points in the second quarter and first six 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 increased 24.2 points and 2.8 points in the second quarter and first six months of 2020, respectively, compared to the same periods of 2019, primarily due to higher catastrophe losses, partially offset by lower non-catastrophe claim frequency.

Impact of specific costs and expenses on the expense ratio

	Three months ended June 30,		Six months ended June 30,	
	2020	**2019**	**2020**	**2019**
Amortization of DAC	18.9	18.9	19.1	18.9
Advertising expense	0.4	0.4	0.2	0.2
Other costs and expenses	10.7	12.2	11.4	12.2
Restructuring and related charges	0.4	—	0.2	0.4
Subtotal	30.4	31.5	30.9	31.7
Shelter-in-Place Payback expense	6.3	—	4.1	—
Total expense ratio	**36.7**	**31.5**	**35.0**	**31.7**

Expense ratio increased 5.2 points and 3.3 points in the second quarter and first six months of 2020, respectively, compared to the same periods of 2019, primarily due to Shelter-in-Place Payback expense. Excluding the Shelter-in-Place Payback expense, the expense ratio decreased 1.1 points and 0.8 points in the second quarter and first six months of 2020, respectively, compared to the same periods of 2019, primarily due to lower technology and employee-related costs.

Discontinued Lines and Coverages Segment

Underwriting results

($ in millions)	Three months ended June 30, 2020	Three months ended June 30, 2019	Six months ended June 30, 2020	Six months ended June 30, 2019
Claims and claims expense	$ (2)	$ (3)	$ (4)	$ (5)
Operating costs and expenses	(1)	—	(2)	(1)
Underwriting loss	**$ (3)**	**$ (3)**	**$ (6)**	**$ (6)**

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

($ in millions)	June 30, 2020	December 31, 2019
Asbestos claims		
Gross reserves	$ 1,126	$ 1,172
Reinsurance	(347)	(362)
Net reserves	779	810
Environmental claims		
Gross reserves	209	219
Reinsurance	(38)	(40)
Net reserves	171	179
Other discontinued lines		
Gross reserves	417	427
Reinsurance	(47)	(51)
Net reserves	370	376
Total		
Gross reserves	1,752	1,818
Reinsurance	(432)	(453)
Net reserves	**$ 1,320**	**$ 1,365**

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

($ in millions)	June 30, 2020	December 31, 2019
Direct excess commercial insurance		
Gross reserves	$ 908	$ 948
Reinsurance	(317)	(332)
Net reserves	591	616
Assumed reinsurance coverage		
Gross reserves	607	606
Reinsurance	(54)	(53)
Net reserves	553	553
Direct primary commercial insurance		
Gross reserves	146	169
Reinsurance	(50)	(54)
Net reserves	96	115
Other run-off business		
Gross reserves	11	15
Reinsurance	(10)	(13)
Net reserves	1	2
Unallocated loss adjustment expenses		
Gross reserves	80	80
Reinsurance	(1)	(1)
Net reserves	79	79
Total		
Gross reserves	1,752	1,818
Reinsurance	(432)	(453)
Net reserves	**$ 1,320**	**$ 1,365**

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

	June 30, 2020		December 31, 2019	
	Case	IBNR	Case	IBNR
Direct excess commercial insurance				
Gross reserves [1]	78%	22%	68%	32%
Ceded [2]	87	13	78	22
Assumed reinsurance coverage				
Gross reserves	37	63	34	66
Ceded	39	61	35	65
Direct primary commercial insurance				
Gross reserves	54	46	56	44
Ceded	78	22	78	22

(1) Approximately 67% of gross case reserves as of June 30, 2020 are subject to settlement agreements.
(2) Approximately 75% of ceded case reserves as of June 30, 2020 are subject to settlement agreements.

Gross payments from case reserves by type of exposure

($ in millions)	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Direct excess commercial insurance				
Gross [1]	$ 9	$ 28	$ 38	$ 54
Ceded [2]	(3)	(10)	(14)	(21)
Assumed reinsurance coverage				
Gross	13	9	22	18
Ceded	(1)	—	(2)	(1)
Direct primary commercial insurance				
Gross	1	7	3	10
Ceded	—	(1)	(1)	(1)

(1) In the second quarter and first six months 49% and 78% of 2020 payments related to settlement agreements.
(2) In the second quarter and first six months 57% and 82% of 2020 payments related to settlement agreements.

Total net reserves as of June 30, 2020, included $569 million or 43% of estimated IBNR reserves compared to $660 million or 48% of estimated IBNR reserves as of December 31, 2019.

Total gross payments were $23 million and $64 million for the second quarter and first six months of 2020, respectively. Payments for the second quarter of 2020 primarily related to asbestos claims. Payments for the first six 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 $19 million and $32 million for the second quarter and first six months of 2020, respectively.

Service Businesses Segment

Summarized financial information

($ in millions)	Three months ended June 30, 2020	Three months ended June 30, 2019	Six months ended June 30, 2020	Six months ended June 30, 2019
Premiums written	$ 467	$ 350	$ 846	$ 718
Revenues				
Premiums	$ 360	$ 305	$ 714	$ 600
Other revenue	51	48	103	95
Intersegment insurance premiums and service fees (1)	35	33	73	66
Net investment income	11	10	21	19
Realized capital gains (losses)	19	9	(5)	17
Total revenues	**476**	**405**	**906**	**797**
Costs and expenses				
Claims and claims expense	(85)	(86)	(177)	(178)
Amortization of DAC	(160)	(134)	(313)	(261)
Operating costs and expenses	(163)	(158)	(324)	(309)
Restructuring and related charges	(3)	1	(3)	1
Amortization of purchased intangibles	(26)	(31)	(53)	(62)
Impairment of purchased intangibles	—	(55)	—	(55)
Total costs and expenses	**(437)**	**(463)**	**(870)**	**(864)**
Income tax (expense) benefit	(7)	12	(7)	15
Net income (loss) applicable to common shareholders	**$ 32**	**$ (46)**	**$ 29**	**$ (52)**
Adjusted net income	**$ 38**	**$ 16**	**$ 75**	**$ 27**
Realized capital gains (losses), after-tax	15	6	(4)	13
Amortization of purchased intangibles, after-tax	(21)	(25)	(42)	(49)
Impairment of purchased intangibles, after-tax	—	(43)	—	(43)
Net income (loss) applicable to common shareholders	**$ 32**	**$ (46)**	**$ 29**	**$ (52)**
Allstate Protection Plans	$ 35	$ 19	$ 69	$ 33
Allstate Dealer Services	8	7	15	13
Allstate Roadside Services	2	(3)	4	(9)
Arity	(3)	(1)	(6)	(3)
Allstate Identity Protection	(4)	(6)	(7)	(7)
Adjusted net income	**$ 38**	**$ 16**	**$ 75**	**$ 27**
Allstate Protection Plans			120,301	83,968
Allstate Dealer Services			4,101	4,253
Allstate Roadside Services			562	635
Allstate Identity Protection			2,312	1,260
Policies in force as of June 30 (in thousands)			**127,276**	**90,116**

(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 $78 million in the second quarter of 2020 compared to the second quarter of 2019 and increased $81 million in the first six months of 2020 compared to the first six months of 2019. Both periods of 2019 included of a $55 million intangible impairment related to the SquareTrade trade name that occurred in the second quarter of 2019.

Adjusted net income increased $22 million in the second quarter of 2020 compared to the second quarter of 2019 and increased $48 million in the first six months of 2020 compared to the first six months of 2019. The increase in both periods was primarily due to growth of Allstate Protection Plans and improved loss experience and lower expenses at Allstate Roadside Services, partially offset by higher operating expenses related to investing in growth and developing new products and distribution channels for Allstate Protection Plans and Allstate Identity Protection.

Total revenues increased 17.5% or $71 million in the second quarter of 2020 compared to the second quarter of 2019 and increased 13.7% or $109 million in the first six months of 2020 compared to the first six 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 33.4% or $117 million in the second quarter of 2020 compared to the second quarter of 2019 and increased 17.8% or $128 million in the first six months of 2020 compared to the first six months of 2019. The increase in both periods was primarily due to growth at Allstate Protection Plans.

PIF increased 41.2% or 37 million to 127 million as of June 30, 2020 compared to June 30, 2019 due to continued growth at Allstate Protection Plans.

Intersegment premiums and service fees increased 6.1% or $2 million in the second quarter of 2020 compared to the second quarter of 2019 and increased 10.6% or $7 million in the first six months of 2020 compared to the first six months of 2019. The increase in both periods was primarily related to increased auto connections and device sales through Arity's device and mobile data collection services and analytic solutions.

Other revenue increased 6.3% or $3 million in the second quarter of 2020 compared to the second quarter of 2019 and increased 8.4% or $8 million in the first six months of 2020 compared to the first six months of 2019. The increase in both periods was primarily due to increased sales at Allstate Identity Protection.

Claims and claims expense decreased 1.2% or $1 million in the second quarter 2020 compared to the second quarter of 2019 and decreased 0.6% or $1 million in the first six months of 2020 compared to the first six months of 2019. The decrease in both periods was primarily due to lower losses at Allstate Roadside Services and Allstate Dealer Services due to declines in auto miles driven related to the Coronavirus, partially offset by higher levels of claims at Allstate Protection Plans driven by growth of the business.

Amortization of DAC increased 19.4% or $26 million in the second quarter of 2020 compared to the second quarter of 2019 and increased 19.9% or $52 million in the first six months of 2020 compared to the first six months of 2019. The increase is driven by the growth experienced at Allstate Protection Plans.

Operating costs and expenses increased 3.2% or $5 million in the second quarter of 2020 compared to the second quarter of 2019 and increased 4.9% or $15 million in the first six months of 2020 compared to the first six months of 2019. The increase in both periods was primarily due to investments in growing Allstate Protection Plans and expanding 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 $26 million and $53 million in the second quarter and first six months of 2020, respectively, compared to $31 million and $62 million in the second quarter and first six months of 2019, respectively.

Allstate Life Segment

Summarized financial information

($ in millions)	Three months ended June 30, 2020	Three months ended June 30, 2019	Six months ended June 30, 2020	Six months ended June 30, 2019
Revenues				
Premiums and contract charges	$ 339	$ 333	$ 672	$ 670
Other revenue	24	33	56	60
Net investment income	123	125	251	252
Realized capital gains (losses)	19	1	(12)	(4)
Total revenues	**505**	**492**	**967**	**978**
Costs and expenses				
Contract benefits	(238)	(216)	(450)	(430)
Interest credited to contractholder funds	(114)	(70)	(170)	(142)
Amortization of DAC	(4)	(29)	(38)	(57)
Operating costs and expenses	(75)	(91)	(159)	(182)
Restructuring and related charges	(2)	(1)	(3)	(1)
Total costs and expenses	**(433)**	**(407)**	**(820)**	**(812)**
Income tax expense	(8)	(18)	(19)	(32)
Net income applicable to common shareholders	**$ 64**	**$ 67**	**$ 128**	**$ 134**
Adjusted net income	**$ 72**	**$ 68**	**$ 152**	**$ 141**
Realized capital gains (losses), after-tax	16	—	(9)	(4)
Valuation changes on embedded derivatives not hedged, after-tax	(35)	—	(23)	—
DAC and DSI amortization related to realized capital gains and losses and valuation changes on embedded derivatives not hedged, after-tax	11	(1)	8	(3)
Net income applicable to common shareholders	**$ 64**	**$ 67**	**$ 128**	**$ 134**
Reserve for life-contingent contract benefits as of June 30			$ 2,729	$ 2,720
Contractholder funds as of June 30			$ 7,857	$ 7,711
Policies in force as of June 30 by distribution channel (in thousands)				
Allstate agencies			1,789	1,822
Closed channels			103	111
Total			1,892	1,933

Net income applicable to common shareholders decreased 4.5% or $3 million in the second quarter of 2020 and decreased 4.5% or $6 million in the first six months of 2020 compared to the same periods of 2019.

Adjusted net income increased 5.9% or $4 million in the second quarter of 2020 and increased 7.8% or $11 million in the first six months of 2020 compared the same periods of 2019, primarily due to lower operating costs and expenses and lower amortization of DAC, partially offset by higher contract benefits.

Premiums and contract charges increased 1.8% or $6 million in the second quarter of 2020 and increased 0.3% or $2 million in the first six months of 2020 compared to the same periods 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 June 30, 2020	Three months ended June 30, 2019	Six months ended June 30, 2020	Six months ended June 30, 2019
Traditional life insurance premiums	$ 164	$ 156	$ 317	$ 310
Accident and health insurance premiums	1	1	1	1
Interest-sensitive life insurance contract charges (1)	174	176	354	359
Premiums and contract charges	**$ 339**	**$ 333**	**$ 672**	**$ 670**

(1) Contract charges related to the cost of insurance totaled $126 million and $123 million for the second quarter of 2020 and 2019, respectively, and $254 million and $252 million for the first six months of 2020 and 2019, respectively.

Other revenue decreased 27.3% or $9 million in the second quarter of 2020 and decreased 6.7% or $4 million in the first six 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 10.2% or $22 million in the second quarter of 2020 and increased 4.7% or $20 million in the first six 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. Estimated Coronavirus claims, net of reinsurance and reserve releases, totaled $25 million and $26 million in the second quarter and first six months of 2020, respectively.

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 17.2% to $53 million in the second quarter of 2020 and decreased 8.3% to $122 million in the first six months of 2020 compared to the same periods in 2019, primarily due to higher claim experience on both interest-sensitive and traditional life insurance, partially offset by growth in traditional life premiums.

Interest credited to contractholder funds increased 62.9% or $44 million in the second quarter of 2020 and increased 19.7% or $28 million in the first six 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 $43 million and $29 million in the second quarter and first six months of 2020 compared to zero 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 June 30, 2020	Three months ended June 30, 2019	Six months ended June 30, 2020	Six months ended June 30, 2019
Investment spread before valuation changes on embedded derivatives not hedged	$ 52	$ 55	$ 110	$ 110
Valuation changes on derivatives embedded in equity-indexed universal life contracts that are not hedged	(43)	—	(29)	—
Total investment spread	**$ 9**	**$ 55**	**$ 81**	**$ 110**

Investment spread before valuation changes on embedded derivatives not hedged decreased 5.5% or $3 million in the second quarter of 2020 compared to the same period of 2019, primarily due to lower net investment income. Investment spread before valuation changes on embedded derivatives not hedged in the first six months of 2020 was comparable to the first six months of 2019.

Amortization of DAC decreased 86.2% or $25 million in the second quarter of 2020 and decreased 33.3% or $19 million in the first six months of 2020 compared to the same periods of 2019, primarily due to lower gross profits on interest-sensitive life insurance from lower benefit spread.

Components of amortization of DAC

($ in millions)	Three months ended June 30, 2020	Three months ended June 30, 2019	Six months ended June 30, 2020	Six months ended June 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	$ 18	$ 27	$ 48	$ 53
Amortization relating to realized capital gains and losses [(1)] and valuation changes on embedded derivatives that are not hedged	(14)	2	(10)	4
Amortization acceleration for changes in assumptions (''DAC unlocking'')	—	—	—	—
Total amortization of DAC	**$ 4**	**$ 29**	**$ 38**	**$ 57**

(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.

Operating costs and expenses decreased 17.6% or $16 million in the second quarter of 2020 and decreased 12.6% or $23 million in the first six months of 2020 compared to the same periods of 2019, primarily due to lower employee-related expenses and lower commissions on non-proprietary product sales.

Analysis of reserves and contractholder funds

Reserve for life-contingent contract benefits

($ in millions)	June 30, 2020	December 31, 2019
Traditional life insurance	$ 2,609	$ 2,612
Accident and health insurance	120	124
Reserve for life-contingent contract benefits	**$ 2,729**	**$ 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 June 30, 2020	Three months ended June 30, 2019	Six months ended June 30, 2020	Six months ended June 30, 2019
Contractholder funds, beginning balance	$ 7,754	$ 7,686	$ 7,805	$ 7,656
Deposits	229	242	460	476
Interest credited	114	70	170	142
Benefits, withdrawals and other adjustments				
Benefits	(51)	(63)	(114)	(124)
Surrenders and partial withdrawals	(46)	(63)	(117)	(133)
Contract charges	(175)	(174)	(350)	(350)
Net transfers from separate accounts	—	4	2	6
Other adjustments [(1)]	32	9	1	38
Total benefits, withdrawals and other adjustments	(240)	(287)	(578)	(563)
Contractholder funds, ending balance	**$ 7,857**	**$ 7,711**	**$ 7,857**	**$ 7,711**

(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 June 30, 2020	Three months ended June 30, 2019	Six months ended June 30, 2020	Six months ended June 30, 2019
Revenues				
Premiums and contract charges	$ 263	$ 284	$ 545	$ 572
Net investment income	20	21	40	40
Realized capital gains (losses)	11	2	(3)	6
Total revenues	**294**	**307**	**582**	**618**
Costs and expenses				
Contract benefits	(123)	(143)	(264)	(288)
Interest credited to contractholder funds	(9)	(8)	(18)	(17)
Amortization of DAC	(35)	(35)	(80)	(78)
Operating costs and expenses	(110)	(71)	(185)	(142)
Restructuring and related charges	(1)	—	(1)	—
Total costs and expenses	**(278)**	**(257)**	**(548)**	**(525)**
Income tax expense	(4)	(11)	(8)	(20)
Net income applicable to common shareholders	**$ 12**	**$ 39**	**$ 26**	**$ 73**
Adjusted net income	**$ 5**	**$ 37**	**$ 29**	**$ 68**
Realized capital gains (losses), after-tax	7	2	(3)	5
Net income applicable to common shareholders	**$ 12**	**$ 39**	**$ 26**	**$ 73**
Benefit ratio [(1)]	46.8	50.4	48.4	50.3
Operating expense ratio [(2)]	41.8	25.0	33.9	24.8
Reserve for life-contingent contract benefits as of June 30			$ 1,035	$ 1,010
Contractholder funds as of June 30			$ 886	$ 906
Policies in force as of June 30 (in thousands)			4,410 [(3)]	4,296

(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.

(3) Includes approximately 220 thousand policies that we estimate will lapse, after the extended grace periods expire in the third quarter of 2020, primarily due to Coronavirus-related layoffs and furloughs.

Net income applicable to common shareholders decreased 69.2% or $27 million in the second quarter of 2020 and decreased 64.4% or $47 million in the first six months of 2020 compared to the same periods of 2019.

Adjusted net income decreased 86.5% or $32 million in the second quarter of 2020 and decreased 57.4% or $39 million in the first six months of 2020 compared to the same periods 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.

Premiums and contract charges decreased 7.4% or $21 million in the second quarter of 2020 and decreased 4.7% or $27 million in the first six months of 2020 compared to the same periods of 2019, primarily due to decreases in disability products, driven by the non-renewal of a large underperforming account in the fourth quarter of 2019 and decreased premium collections due to Coronavirus-related layoffs and furloughs.

Premiums and contract charges by product

($ in millions)	Three months ended June 30, 2020	Three months ended June 30, 2019	Six months ended June 30, 2020	Six months ended June 30, 2019
Life	$ 38	$ 38	$ 76	$ 76
Accident	69	74	142	150
Critical illness	115	120	237	242
Short-term disability	17	27	37	53
Other health	24	25	53	51
Premiums and contract charges	**$ 263**	**$ 284**	**$ 545**	**$ 572**

Contract benefits decreased 14.0% or $20 million in the second quarter of 2020 and decreased 8.3% or $24 million in the first six months of 2020 compared to the same periods of 2019, primarily due to lower reported claim experience on health, critical illness and disability products, likely reflecting shelter-in-place orders, deferral of non-essential medical procedures and the non-renewal of a large underperforming account in the fourth quarter of 2019, partially offset by higher mortality experience on life products from the Coronavirus.

Benefit ratio decreased to 46.8 and 48.4 in the second quarter and the first six months of 2020, respectively, compared to 50.4 and 50.3 in the same periods of 2019, primarily due to lower reported claim experience on critical illness and other health products likely reflecting shelter-in-place orders and deferral of non-essential medical procedures, partially offset by higher mortality experience on life products from the Coronavirus.

Operating costs and expenses

($ in millions)	Three months ended June 30, 2020	Three months ended June 30, 2019	Six months ended June 30, 2020	Six months ended June 30, 2019
Non-deferrable commissions	$ 25	$ 26	$ 51	$ 52
General and administrative expenses	85	45	134	90
Total operating costs and expenses	**$ 110**	**$ 71**	**$ 185**	**$ 142**

Operating costs and expenses increased 54.9% or $39 million in the second quarter of 2020 and increased 30.3% or $43 million in the first six months of 2020 compared to the same periods of 2019, primarily due to a $41 million, pre-tax, write-off of capitalized software costs associated with a billing system.

Operating expense ratio increased to 41.8 and 33.9 in the second quarter and the first six months of 2020, respectively, compared to 25.0 and 24.8 in the same periods of 2019, primarily due to a $41 million, pre-tax, write-off of capitalized software costs associated with a billing system.

Analysis of reserves

Reserve for life-contingent contract benefits

($ in millions)	June 30, 2020	December 31, 2019
Traditional life insurance	$ 292	$ 285
Accident and health insurance	743	749
Reserve for life-contingent contract benefits	**$ 1,035**	**$ 1,034**

Allstate Annuities Segment

Summarized financial information

($ in millions)	Three months ended June 30, 2020	Three months ended June 30, 2019	Six months ended June 30, 2020	Six months ended June 30, 2019
Revenues				
Contract charges	$ 2	$ 4	$ 4	$ 7
Net investment income	66	296	113	486
Realized capital gains (losses)	245	48	(24)	204
Total revenues	**313**	**348**	**93**	**697**
Costs and expenses				
Contract benefits	(136)	(152)	(284)	(290)
Interest credited to contractholder funds	(77)	(78)	(144)	(159)
Amortization of DAC	(1)	(1)	(3)	(3)
Operating costs and expenses	(7)	(8)	(13)	(15)
Total costs and expenses	**(221)**	**(239)**	**(444)**	**(467)**
Gain on disposition of operations	1	2	2	3
Income tax (expense) benefit	(15)	(23)	78	(48)
Net income (loss) applicable to common shareholders	**$ 78**	**$ 88**	**$ (271)**	**$ 185**
Adjusted net (loss) income	**$ (111)**	**$ 52**	**$ (250)**	**$ 27**
Realized capital gains (losses), after-tax	194	37	(19)	161
Valuation changes on embedded derivatives not hedged, after-tax	(6)	(2)	(4)	(5)
Gain on disposition of operations, after-tax	1	1	2	2
Net income (loss) applicable to common shareholders	**$ 78**	**$ 88**	**$ (271)**	**$ 185**
Reserve for life-contingent contract benefits as of June 30			$ 8,707	$ 8,607
Contractholder funds as of June 30			$ 8,653	$ 9,347
Policies in force as of June 30 (in thousands)				
Deferred annuities			109	120
Immediate annuities			76	81
Total			185	201

Net income applicable to common shareholders decreased 11.4% or $10 million in the second quarter of 2020 compared to the second quarter of 2019. Net loss applicable to common shareholders was $271 million in the first six months of 2020 compared to net income of $185 million in the same period of 2019.

Adjusted net loss was $111 million in the second quarter of 2020 and $250 million in the first six months of 2020 compared to adjusted net income of $52 million in the second quarter of 2019 and $27 million in the first six months of 2019, primarily due to lower net investment income.

Net investment income decreased 77.7% or $230 million in the second quarter of 2020 and decreased 76.7% or $373 million in the first six months of 2020 compared to the same periods of 2019, primarily due to lower performance-based investment results, mainly from limited partnerships, 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 the second quarter of 2020 primarily related to increased valuation of equity investments. Net realized capital losses in the first six months of 2020 primarily related to decreased valuation of equity investments.

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

Contract benefits decreased 10.5% or $16 million in the second quarter of 2020 compared to the second quarter of 2019, primarily due to immediate annuity mortality experience that was favorable in comparison to the prior year period. Contract benefits decreased 2.1% or $6 million in the first six months of 2020 compared to the same period of 2019, primarily due to lower implied interest on 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 is required.

Long-term investment yield assumptions are sensitive to changes in interest rates. During the second quarter of 2020, our reviews concluded that no premium deficiency adjustments were necessary although immediate annuities with life contingencies had marginal sufficiency. During third quarter 2020, we will conduct our annual actuarial assumption review. As part of this process, we will evaluate long-term interest rate and other capital market assumptions as well as other items such as mortality and persistency expectations.

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 $115 million and $233 million in the second quarter and first six months of 2020, respectively, compared to $119 million and $240 million in the same periods of 2019. Total benefit spread was $(20) million and $(48) million in the second quarter and first six months of 2020, respectively, compared to $(31) million and $(46) million in same periods of 2019.

Interest credited to contractholder funds decreased 1.3% or $1 million in the second quarter of 2020 and decreased 9.4% or $15 million in the first six 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 increased interest credited to contractholder funds by $8 million and $5 million in the second quarter and first six months of 2020, respectively, compared to an increase of $3 million and $6 million in 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 the sum of interest credited to contractholder funds and the implied interest on immediate annuities with life contingencies, which is included as a component of contract benefits and is used to analyze the impact of net investment income and interest credited to contractholders on net income.

Investment spread

($ in millions)	Three months ended June 30, 2020	Three months ended June 30, 2019	Six months ended June 30, 2020	Six months ended June 30, 2019
Investment spread before valuation changes on embedded derivatives not hedged	$ (118)	$ 102	$ (259)	$ 93
Valuation changes on derivatives embedded in equity-indexed annuity contracts that are not hedged	(8)	(3)	(5)	(6)
Total investment spread	**$ (126)**	**$ 99**	**$ (264)**	**$ 87**

Investment spread before valuation changes on embedded derivatives not hedged decreased $220 million in the second quarter of 2020 and decreased $352 million in the first six months of 2020 compared to the same periods of 2019, primarily due to lower investment income, mainly from limited partnership interests, partially offset by lower interest credited to contractholder funds.

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

Analysis of investment spread

	Three months ended June 30,					
	Weighted average investment yield		Weighted average interest crediting rate		Weighted average investment spreads	
	2020	2019	2020	2019	2020	2019
Deferred fixed annuities	3.9 %	4.5%	2.7%	2.7%	1.2 %	1.8 %
Immediate fixed annuities with and without life contingencies	(0.2)	7.3	5.8	5.9	(6.0)	1.4

	Six months ended June 30,					
	Weighted average investment yield		Weighted average interest crediting rate		Weighted average investment spreads	
	2020	2019	2020	2019	2020	2019
Deferred fixed annuities	4.1 %	4.3%	2.7%	2.7%	1.4 %	1.6 %
Immediate fixed annuities with and without life contingencies	(0.6)	5.4	5.8	5.9	(6.4)	(0.5)

Operating costs and expenses decreased 12.5% or $1 million in the second quarter of 2020 and decreased 13.3% or $2 million in the first six 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.

Analysis of reserves and contractholder funds

Product liabilities

($ in millions)	June 30, 2020	December 31, 2019
Immediate fixed annuities with life contingencies:		
Sub-standard structured settlements and group pension terminations (1)	$ 5,231	$ 5,085
Standard structured settlements and SPIA (2)	3,361	3,367
Other	115	78
Reserve for life-contingent contract benefits	**$ 8,707**	**$ 8,530**
Deferred fixed annuities	$ 6,225	$ 6,499
Immediate fixed annuities without life contingencies	2,260	2,346
Other	168	127
Contractholder funds	**$ 8,653**	**$ 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 June 30, 2020	Three months ended June 30, 2019	Six months ended June 30, 2020	Six months ended June 30, 2019
Contractholder funds, beginning balance	$ 8,773	$ 9,571	$ 8,972	$ 9,817
Deposits	6	4	10	9
Interest credited	76	78	143	158
Benefits, withdrawals and other adjustments				
Benefits	(121)	(135)	(260)	(276)
Surrenders and partial withdrawals	(97)	(150)	(248)	(331)
Contract charges	(2)	(2)	(4)	(4)
Net transfers from separate accounts	—	—	—	(1)
Other adjustments [1]	18	(19)	40	(25)
Total benefits, withdrawals and other adjustments	(202)	(306)	(472)	(637)
Contractholder funds, ending balance	**$ 8,653**	**$ 9,347**	**$ 8,653**	**$ 9,347**

[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 1.4% and 3.6% in the second quarter and first six 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 35.3% or $53 million in the second quarter of 2020 and decreased 25.1% or $83 million in the first six 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 8.4% in the first six months of 2020 compared to 10.1% in the first six months of 2019.

Investments

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

($ in millions)	June 30, 2020 Property-Liability	Service Businesses	Allstate Life	Allstate Benefits	Allstate Annuities	Corporate and Other	Total
Fixed income securities (2)	$ 37,866	$ 1,549	$ 8,336	$ 1,383	$ 14,078	$ 1,236	$ 64,448
Equity securities (3)	2,093	132	172	73	1,402	340	4,212
Mortgage loans, net	604	—	1,797	201	2,172	—	4,774
Limited partnership interests	4,092	—	—	—	2,848	1	6,941
Short-term investments (4)	1,868	89	441	73	763	2,110	5,344
Other, net	1,648	—	1,326	299	643	2	3,918
Total	**$ 48,171**	**$ 1,770**	**$ 12,072**	**$ 2,029**	**$ 21,906**	**$ 3,689**	**$ 89,637**
Percent to total	**53.7%**	**2.0%**	**13.5%**	**2.3%**	**24.4%**	**4.1%**	**100.0%**
Market-based	$ 43,151	$ 1,770	$ 12,072	$ 2,029	$ 18,725	$ 3,687	$ 81,434
Performance-based	5,020	—	—	—	3,181	2	8,203
Total	**$ 48,171**	**$ 1,770**	**$ 12,072**	**$ 2,029**	**$ 21,906**	**$ 3,689**	**$ 89,637**

(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 $36.19 billion, $1.46 billion, $7.52 billion, $1.28 billion, $12.91 billion, $1.18 billion and $60.53 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 June 30, 2020, was $395 million in excess of cost. These net gains were primarily concentrated in the technology, consumer goods and banking sectors. Equity securities include $1.36 billion of funds with underlying investments in fixed income securities as of June 30, 2020.

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

Investments totaled $89.64 billion as of June 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, lower equity valuations 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.

Low interest rate environment In June 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 weigh heavily 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 it is confident that the economy has stabilized and is on track to achieve its maximum employment and price stability goals.

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 six months of 2020. Fixed income securities in certain sectors such as energy, automotive, retail, travel, lodging and airlines were more severely impacted than others in the first quarter of 2020 and some continue to recover slower from the economic downturn. Although fixed income and equity security values generally increased in the second 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

	June 30, 2020		
($ in millions)	**Market-based**	**Performance-based**	**Total**
Fixed income securities	$ 64,344	$ 104	$ 64,448
Equity securities	3,886	326	4,212
Mortgage loans, net	4,774	—	4,774
Limited partnership interests	254	6,687	6,941
Short-term investments	5,344	—	5,344
Other, net	2,832	1,086	3,918
Total	**$ 81,434**	**$ 8,203**	**$ 89,637**
Percent to total	**90.8%**	**9.2%**	**100.0%**
Unrealized net capital gains and losses			
Fixed income securities	$ 3,914	$ —	$ 3,914
Limited partnership interests	—	(8)	(8)
Short-term investments	1	—	1
Other	(3)	—	(3)
Total	**$ 3,912**	**$ (8)**	**$ 3,904**

Fixed income securities by type

	Fair value as of	
($ in millions)	**June 30, 2020**	**December 31, 2019**
U.S. government and agencies	$ 3,519	$ 5,086
Municipal	9,285	8,620
Corporate	49,740	43,078
Foreign government	961	979
Asset-backed securities (“ABS”)	759	862
Mortgage-backed securities (“MBS”)	184	419
Total fixed income securities	**$ 64,448**	**$ 59,044**

Fixed income securities are rated by third-party credit rating agencies and/or are internally rated. As of June 30, 2020, 88.9% of the consolidated fixed income securities portfolio was rated investment grade, which is defined as a security having a rating of Aaa, Aa, A or Baa from Moody’s, a rating of AAA, AA, A or BBB from S&P, 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

	June 30, 2020					
	A and above		BBB		BB	
($ in millions)	Fair value	Unrealized gain (loss)	Fair value	Unrealized gain (loss)	Fair value	Unrealized gain (loss)
U.S. government and agencies	$ 3,519	$ 207	$ —	$ —	$ —	$ —
Municipal	8,910	674	311	31	8	—
Corporate						
Public	15,231	1,221	17,573	1,174	2,611	35
Privately placed	4,523	331	5,470	270	2,171	(3)
Total corporate	19,754	1,552	23,043	1,444	4,782	32
Foreign government	945	45	10	1	6	—
ABS	654	(7)	10	(3)	20	(4)
MBS	60	3	52	—	8	—
Total fixed income securities	**$ 33,842**	**$ 2,474**	**$ 23,426**	**$ 1,473**	**$ 4,824**	**$ 28**

	B		CCC and lower		Total	
	Fair value	Unrealized gain (loss)	Fair value	Unrealized gain (loss)	Fair value	Unrealized gain (loss)
U.S. government and agencies	$ —	$ —	$ —	$ —	$ 3,519	$ 207
Municipal	11	—	45	1	9,285	706
Corporate						
Public	542	(27)	54	(8)	36,011	2,395
Privately placed	1,380	(28)	185	(22)	13,729	548
Total corporate	1,922	(55)	239	(30)	49,740	2,943
Foreign government	—	—	—	—	961	46
ABS	13	(2)	62	(4)	759	(20)
MBS	4	—	60	29	184	32
Total fixed income securities	**$ 1,950**	**$ (57)**	**$ 406**	**$ (4)**	**$ 64,448**	**$ 3,914**

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)	June 30, 2020
Apartment complex	38.0%
Office buildings	22.1
Warehouse	15.1
Retail	12.5
Other	12.3
Total	**100.0%**

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

Limited partnership interests include $5.58 billion of interests in private equity funds, $1.11 billion of interests in real estate funds and $254 million of interests in other funds as of June 30, 2020. We have commitments to invest additional amounts in limited partnership interests totaling $2.73 billion as of June 30, 2020.

Private equity limited partnerships by sector

(% of carrying value)	June 30, 2020
Industrial	17.7%
Consumer staples	12.1
Utilities	10.7
Consumer discretionary	10.1
Information technology	9.7
Healthcare	9.1
Other	30.6
Total	**100.0%**

Real estate limited partnerships by sector

(% of carrying value)	June 30, 2020
Industrial	28.3%
Residential	26.7
Office	13.2
Other	31.8
Total	**100.0%**

Other investments include $986 million of direct investments in real estate as of June 30, 2020.

Direct real estate investments by sector

(% of carrying value)	June 30, 2020
Residential	42.8%
Industrial	16.1
Retail	14.2
Timber	10.5
Agriculture	9.8
Other	6.6
Total	**100.0%**

Unrealized net capital gains (losses)

($ in millions)	June 30, 2020	December 31, 2019
U.S. government and agencies	$ 207	$ 115
Municipal	706	540
Corporate	2,943	1,988
Foreign government	46	11
ABS	(20)	2
MBS	32	95
Fixed income securities	**3,914**	**2,751**
Short-term investments	1	—
Derivatives	(3)	(3)
EMA limited partnerships	(8)	(4)
Unrealized net capital gains and losses, pre-tax	**$ 3,904**	**$ 2,744**

Gross unrealized gains (losses) on fixed income securities

($ in millions)	June 30, 2020	December 31, 2019
Gross unrealized gains	$ 4,229	$ 2,847
Gross unrealized losses	(315)	(96)
Unrealized net capital gains and losses	**$ 3,914**	**$ 2,751**

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

	June 30, 2020			
		Gross unrealized		
($ in millions)	Amortized cost, net	Gains	Losses	Fair value
Corporate:				
Consumer goods				
Cyclical				
Gaming, lodging and leisure	$ 522	$ 14	$ (13)	$ 523
Automotive	1,757	72	(6)	1,823
Retailers	1,168	114	(1)	1,281
Restaurants	485	38	(1)	522
Other	1,124	54	(12)	1,166
Total cyclical	5,056	292	(33)	5,315
Non-cyclical	7,962	576	(19)	8,519
Total consumer goods	13,018	868	(52)	13,834
Energy				
Midstream	1,645	77	(25)	1,697
Independent/upstream	285	16	(23)	278
Integrated	501	49	—	550
Other	242	14	(3)	253
Total energy	2,673	156	(51)	2,778
Transportation				
Airlines	331	1	(39)	293
Railroad and other	1,640	174	(8)	1,806
Total transportation	1,971	175	(47)	2,099
Financial services				
Finance companies	569	10	(37)	542
Life insurance	957	54	(1)	1,010
Other	1,408	89	(3)	1,494
Total financial services	2,934	153	(41)	3,046
Banking	5,532	295	(24)	5,803
Capital goods	5,282	339	(20)	5,601
Basic industry	2,230	143	(14)	2,359
Utilities	5,986	569	(13)	6,542
Communications	3,308	263	(12)	3,559
Other	259	7	(6)	260
Technology	3,604	259	(4)	3,859
Total corporate fixed income portfolio	**46,797**	**3,227**	**(284)**	**49,740**
U.S. government and agencies	3,312	208	(1)	3,519
Municipal	8,579	712	(6)	9,285
Foreign government	915	46	—	961
ABS	779	4	(24)	759
MBS	152	32	—	184
Total fixed income securities	**$ 60,534**	**$ 4,229**	**$ (315)**	**$ 64,448**

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

($ in millions)	December 31, 2019 Amortized cost	Gross unrealized Gains	Gross unrealized Losses	Fair value
Corporate:				
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
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
Banking	4,610	143	(14)	4,739
Capital goods	4,945	229	(1)	5,173
Basic industry	1,897	114	(2)	2,009
Utilities	5,197	385	(6)	5,576
Communications	2,721	158	(2)	2,877
Other	276	10	—	286
Technology	2,765	112	(1)	2,876
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)	June 30, 2020 Cost	Over (under) cost	Fair value	December 31, 2019 Cost	Over (under) cost	Fair value
Capital goods	$ 168	$ (18)	$ 150	$ 331	$ 91	$ 422
Energy	115	(8)	107	275	15	290
Utilities	56	4	60	116	38	154
Transportation	41	6	47	81	32	113
Basic industry	48	14	62	135	40	175
Other [1]	1,303	342	1,645	2,526	1,062	3,588
Funds						
Bonds	1,339	21	1,360	1,727	62	1,789
Equities	747	34	781	1,377	254	1,631
Total funds	2,086	55	2,141	3,104	316	3,420
Total equity securities	**$ 3,817**	**$ 395**	**$ 4,212**	**$ 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 June 30, 2020	Three months ended June 30, 2019	Six months ended June 30, 2020	Six months ended June 30, 2019
Fixed income securities	$ 531	$ 543	$ 1,056	$ 1,081
Equity securities	31	68	37	98
Mortgage loans	51	54	111	107
Limited partnership interests	(220)	254	(412)	263
Short-term investments	2	26	19	52
Other	62	67	125	130
Investment income, before expense	457	1,012	936	1,731
Investment expense [1] [2]	(48)	(70)	(106)	(141)
Net investment income	**$ 409**	**$ 942**	**$ 830**	**$ 1,590**
Market-based	655	733	1,330	1,428
Performance-based	(198)	279	(394)	303
Investment income, before expense	**$ 457**	**$ 1,012**	**$ 936**	**$ 1,731**

(1) Investment expense includes $14 million and $20 million of investee level expenses in the second quarter of 2020 and 2019, respectively and $27 million and $40 million in the first six months of 2020 and 2019, respectively. Investee level expenses include asset level operating expenses on directly held real estate and other consolidated investments. Beginning January 1, 2020, depreciation previously included in investee level expenses is reported as realized capital gains or losses.

(2) Investment expense includes zero and $11 million related to the portion of reinvestment income on securities lending collateral paid to the counterparties in the second quarter of 2020 and 2019, respectively, and $6 million and $22 million in the first six months of 2020 and 2019, respectively.

Net investment income decreased 56.6% or $533 million in the second quarter of 2020 and decreased 47.8% or $760 million in the first six months of 2020 compared to the same periods 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 June 30, 2020	Three months ended June 30, 2019	Six months ended June 30, 2020	Six months ended June 30, 2019
Limited partnerships				
Private equity	$ (213)	$ 216	$ (412)	$ 211
Real estate	(7)	38	—	50
Performance-based - limited partnerships	**(220)**	**254**	**(412)**	**261**
Non-limited partnerships				
Private equity	4	10	(17)	13
Real estate	18	15	35	29
Performance-based - non-limited partnerships	**22**	**25**	**18**	**42**
Total				
Private equity	(209)	226	(429)	224
Real estate	11	53	35	79
Total performance-based income before investee level expenses	**$ (198)**	**$ 279**	**$ (394)**	**$ 303**
Investee level expenses [1]	(13)	(18)	(25)	(36)
Total performance-based income	**$ (211)**	**$ 261**	**$ (419)**	**$ 267**

[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 decreased $472 million and $686 million in the second quarter and the first six months of 2020, respectively, compared to the same periods of 2019, primarily due to lower valuations of private equity investments.

In consideration of intervening events in the first quarter of 2020, where information was available to enable updated estimates, we recognized declines in the value of limited partnership interests during the three months ended March 31, 2020. This included updating publicly traded investments held within limited partnerships to their March 31, 2020 values, which reduced income by $52 million. Additionally, $195 million of valuation increases reported in the fourth quarter 2019 partnership financial statements were excluded from income due to the equity market decline in March 2020.

In the second quarter of 2020, we re-established the one-quarter lag for performance-based investments. Due to the proactive actions taken in the first quarter of 2020, performance-based investment income was $240 million higher in the second quarter of 2020 as this amount of the decline in valuations was recognized in the first quarter of 2020.

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

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

($ in millions)	Three months ended June 30, 2020	Three months ended June 30, 2019	Six months ended June 30, 2020	Six months ended June 30, 2019
Sales [1]	$ 179	$ 117	$ 567	$ 212
Credit losses [2]				
Fixed income securities	(4)	(9)	(8)	(11)
Mortgage Loans	—	—	(41)	—
Limited partnership interests	(3)	(2)	(10)	(3)
Other investments	(3)	(4)	(30)	(15)
Total credit losses	**(10)**	**(15)**	**(89)**	**(29)**
Valuation of equity investments - appreciation (decline):				
Equity securities	480	178	(270)	731
Limited partnerships [3]	37	22	(72)	96
Total valuation of equity investments	**517**	**200**	**(342)**	**827**
Valuation and settlements of derivative instruments	18	22	106	(24)
Realized capital gains (losses), pre-tax	**704**	**324**	**242**	**986**
Income tax expense	(150)	(68)	(54)	(206)
Realized capital gains (losses), after-tax	**$ 554**	**$ 256**	**$ 188**	**$ 780**
Market-based	690	287	197	892
Performance-based	14	37	45	94
Realized capital gains (losses), pre-tax	**$ 704**	**$ 324**	**$ 242**	**$ 986**

(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 second quarter of 2020 related primarily to increased valuation of equity investments and gains on sales of fixed income securities. Realized capital gains in the first six months of 2020 related primarily to gains on sales of fixed income securities, partially offset by lower valuation of equity investments in the first quarter.

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

Valuation and settlements of derivative instruments in the second quarter of 2020 primarily comprised of gains on replication using credit default swaps and fixed income total return swaps, partially offset by losses on foreign currency contracts due to the weakening of the U.S. dollar. Valuation and settlements of derivative instruments in the first six months of 2020 primarily comprised of gains on interest rate futures used to increase asset duration, foreign currency contracts due to the strengthening of the U.S. dollar, and equity futures used for risk management due to a decrease in indices, 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 June 30, 2020	Three months ended June 30, 2019	Six months ended June 30, 2020	Six months ended June 30, 2019
Sales [1]	$ (8)	$ 31	$ 2	$ 60
Credit losses [2]	(5)	(2)	(13)	(3)
Valuation of equity investments	32	2	25	27
Valuation and settlements of derivative instruments	(5)	6	31	10
Total performance-based	**$ 14**	**$ 37**	**$ 45**	**$ 94**

(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 gains for performance-based investments in the second quarter of 2020, primarily related to increased valuation of equity investments. Realized capital gains for performance-based investments in the first six months of 2020, primarily related to valuation and settlements of derivative instruments.

Capital Resources and Liquidity

Capital resources consist of shareholders' equity and debt, representing funds deployed or available to be deployed to support business operations or for general corporate purposes.

Capital resources

($ in millions)	June 30, 2020	December 31, 2019
Preferred stock, common stock, treasury stock, retained income and other shareholders' equity items	$ 24,358	$ 24,048
Accumulated other comprehensive income	2,628	1,950
Total shareholders' equity	**26,986**	**25,998**
Debt	6,634	6,631
Total capital resources	**$ 33,620**	**$ 32,629**
Ratio of debt to shareholders' equity	24.6%	25.5%
Ratio of debt to capital resources	19.7	20.3

Shareholders' equity increased in the first six 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 six months ended June 30, 2020, we paid dividends of $331 million and $56 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 June 30, 2020, there was $2.36 billion remaining on the $3.00 billion common share repurchase program that is expected to be completed by the end of 2021.

During the first six months of 2020, we repurchased 8.7 million common shares, or 2.7% of total common shares outstanding at December 31, 2019, for $902 million.

Common shareholder dividends On January 2, 2020 and April 1, 2020, we paid common shareholder dividends of $0.50 and $0.54, respectively. On May 19, 2020 and July 16, 2020, we declared a common shareholder dividend of $0.54 and $0.54 payable on July 1, 2020 and October 1, 2020, respectively.

Financial ratings and strength Our ratings are influenced by many factors including our operating and financial performance, asset quality, liquidity, asset/liability management, overall portfolio mix, financial leverage (i.e., debt), exposure to risks such as catastrophes and the current level of operating leverage. 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 our ratings 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 $3.63 billion as of June 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 June 30, 2020, we held $7.53 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 six months of 2020 between the following companies: AIC, Allstate Insurance Holdings, LLC ("AIH") and the Corporation.

Intercompany dividends

($ in millions)	June 30, 2020
AIC to AIH	$ 2,879
AIH to the Corporation	2,879

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 June 30, 2020, we paid dividends of $2.88 billion and the remaining amount of $854 million will become available for payment throughout the remainder of the year.

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 June 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 six 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 15.8% as of June 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 has access to the commercial paper market 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 June 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 587 million shares of treasury stock as of June 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 $17.40 billion as of June 30, 2020.

Contractholder funds by contractual withdrawal provisions

($ in millions)	June 30, 2020	Percent to total
Not subject to discretionary withdrawal	$ 2,651	15.2%
Subject to discretionary withdrawal with adjustments:		
Specified surrender charges (1)	4,852	27.9
Market value adjustments (2)	741	4.3
Subject to discretionary withdrawal without adjustments (3)	9,152	52.6
Total contractholder funds	**$ 17,396**	**100.0%**

(1) Includes $1.70 billion of liabilities with a contractual surrender charge of less than 5% of the account balance.

(2) $318 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 5.8% and 6.4% in the first six 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 June 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 [(2)]	Maximum number (or approximate dollar value) of shares (or units) that may yet be purchased under the plans or programs [(3)]
April 1, 2020 - April 30, 2020				
Open Market Purchases	2,317,122	$ 97.60	2,294,746	
May 1, 2020 - May 31, 2020				
Open Market Purchases	1,111,422	$ 99.52	1,036,268	
June 1, 2020 - June 30, 2020				
Open Market Purchases	646,501	$ 98.59	643,525	
Total	**4,075,045**	**$ 98.28**	**3,974,539**	**$ 2.36 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.

April: 22,376
May: 75,154
June: 2,976

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

(3) In February 2020, we announced the approval of a common share repurchase program for $3 billion, which is expected to be completed by the end of 2021.

Item 6. Exhibits

(a) Exhibits

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

		Incorporated by Reference				
Exhibit Number	Exhibit Description	Form	File Number	Exhibit	Filing Date	Filed or Furnished Herewith
2.1	Agreement and Plan of Merger, dated as of July 7, 2020, by and among the Registrant, Bluebird Acquisition Corp. and National General Holdings Corp. (certain schedules and exhibits to the Agreement and Plan of Merger are omitted pursuant to Item 601(b)(2) of Regulation S-K. The Registrant agrees to furnish to the Securities and Exchange Commission, upon request, a copy of any omitted schedule or exhibit).	8-K	1-11840	2.1	July 8, 2020	
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 August 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)

August 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 June 30, 2020 and 2019, as indicated in our report dated August 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 June 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
August 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: August 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: August 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 June 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: August 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