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Allstate Insurance Group
Combined Management Discussion and Analysis
For the Year Ended December 31, 2020

OVERVIEW

The Allstate Insurance Group (referred to as the "Group") consists of Allstate County Mutual Insurance Company, Allstate Fire and Casualty Insurance Company ("AFCIC"), Allstate Indemnity Company ("AI"), Allstate Insurance Company ("AIC"), Allstate Northbrook Indemnity Company, Allstate North American Insurance Company, Allstate Property and Casualty Insurance Company ("APC"), Allstate Texas Lloyd's, Allstate Vehicle and Property Insurance Company, Encompass Home and Auto Insurance Company ("EHAIC"), Encompass Indemnity Company ("EI"), Encompass Independent Insurance Company ("EIIC"), Encompass Insurance Company ("EIC"), Encompass Insurance Company of America ("EICA"), Encompass Insurance Company of Massachusetts ("EICMA"), Encompass Property and Casualty Company ("EPC"), Esurance Insurance Company ("ESIC") and Esurance Property and Casualty Insurance Company. Since these insurers are part of a consolidated group that utilize 100% intercompany reinsurance agreements, regulatory approval was obtained to prepare a combined Management Discussion and Analysis ("MD&A").

In addition to the combined affiliated property-liability insurers listed above, the Group has several uncombined subsidiaries, the largest of which is the Allstate Life Insurance Company ("Allstate Life"), which consists of traditional, interest-sensitive and variable life insurance products primarily through Allstate exclusive agents and exclusive financial specialists. There are also several uncombined property and casualty insurers, including Allstate New Jersey Insurance Company ("ANJ"), Castle Key Insurance Company ("CKIC") and North Light Specialty Insurance Company ("NLSIC"). ANJ writes auto and homeowners exclusively in New Jersey, CKIC writes only homeowners in Florida and NLSIC writes excess and surplus lines through surplus lines brokers, with the concentration on homeowners. Separate MD&As were filed for Allstate Life, ANJ, CKIC and NLSIC. Allstate Insurance Company of Canada is an affiliated foreign insurer, which has three subsidiary insurance companies and has regulatory filings with the Office of the Superintendent of Financial Institutions.

AIC is an Illinois domiciled insurer licensed to write property and casualty business in 49 states, the District of Columbia ("D.C."), Puerto Rico and Canada and offers a broad range of personal and commercial insurance products. Allstate Insurance Holdings, LLC ("Allstate Holdings"), a Delaware Corporation, owns all of AIC's outstanding shares of common stock and is wholly-owned by The Allstate Corporation.

BUSINESS

The Group's strategy has two components: increase personal property-liability market share and expand protection offerings by leveraging the Allstate brand, customer base and capabilities. Transformative Growth is about creating a business model, capabilities and culture that continually transform to deliver market share. This is done by focusing on the customer by expanding access and improving value. The ultimate objective is to create continuous transformative growth in all businesses by delivering affordable, simple and connected protection solutions. On January 4, 2021, Allstate completed the acquisition of National General Holdings Corp. ("National General"), expanding its independent agent channel business. As part of the acquisition, Allstate Independent Agency and Encompass organizations will be integrated into National General.

The Group's property-liability operations consist of two reportable segments: Allstate Protection and Discontinued Lines and Coverages. Allstate Protection includes the Allstate® and Encompass® brands and offers private passenger auto, homeowners, other personal lines and commercial insurance through agents, contact centers and online. Esurance results were combined into the Allstate brand in the third quarter of 2020. Discontinued Lines and Coverages relates to property and casualty insurance policies written during the 1960's through the mid-1980's. These segments are consistent with the groupings of financial information that management uses to evaluate performance and to determine the allocation of resources.

The Group's products are marketed under the Allstate and Encompass brand names. The Allstate brand products are sold across multiple channels, including online or call centers. The Encompass brand products

are sold through independent agents that serve brand-neutral customers who prefer personal service and support from an independent agent.
The Allstate brand differentiates itself by offering solutions to meet broad-based household protection needs and a comprehensive range of innovative product options and features across distribution channels that best suit each consumer segment. The Your Choice Auto® product offers qualified customers to choose from a variety of options, such as Accident Forgiveness, Deductible Rewards®, Safe Driving Bonus® and New Car Replacement. The Allstate House and Home® product features options that include Claim RateGuard®, Claim-Free Bonus, Deductible Rewards® and flexibility in options and coverages, including graduated roof coverage and pricing based on roof type and age for damage related to wind and hail events. In addition, the Group offers a Claim Satisfaction Guarantee® that promises a return of premium to standard auto insurance customers dissatisfied with their claims experience. Bundling Benefits provides auto customers with a qualifying property policy, an auto renewal guarantee and a deductible waiver (when the same event, with the same covered cause of loss, damages both auto and property). Bundling Benefits was offered in 47 states and D.C. as of December 31, 2020. The New Car Replacement Protection replaces a qualifying customer's vehicle (two model years old or less) involved in a total loss accident with a vehicle of the same or similar make and model. New Car Replacement Protection was offered in 50 states and D.C. as of December 31, 2020. The Drivewise® program is a telematics-based program, available in 50 states and the District of Columbia as of December 31, 2020, that uses a mobile application or an in-car device to capture driving behaviors and encourage safe driving. The Drivewise program provides customers with information and tools, incentives and driving challenges. For example, in most states, Allstate Rewards® provides reward points for safe driving. Milewise®, Allstate's usage-based insurance product, available in 17 states as of December 31, 2020, gives customers flexibility to customize their insurance and pay based on the number of miles they drive. DriveSense® program is a telematic-based program, available in 37 states as of December 31, 2020, that primarily uses a mobile application to capture driving behaviors and reward customers for safe driving.

When an Allstate product is not available, the Group may offer non-proprietary products to consumers through Ivantage and arrangements made with other companies, agencies, and brokers.

Other personal lines sold under the Allstate brand include renters, condominium, landlord, boat, umbrella, manufactured home and stand-alone scheduled personal property.

The acquisition of National General will significantly enhance our strategic position in the independent agency channel and will increase 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 capabilities.

The Group's pricing and underwriting strategies and decisions are designed to generate sustainable profitable growth. The Group's proprietary database of underwriting and loss experience enables sophisticated pricing algorithms and methodologies to more accurately price risks while also seeking to attract and retain customers in multiple risk segments. A combination of underwriting information, pricing and discounts are also used to achieve a more competitive position and growth. The Group's pricing strategy involves local marketplace pricing and underwriting decisions based on risk evaluation factors to the extent permissible by applicable law and an evaluation of competitors.

Pricing of property products is intended to generate risk-adjusted returns that are acceptable over a long-term period. The Group pursues rate increases to keep pace with loss trends, including losses from catastrophic events and those that are weather-related (such as wind, hail, lightning and freeze not meeting the criteria to be declared a catastrophe) The Group also takes into consideration potential customer disruption, the impact on its ability to market our products, regulatory limitations, competitive position and profitability. In any reporting period, loss experience from catastrophic events and weather-related losses may contribute to negative or positive underwriting performance relative to the expectations incorporated into product pricing.

CATASTROPHE MANAGEMENT

Catastrophe losses are an inherent risk of the property and casualty insurance industry that have contributed, and will continue to contribute, to potentially material year-to-year fluctuations in the Group's results of operations and financial position. The Group defines a "catastrophe" as an event that produces pre-tax losses before reinsurance in excess of $1 million and involves multiple first party policyholders, or a winter weather event that produces a number of claims in excess of a preset, per-event threshold of average claims in a specific area, occurring within a certain amount of time following the event. Catastrophes are caused by various natural events including high winds, winter storms and freezes, tornadoes, hailstorms, wildfires, tropical storms, hurricanes, earthquakes and volcanoes. The Group is also exposed to man-made catastrophic events, such as certain types of terrorism or industrial accidents. The nature and level of catastrophes in any period cannot be reliably predicted.

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

Over time the Group has limited its aggregate insurance exposure to catastrophe losses in certain regions of the country that are subject to high levels of natural catastrophes by our participation in various state facilities. However, the impact of these actions may be diminished by the growth in insured values, and the effect of state insurance laws and regulations. In addition, in various states the Group is required to participate in assigned risk plans, reinsurance facilities and joint underwriting associations that provide insurance coverage to individuals or entities that otherwise are unable to purchase such coverage from private insurers. Because of the Group's participation in these and other state facilities such as wind pools, it may be exposed to losses that surpass the capitalization of these facilities and to assessments from these facilities.

The Group is also working to promote measures to prevent and mitigate losses and make homes and communities more resilient, including enactment of stronger building codes and effective enforcement of those codes, adoption of sensible land use policies, and development of effective and affordable methods of improving the resilience of existing structures.

The Group continues to take actions to maintain an appropriate level of exposure to catastrophic events while continuing to meet the needs of the Group's customer's, including the following:

- Continuing to limit or not offer new homeowners, manufactured home and landlord package policy business in certain coastal geographies.
- Increased capacity in the brokerage platform for customers not offered an Allstate policy.
- We began to write a limited number of homeowners policies in select areas of California in 2016. The Group will continue to renew current policyholders and allow replacement policies for existing customers who buy a new home or change their residence to rental property. The Group has decreased the overall homeowner exposures in California by more than 50% since 2007.
- In certain states, the Group has been ceding wind exposure related to insured property located in wind pool eligible areas.
- Tropical cyclone deductibles are generally higher than all peril deductibles and are in place for a large portion of coastal insured properties.
- Auto comprehensive damage coverage generally includes coverage for flood-related loss. We have additional catastrophe exposure, beyond the property lines, for auto customers who have purchased comprehensive damage coverage
- Offer a homeowners policy available in 43 states, Allstate House and Home®, that provides options of coverage for roof damage including graduated coverage and pricing based on roof type and age.

The Group continues to seek appropriate returns for its risks. This may require further actions, similar to those already taken, in geographies where the Group is not getting appropriate returns. However, the Group may maintain or opportunistically increase its presence in areas where adequate risk adjusted returns can be achieved.

DODD-FRANK: COVERED AGREEMENT

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

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

The U.S. has five years from the date of signing to amend its credit for reinsurance laws and regulations to conform with the requirements of the Covered Agreement or face federal preemption determinations by the FIO. To address the requirements of the Covered Agreement, the National Association of Insurance Commissioners ("NAIC") has formally adopted revisions to its existing credit for reinsurance model law and model regulation to conform with the requirements of the Covered Agreement with the expectation that states will adopt and implement the modified model law and regulation by September 2022.

On December 19, 2018, the U.S. and the United Kingdom ("UK") signed a separate Covered Agreement consistent with the U.S.-EU Covered Agreement to coordinate regulation of the insurance industry doing business in the U.S. and UK. Consistent with the U.S.-EU Covered Agreement (the "Agreement") signed in 2017, Treasury and the USTR also issued a policy statement regarding implementation of the Agreement affirming the role that state insurance regulators play as the primary supervisors of the U.S. insurance industry.

DIVISION STATUTE

On November 27, 2018, the Illinois General Assembly passed legislation authorizing a statute that makes available a process by which a domestic insurance company may divide into two or more domestic insurance companies. The statute, which became effective January 1, 2019, can be used to divide continuing blocks of insurance business from insurance business no longer marketed, or otherwise has been discontinued, into separate companies with separate capital. The statute can also be used for sale to a third party or to manage risks associated with indemnification programs. Before a plan of division can be effected it must be approved according to the organizational documents of the dividing insurer and submitted for approval by the Illinois Department of Insurance.

Plan of Division and Merger

In accordance with the Illinois Domestic Stock Company Law, 215 ILCS 5/35B-1 ("Division law"), AIC, AFCIC, APC, AI, EI, EPC, ESIC and ESPC, filed a Plan of Division dated January 29, 2021 with the Illinois Director of Insurance pursuant to which each company proposes to divide into the company, as surviving Illinois insurance company and a newly created Illinois insurance company that would contain certain inactive Michigan automobile insurance policies that had an outstanding claim reserve on a personal injury claim as of the division date. The Plan of Division requires a public hearing, which was held on March 3, 2021 and is pending approval by the IL DOI and other conditions of the Division law before it can be effective. Immediately following the Division, pursuant to a Merger Agreement and Plan of Merger, four of the newly formed Illinois insurance companies will merge with and into a newly formed Illinois insurance company, ASMI Auto Insurance Company, created for the purposes of being the surviving company in the merger. The Merger Agreement is pending approval by the IL DOI and is dependent upon approval and execution of the Plan of Division before it can be effective.

FINANCIAL POSITION

(in millions)

	2020	2019
Cash and invested assets	$ 47,968	$ 47,196
Investment income due and accrued	295	278
Premiums and considerations	5,123	5,168
Net deferred tax asset	724	551
Receivables from parent, subsidiaries and affiliates	232	202
Other assets	294	286
Total assets	$ 54,636	$ 53,681
Losses and loss adjustment expenses	$ 17,869	$ 18,055
Commissions payable, contingent commissions and other similar charges	204	206
Other expenses	1,547	1,277
Current federal and foreign income taxes	192	189
Unearned premiums	11,178	11,104
Advance premiums	331	302
Payable to parent, subsidiaries and affiliates	181	184
Payable for securities lending	898	1,275
Accounts payable	410	309
Payable for securities	401	356
Other liabilties	496	537
Total liabilties	33,707	33,794
Capital and surplus	20,929	19,887
Total liabilties and capital and surplus	$ 54,636	$ 53,681

Cash and invested assets

The Group's investment strategy emphasizes protection of principal and consistent income generation, within a total return framework. This approach has produced competitive returns over the long term and is designed to ensure financial strength and stability for paying claims, while maximizing economic value and surplus growth. Products with lower liquidity needs, such as auto insurance and discontinued lines and coverages, and capital create capacity to invest in less liquid higher yielding bond securities, performance-based investments such as limited partnerships and equity securities. Products with higher liquidity needs, such as homeowners insurance, are invested primarily in high quality liquid bond securities.

The Group identifies a strategic asset allocation which considers both the nature of the liabilities and the risk and return characteristics of the various asset classes in which it invests. This allocation is informed by our long-term and market expectations, as well as other considerations such as risk appetite, portfolio diversification, duration, desired liquidity and capital. Within appropriate ranges relative to strategic allocations, tactical allocations are made in consideration of prevailing and potential future market conditions. We manage risks that involve uncertainty related to interest rates, credit spreads, equity returns and currency exchange rates.

The Group utilizes two primary strategies to manage risks and returns and to position the 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 move between strategies.

Market-based strategy includes investments primarily in public bonds 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 bond investments and public equity securities. As of December 31, 2020, 86% of the portfolio follows this strategy with 68% in bonds and 14% in common stocks.

Performance-based strategy seeks to deliver attractive risk-adjusted returns and supplement market risk with idiosyncratic risk. Returns are impacted by a variety of factors including general macroeconomic and public market conditions as public benchmarks are often used in the valuation of underlying investments. Variability in earnings will also result from the performance of the underlying assets or business and the timing of sales of those investments. Earnings from the sales of investments may be recorded as net investment income or realized capital gains and losses. The portfolio, which primarily includes private equity and real estate with a majority being limited partnerships, is diversified across a number of characteristics, including managers or partners, vintage years, strategies, geographies (including international) and industry sectors or property types. These investments are generally illiquid in nature, often require specialized expertise, typically involve a third-party manager, and often enhance returns and income through transformation at the company or property level. A portion of these investments seek returns in markets or asset classes that are dislocated or special situations, primarily in private markets. As of December 31, 2020, 14% of the portfolio follows this strategy with 77% in other invested assets primarily invested in limited partnerships.

Portfolio composition by investment strategy

The Group continues to increase performance-based investments in the portfolio, consistent with the ongoing strategy to have a greater proportion of return derived from idiosyncratic asset or operating performance.

The Group has a comprehensive portfolio monitoring process to identify and evaluate each security that may be other-than-temporarily impaired. The Group's portfolio monitoring process includes a quarterly review of all securities to identify instances where the fair value of a security compared to amortized cost (for bonds) or cost (for stocks) is below established thresholds. The process also includes the monitoring of other impairment indicators such as ratings, ratings downgrades and payment defaults.

The following table presents the investment portfolio by strategy as of December 31:

($ in millions)	2020 Market-based	2020 Performance-based	2020 Total	2019 Total
Bonds	$ 32,673	$ 97	$ 32,770	$ 29,177
Preferred stocks	65	8	73	84
Common stocks	6,496	1,196	7,692	10,156
Mortgage loans on real estate	575	-	575	539
Real estate	33	268	301	354
Cash and cash equivalents	732	-	732	346
Short-term investments	187	-	187	787
Derivatives	22	5	27	20
Other invested assets	350	5,261	5,611	5,733
Total cash and invested assets	$ 41,133	$ 6,835	$ 47,968	$ 47,196
Percent to total	86%	14%	100%	

Total invested assets increased $772 million, or 2%, compared to prior year. Explanations for the more significant items follow.

Bonds

The Group's bond portfolio consists of corporate public and privately placed bonds, municipal bonds, U.S. government bonds, asset-backed securities ("ABS"), mortgage-backed securities ("MBS") and foreign government bonds.

As of December 31, 2020, 81.5% of the consolidated bond portfolio was rated investment grade quality, which is defined as having a NAIC designation of 1 or 2, a Moody's rating of Aaa, Aa, A or Baa, 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. There was no significant change in the bond portfolio quality distribution from the prior year.

Bonds with an NAIC designation of 1 or 2, including loan-backed and structured securities and excluding Securities Valuation Office-identified investments, are reported at amortized cost using the effective yield method. Bonds with an NAIC designation of 3 through 6 are reported at the lower of amortized cost or fair value, with the difference reflected in unassigned surplus as unrealized capital loss.

Corporate public bonds totaled $16.07 billion as of December 31, 2020 compared to $13.37 billion as of December 31, 2019. As of December 31, 2020, the portfolio also contained $8.04 billion of privately placed corporate obligations, compared to $5.89 billion as of December 31, 2019. Corporate privately placed securities primarily consist of corporate issued senior debt securities that are negotiated with the borrower or are issued by public entities in unregistered form. Privately placed corporate obligations may contain structural security features such as financial covenants and call protections that provide investors greater protection against credit deterioration, reinvestment risk or fluctuations in interest rates than those typically found in publicly registered debt securities. As of December 31, 2020, 88% of the corporate public bonds and 51% of the corporate privately placed securities were rated investment grade.

Municipal bonds totaled $6.17 billion as of December 31, 2020 compared to $5.62 billion as of December 31, 2019. The municipal bond portfolio as of December 31, 2020 consisted of 4,045 issues and is made up of 1,006 issuers. The largest exposure to a single issuer was 1.7% of the municipal bond portfolio. Corporate entities were the ultimate obligors of less than 1% of the municipal bond portfolio. As of December 31, 2020, 100% of the Municipal bonds were rated investment grade.

U.S. government bonds totaled $1.54 billion as of December 31, 2020 compared to $3.40 billion as of December 31, 2019. As of December 31, 2020, 100% of the U.S. government bonds were rated investment grade.

ABS totaled $871 million as of December 31, 2020 compared to $670 million as of December 31, 2019 . 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 or insurance.

MBS totaled $48 million as of December 31, 2020 compared to $170 million as of December 31, 2019. The MBS portfolio is subject to interest rate risk, but unlike other fixed income securities, is additionally subject to prepayment risk from the underlying mortgages.

Foreign government bonds totaled $38 million as of December 31, 2020 compared to $55 million as of December 31, 2019.

The fair value of all bonds was $34.83 billion and $30.18 billion as of December 31, 2020 and 2019, respectively. As of December 31, 2020, unrealized net capital gains on the bond portfolio, which are calculated as the difference between statement value and fair value, were $2.06 billion compared to $1.01 billion as of December 31, 2019.

Equity securities

Equity securities include $7.7 billion of common and $73 million of non-redeemable preferred stocks, and investments in affiliates as of December 31, 2020 compared to $10.16 billion of common and $84 million of non-redeemable preferred stocks, and investments in affiliates as of December 31, 2019. The net decrease was due to the reduction in the equity portfolio initiative with proceeds invested in investment grade corporate and treasury bonds.

Cash and cash equivalents

Cash and cash equivalents increased $386 million due to a change in the NAIC Accounting Practices and Procedures Manual ("APPM") requirements for Statements of Statutory Accounting Principles No. 2R, *Cash, Cash Equivalents, Drafts and Short-Term Investments,* of cash equivalents including an investment of $777 million in the Allstate Short term pool as of December 31, 2020.

Short-term investments

The $600 million decrease in short-term investments was primarily due to a change in APPM requirements as described above. As of December 31, 2019, investments in the Short term pool were included in short-term investments and were stated at the net asset value as a practical expedient to determine fair value.

Other invested assets

The $122 million increase in other invested assets was driven by the market value change of limited partnerships. Limited partnership interests include interests in private equity funds, real estate funds and other funds.

Off-balance sheet financial instruments

The contractual amounts of off-balance-sheet financial instruments as of December 31 were as follows:

(in millions)		2020		2019
Commitments to invest in limited partnership interests	$	2,015	$	1,778
Private placement commitments	$	35	$	47
Other loan commitments	$	17	$	57
Commitments to invest in real estate (1)	$	-	$	9

(1) Beginning December 31, 2020, commitments to invest in real estate are included within commitments to invest in limited partnerships interests.

Commitments to invest in limited partnership interests represent agreements to acquire new or additional participation in certain limited partnership investments. AIC enters into these agreements in the normal course of business.

Private placement commitments represent commitments to purchase private placement debt and private equity securities at a future date. AIC enters into these agreements in the normal course of business.

Other loan commitments are agreements to lend to a borrower provided there is no violation of any condition established in the contract. AIC enters into these agreements to commit to future loan fundings at predetermined interest rates. Commitments have either fixed or varying expiration dates or other termination clauses.

Commitments to invest in real estate represent an agreement to provide additional capital for the development of real estate property. AIC enters into these agreements in the normal course of business. Beginning December 31, 2020, commitments to invest in real estate are included with commitments to invest in limited partnership interests.

The contractual amounts represent the amount at risk if the contract was fully drawn upon, the counterparty defaults and the value of any underlying security becomes worthless.

AIC does not require collateral or other security to support off-balance-sheet financial instruments with credit risk.

Non-Investment Grade Investments

The Group's investment policy allows it to purchase and hold below investment grade securities. The Group believes with quality research and underwriting, these securities complement its broader investment strategy and provide the appropriate level of return for the increased risk.

Reserves for losses and loss adjustment expenses

Incurred losses and loss adjustment expenses represent the sum of paid losses, loss adjustment expenses and reserve changes in the calendar year. This expense included net losses from catastrophes of $2.72 billion and $2.50 billion in 2020 and 2019, respectively. Activity in the reserve for losses and loss adjustment expenses is summarized as follows:

(in millions)		2020		2019
Balance at January 1	$	18,055	$	17,618
Incurred related to				
Current year		20,626		22,017
Prior years		(333)		(49)
Total incurred		20,293		21,968
Paid related to:				
Current year		13,206		14,014
Prior years		7,273		7,517
Total paid		20,479		21,531
Balance as of December 31	$	17,869	$	18,055

Incurred losses and loss adjustment expenses attributable to insured events of prior years were $(333) million and $(49) million as a result of the reestimation of unpaid losses and loss adjustment expenses for the years ended December 31, 2020 and 2019, respectively. These changes were generally the result of ongoing analyses of recent loss development trends. Initial estimates were revised as additional information regarding claims became known.

Unsecured reinsurance recoverables

The Group has unsecured reinsurance recoverables that exceeded 3% of policyholder surplus as of December 31 as follows:

($ in millions)

Reinsurer	NAIC Group Code	FEIN		2020		2019
Michigan Catastrophic Claim Association ("MCCA")	0000	AA-9991159	$	5,645	$	5,503

The MCCA is a statutory indemnification mechanism for member insurers' qualifying personal injury protection claims paid for the unlimited lifetime medical benefits above the applicable retention level for qualifying injuries from automobile, motorcycle and commercial vehicle accidents. Indemnification recoverables on paid and unpaid claims, including IBNR, as of December 31, 2020 and 2019 include $5.65 billion and $5.50 billion, respectively, from the MCCA for its indemnification obligation. The MCCA is funded by annually assessing participating member companies actively writing motor vehicle coverage in Michigan on a per vehicle basis that is currently $100 per vehicle insured. The MCCA's calculation of the annual assessment is based upon the total of members' actuarially determined present value of expected payments on lifetime claims by all persons expected to be catastrophically injured in that year and ultimately qualify for MCCA reimbursement, its operating expenses, and adjustments for the amount of excesses or deficiencies in prior assessments. The MCCA has also included its calculation of the impacts of the auto insurance reforms which have begun to phase in since their passage in June 2019, including the personal injury protection medical fee schedule that becomes effective July 2, 2021. The assessment is incurred by the Group as policies are written and recovered as a component of premiums from the Group's customers. The MCCA indemnifies qualifying claims of all current and former member companies (whether or not actively writing motor vehicle coverage in Michigan) for qualifying claims and claims expenses incurred while the member companies were actively writing the mandatory personal injury protection coverage in Michigan. Member companies actively writing automobile coverage in Michigan include the MCCA annual assessments in determining the level of premiums to charge insureds in the state. As required for member companies by the MCCA, the Group reports covered paid and unpaid claims to the MCCA when estimates of loss for a reported claim are expected to exceed the retention level, the claims involve certain types of severe injuries, or there are litigation demands received suggesting the claim value exceeds certain thresholds. The retention level is adjusted upward every other MCCA fiscal year by the lesser of 6% or the increase in the Consumer Price Index. The retention level will be $600 thousand per claim for the fiscal two-years ending June 30, 2022 compared to $580 thousand per claim for the fiscal two-years ending June 30, 2020. The MCCA is obligated to fund the ultimate liability of member companies' qualifying claims and claim expenses. The MCCA does not underwrite the insurance coverage or hold any underwriting risk. The MCCA indemnifies members as qualifying claims are paid and billed by members to the MCCA. Unlimited lifetime covered losses result in significant levels of ultimate incurred claim reserves being recorded by member companies along with offsetting indemnification recoverables. Disputes with claimants over coverage on certain reported claims can result in additional losses, which may be recoverable from the MCCA, excluding litigation expenses. There is currently no method by which insurers are able to obtain the benefit of managed care programs to reduce claims costs through the MCCA. The MCCA prepares statutory-basis financial statements in conformity with accounting practices prescribed or permitted by the State of Michigan Department of Insurance and Financial Services ("MI DOI"). The MI DOI has granted the MCCA a statutory permitted practice that expires in June 30, 2022 to discount its liabilities for loss and loss adjustment expense. As of June 30, 2020, the date of its most recent annual financial report, the MCCA had cash and invested assets of $23.41 billion and an accumulated surplus of $2.44 billion. The permitted practice reduced the accumulated deficit by $34.73 billion.

Capital and surplus

The following table summarizes the Group's capital position as of December 31:

(in millions)	2020	2019
Common capital stock	$ 46	$ 46
Gross paid in and contributed surplus	4,015	4,015
Unassigned funds (surplus)	16,846	15,800
Aggregate write-ins for special surplus funds	22	26
Total surplus as regards policyholders	$ 20,929	$ 19,887

Total surplus as regards policyholders increased $1.04 billion or 5%, and was mainly comprised of the following items:

- $5.97 billion net income in 2020 compared to $3.75 billion in 2019
- $396 million change in net unrealized capital loss in 2020 compared to $1.32 billion unrealized capital gain in 2019
- $4.46 billion dividends paid to Allstate Holdings in 2020 compared to $2.74 billion in 2019

RESULTS OF OPERATIONS

(in millions)	2020	2019
Premiums earned	$ 32,004	$ 32,155
Losses incurred	16,996	18,404
Loss adjustment expenses incurred	3,297	3,564
Other underwriting expenses incurred	7,986	7,998
Total underwriting deductions	28,279	29,966
Net underwriting gain	3,725	2,189
Net investment income earned	1,703	1,749
Net realized capital gains (losses)	1,298	313
Net investment gain	3,001	2,062
Total other income	101	117
Net income, after dividends to policyholders but before all other federal and foreign income taxes	6,827	4,368
Federal and foreign income taxes incurred	862	616
Net income	$ 5,965	$ 3,752

Net underwriting gain

The $1.54 billion increase in underwriting gain was mostly due to lower auto non-catastrophe losses, increased premiums earned and favorable catastrophe reserve reestimates in personal lines homeowners driven by subrogation settlements, partially offset by Shelter-in-Place Payback premium refunds and higher non-catastrophe losses.

Net investment gains

Net investment gain increased $940 million, mainly due to gains from equities of $878 million driven by the company initiative to reduce the equity portfolio by $4 billion. Due to the market circumstances during the pandemic, assets were strategically sold where an opportunity presented itself.

CASH FLOW AND LIQUIDITY
The following table summarizes cash flow.

(in millions)		2020		2019
Net cash from operations	$	4,546	$	4,264
Net cash from investments		(391)		(1,794)
Net cash from financing and miscellaneous sources		(4,369)		(2,121)
Net change in cash, cash equivalents and short-term investments	$	(214)	$	349

The Group's operations typically generate substantial cash flows from operations as most premiums are received in advance of the time claim payments are made. Net cash from operations increased in 2020 as a result of a decrease in benefit and loss related payments and commissions, partially offset by the decrease in premiums collected net of reinsurance and an increase in federal and foreign income taxes paid. Lower negative net cash flows from investments in 2020 compared to 2019 were driven by higher investment proceeds, partially offset by higher investments acquired. Higher negative net cash flows from financing in 2020 compared to 2019 were due higher dividends paid to parent and a decrease in securities lending.

Dividend restriction
The ability of AIC, AFCIC, APC, AI, EI, EICA, EIIC, EHAIC, EIC, EPC and ESIC to pay dividends is generally dependent on business conditions, income, cash requirements, receipt of dividends and other relevant factors. More specifically, the Illinois Insurance Code ("Code") provides a two-step process. First, no dividend may be declared or paid except from earned (unassigned) surplus, as distinguished from contributed surplus, nor when the payment of a dividend reduces surplus below the minimum amount required by the Code. Secondly, a determination of the ordinary versus extraordinary dividends that can be paid is formula based and considers net income and capital and surplus, as well as the timing and amounts of dividends paid in the preceding twelve months as specified by the Code. Ordinary dividends to shareholders do not require prior approval of the IL DOI. Dividends are not cumulative. As of December 31, 2020, the maximum ordinary dividend that can be declared and paid in 2021 by AIC, APC, AFCIC, ESIC, EHAIC, EIC, EICA, EI, EPC and EIIC is limited to $5.95 billion, $1.8 million, $1.7 million, $1.1 million, $0.1 million, $0.1 million, $0.1 million, $0.1 million, $0.1 million and $0.1 million, respectively. Currently, AI cannot declare or pay dividends without the prior approval of the IL DOI because of negative unassigned surplus.

EICMA's ability to pay dividends is dependent on business conditions, income, cash requirements and other relevant factors. Without prior approval of the MA DOI, ordinary dividends to shareholder are limited to $0.6 million. This amount is formula driven based on capital and surplus, as well as the timing and amount of dividends paid in the preceding twelve months as specified by Massachusetts insurance law. Dividends are not cumulative.

Financial strength ratings and outlook
AIC's most recent financial strength ratings and outlook were A+, Aa3 and AA- from A.M. Best, Moody's and S&P, respectively; all with a stable outlook.

Risk-based capital
The NAIC has a uniform capital adequacy standard, referred to as the risk-based capital ("RBC"), that serves as one of the solvency monitoring regulatory tools to measure and assess the amount of capital that is appropriate for an insurance company to support its overall business operations in consideration of its size and risk profile. The standard utilizes a formula to calculate a company's minimum capital requirement ("company action level RBC") based on the insurance, business, asset, interest rate, market, credit, underwriting and reserving risk associated with its business. There is no regulatory action required if a company maintains the total adjusted capital level greater than the company action level RBC. A RBC model law does, however, mandate four levels of regulatory action based on a company's degree of capital impairment. As of December 31, 2020, the total adjusted capital of each insurer comprising the Group was significantly above the company action level RBC.

Insurance Regulatory Information System ("IRIS") ratios
The NAIC has also developed a set of financial relationships or tests known as the IRIS to assist state regulators in monitoring the financial condition of insurance companies and identifying companies that require special attention or action. The NAIC analyzes financial data provided by insurance companies using prescribed ratios, each with a defined usual range. Additional regulatory scrutiny may occur if a

company's ratio results fall outside the usual range for four or more of the thirteen ratios. As of December 31, 2020, no insurer comprising the Group had more than three ratios outside the usual range.

Unusual or Infrequent Items

Due to the significant decline in the number of auto accidents caused by mandated stay-at-home orders, other pandemic containment actions and reduced economic activity from the Novel Coronavirus Pandemic or COVID-19 ("Coronavirus"), premium refunds were provided to certain policyholders. Auto and certain commercial lines customers received a Shelter-in-Place Payback under the terms of a policy endorsement reducing net premiums written and earned by $869 million for the six months ended June 30, 2020.

Additionally, the State of California requested that insurers assess the impact of the Coronavirus and issue premium refunds for passenger auto, motorcycle, various commercial lines of insurance as well as other lines. Net premiums written and earned were reduced by $133 million for the six months ended December 31, 2020.

The Group did not have unusual or infrequent items as of December 31, 2019.

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. 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.

The Coronavirus has affected the Group's operations and depending on its length and severity may continue to significantly affect the Group's results of operations, financial condition and liquidity, including sales of new and retention of existing policies, shared economy demand, claim severity costs, driving behavior and auto accident frequency, investment valuations and returns, and increases in bad debt and credit risk.

The magnitude and duration of the global pandemic and the impact of actions taken by governmental authorities, businesses and consumers, including timing of vaccine distribution, to mitigate health risks create significant uncertainty. The Group 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 Group's operations, but the effects could be material and may continue, emerge, evolve or accelerate into 2021.

PG&E Corporation and Pacific Gas and Electric Company (together "PG&E") Settlement

On June 20, 2020, the United States Bankruptcy Court for the Northern District of California confirmed PG&E's 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. AIC was party to the agreement.

On July 1, 2020, PG&E emerged from Chapter 11 and funded the subrogation trust from which distributions will be made to 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.

AIC recognized a net underwriting gain of $444 million, net of expenses and adjustments to reinsurance, related to the subrogation settlement in 2020, which was reflected as follows in the Statement of Income:

(in millions)	Underwriting Gain/(Loss)
Premiums earned	$ 63
Losses incurred	393
Loss adjustment expense incurred	(12)
Net underwriting gain	$ 444

The favorable impact to premiums earned was due to reinstatement premiums returned by reinsurers.

As of December 31, 2020, AIC had received distributions from the trust representing approximately 80% of the expected recovery.

Southern California Edison Settlement
On September 14, 2020, Southern California Edison reached a $1.16 billion settlement agreement with insurance companies, resolving all insurance subrogation claims arising from the December 2017 Thomas and Koenigstein Wildfires and January 2018 Montecito Mudslides litigation. AIC was party to the agreement and recognized a net underwriting gain of $44 million, net of expenses, related to the subrogation settlement in 2020, which was reflected as follows in the Statement of Income:

(in millions)	Underwriting Gain/(Loss)
Losses incurred	$ 51
Loss adjustment expense incurred	(7)
Net underwriting gain	$ 44

As of December 31, 2020, AIC had received substantially all distributions from the trust for its expected recovery.

Acquisition of National General Holdings Corp.
On January 4, 2021, The Allstate Corporation completed the acquisition of National General Holdings Corp., expanding its independent agent channel business. In conjunction with the acquisition, AIC entered into a quota share reinsurance agreement with Integon National Insurance Company ("INIC"), a new affiliate, whereby AIC would assume 100% of the net underwriting liabilities of INIC, effective January 4, 2021. INIC transferred approximately $1 billion in assets equal to the policy liabilities to AIC in connection with the quota share agreement.

Southern California Edison Settlement
On January 22, 2021, Southern California Edition reached a $2.20 billion settlement agreement with insurance companies, resolving subrogation claims arising from the Woolsey Wildfire. AIC is party to the agreement and expects to recognize a favorable Statement of Income impact of approximately $115 million, pre-tax, net of expenses and adjustments to reinsurance, in the first quarter of 2021.

Sale of Allstate Life Insurance Company ("ALIC")
On January 26, 2021, AIC and Allstate Financial Insurance Holdings Corporation entered into a Stock Purchase Agreement with Antelope US Holdings Company, an affiliate of an investment fund associated with The Blackstone Group Inc. to sell ALIC and certain affiliates for approximately $2.8 billion in cash. AIC or an affiliate will retain ownership of Allstate Life Insurance Company of New York while pursuing alternatives to sell or otherwise transfer risk to a third party. As a result of the transaction, AIC estimates its surplus will increase by approximately $150 million in the first quarter of 2021. The ultimate amount of the gain will be impacted by purchase price adjustments associated with certain pre-close transactions specified in the stock purchase agreement and changes in statutory capital and surplus prior to the closing date. The transaction is expected to close in the second half of 2021 subject to regulatory approvals and other customary closing conditions.