

ALLSTATE CORP  
Form 10-Q  
October 30, 2013

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

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

**For the quarterly period ended September 30, 2013**

**OR**

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission file number 1-11840**

**THE ALLSTATE CORPORATION**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of incorporation or organization)

**36-3871531**  
(I.R.S. Employer Identification No.)

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**2775 Sanders Road, Northbrook, Illinois**

(Address of principal executive offices)

**60062**

(Zip Code)

**(847) 402-5000**

(Registrant's telephone number, including area code)

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

Yes X No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files).

Yes X No ☐

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

Large accelerated filer X

Accelerated filer ☐

Non-accelerated filer ☐ (Do not check if a smaller reporting company)

Smaller reporting company ☐

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

Yes ☐ No X

As of October 16, 2013, the registrant had 454,848,452 common shares, \$.01 par value, outstanding.

**THE ALLSTATE CORPORATION**

**INDEX TO QUARTERLY REPORT ON FORM 10-Q**

**September 30, 2013**

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**PART I. FINANCIAL INFORMATION****ITEM I. FINANCIAL INFORMATION****THE ALLSTATE CORPORATION AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

(\$ in millions, except per share data)

|                                                                      | Three months ended<br>September 30 |          | Nine months ended<br>September 30 |           |
|----------------------------------------------------------------------|------------------------------------|----------|-----------------------------------|-----------|
|                                                                      | 2013                               | 2012     | 2013                              | 2012      |
|                                                                      | (unaudited)                        |          | (unaudited)                       |           |
| <b>Revenues</b>                                                      |                                    |          |                                   |           |
| Property-liability insurance premiums                                | \$ 6,972                           | \$ 6,697 | \$ 20,604                         | \$ 19,993 |
| Life and annuity premiums and contract charges                       | 584                                | 563      | 1,742                             | 1,675     |
| Net investment income                                                | 950                                | 940      | 2,917                             | 2,977     |
| Realized capital gains and losses:                                   |                                    |          |                                   |           |
| Total other-than-temporary impairment losses                         | (96)                               | (39)     | (178)                             | (195)     |
| Portion of loss recognized in other comprehensive income             | 8                                  | (7)      | (7)                               | 16        |
| Net other-than-temporary impairment losses recognized in earnings    | (88)                               | (46)     | (185)                             | (179)     |
| Sales and other realized capital gains and losses                    | 47                                 | (26)     | 637                               | 302       |
| Total realized capital gains and losses                              | (41)                               | (72)     | 452                               | 123       |
|                                                                      | 8,465                              | 8,128    | 25,715                            | 24,768    |
| <b>Costs and expenses</b>                                            |                                    |          |                                   |           |
| Property-liability insurance claims and claims expense               | 4,427                              | 4,293    | 13,628                            | 13,442    |
| Life and annuity contract benefits                                   | 498                                | 453      | 1,427                             | 1,354     |
| Interest credited to contractholder funds                            | 317                                | 215      | 973                               | 959       |
| Amortization of deferred policy acquisition costs                    | 1,026                              | 1,016    | 2,933                             | 2,937     |
| Operating costs and expenses                                         | 937                                | 1,010    | 3,129                             | 3,023     |
| Restructuring and related charges                                    | 13                                 | 9        | 59                                | 25        |
| Loss on extinguishment of debt                                       | 9                                  | --       | 489                               | --        |
| Interest expense                                                     | 83                                 | 93       | 280                               | 281       |
|                                                                      | 7,310                              | 7,089    | 22,918                            | 22,021    |
| (Loss) gain on disposition of operations                             | (646)                              | 9        | (644)                             | 15        |
| <b>Income from operations before income tax expense</b>              | 509                                | 1,048    | 2,153                             | 2,762     |
| Income tax expense                                                   | 193                                | 325      | 694                               | 850       |
| <b>Net income</b>                                                    | 316                                | 723      | 1,459                             | 1,912     |
| Preferred stock dividends                                            | 6                                  | --       | 6                                 | --        |
| <b>Net income available to common shareholders</b>                   | \$ 310                             | \$ 723   | \$ 1,453                          | \$ 1,912  |
| <b>Earnings per common share:</b>                                    |                                    |          |                                   |           |
| Net income available to common shareholders per common share - Basic | \$ 0.67                            | \$ 1.49  | \$ 3.10                           | \$ 3.89   |
| Weighted average common shares - Basic                               | 461.1                              | 485.9    | 468.2                             | 491.5     |

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|                                                                        |    |       |    |       |    |       |    |       |
|------------------------------------------------------------------------|----|-------|----|-------|----|-------|----|-------|
| Net income available to common shareholders per common share - Diluted | \$ | 0.66  | \$ | 1.48  | \$ | 3.07  | \$ | 3.86  |
| Weighted average common shares - Diluted                               |    | 467.1 |    | 489.9 |    | 473.8 |    | 494.7 |
| Cash dividends declared per common share                               | \$ | 0.25  | \$ | 0.22  | \$ | 0.75  | \$ | 0.66  |

See notes to condensed consolidated financial statements.

THE ALLSTATE CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

| (\$ in millions)                                           | Three months ended<br>September 30, |          | Nine months ended<br>September 30, |          |
|------------------------------------------------------------|-------------------------------------|----------|------------------------------------|----------|
|                                                            | 2013                                | 2012     | 2013                               | 2012     |
|                                                            | (unaudited)                         |          | (unaudited)                        |          |
| <b>Net income</b>                                          | \$ 316                              | \$ 723   | \$ 1,459                           | \$ 1,912 |
| <b>Other comprehensive income (loss), after-tax</b>        |                                     |          |                                    |          |
| Changes in:                                                |                                     |          |                                    |          |
| Unrealized net capital gains and losses                    | 63                                  | 810      | (1,120)                            | 1,480    |
| Unrealized foreign currency translation adjustments        | 13                                  | 12       | (20)                               | 14       |
| Unrecognized pension and other postretirement benefit cost | 684                                 | 20       | 775                                | 64       |
| <b>Other comprehensive income (loss), after-tax</b>        | 760                                 | 842      | (365)                              | 1,558    |
| <b>Comprehensive income</b>                                | \$ 1,076                            | \$ 1,565 | \$ 1,094                           | \$ 3,470 |

See notes to condensed consolidated financial statements.

## THE ALLSTATE CORPORATION AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(\$ in millions, except par value data)

|                                                                                                                                                                                                                                                              | September 30,<br>2013<br>(unaudited) | December 31,<br>2012 |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------|----------------------|
| <b>Assets</b>                                                                                                                                                                                                                                                |                                      |                      |
| Investments                                                                                                                                                                                                                                                  |                                      |                      |
| Fixed income securities, at fair value (amortized cost \$58,129 and \$71,915)                                                                                                                                                                                | \$ 60,295                            | \$ 77,017            |
| Equity securities, at fair value (cost \$4,370 and \$3,577)                                                                                                                                                                                                  | 4,812                                | 4,037                |
| Mortgage loans                                                                                                                                                                                                                                               | 4,817                                | 6,570                |
| Limited partnership interests                                                                                                                                                                                                                                | 5,091                                | 4,922                |
| Short-term, at fair value (amortized cost \$2,694 and \$2,336)                                                                                                                                                                                               | 2,694                                | 2,336                |
| Other                                                                                                                                                                                                                                                        | 2,774                                | 2,396                |
| Total investments                                                                                                                                                                                                                                            | 80,483                               | 97,278               |
| Cash                                                                                                                                                                                                                                                         | 1,069                                | 806                  |
| Premium installment receivables, net                                                                                                                                                                                                                         | 5,341                                | 5,051                |
| Deferred policy acquisition costs                                                                                                                                                                                                                            | 3,286                                | 3,621                |
| Reinsurance recoverables, net                                                                                                                                                                                                                                | 6,938                                | 8,767                |
| Accrued investment income                                                                                                                                                                                                                                    | 617                                  | 781                  |
| Property and equipment, net                                                                                                                                                                                                                                  | 993                                  | 989                  |
| Goodwill                                                                                                                                                                                                                                                     | 1,243                                | 1,240                |
| Other assets                                                                                                                                                                                                                                                 | 1,810                                | 1,804                |
| Separate Accounts                                                                                                                                                                                                                                            | 4,928                                | 6,610                |
| Assets held for sale                                                                                                                                                                                                                                         | 15,577                               | --                   |
| <b>Total assets</b>                                                                                                                                                                                                                                          | <b>\$ 122,285</b>                    | <b>\$ 126,947</b>    |
| <b>Liabilities</b>                                                                                                                                                                                                                                           |                                      |                      |
| Reserve for property-liability insurance claims and claims expense                                                                                                                                                                                           | \$ 20,983                            | \$ 21,288            |
| Reserve for life-contingent contract benefits                                                                                                                                                                                                                | 12,590                               | 14,895               |
| Contractholder funds                                                                                                                                                                                                                                         | 24,476                               | 39,319               |
| Unearned premiums                                                                                                                                                                                                                                            | 11,016                               | 10,375               |
| Claim payments outstanding                                                                                                                                                                                                                                   | 702                                  | 797                  |
| Deferred income taxes                                                                                                                                                                                                                                        | 440                                  | 597                  |
| Other liabilities and accrued expenses                                                                                                                                                                                                                       | 5,245                                | 6,429                |
| Long-term debt                                                                                                                                                                                                                                               | 6,217                                | 6,057                |
| Separate Accounts                                                                                                                                                                                                                                            | 4,928                                | 6,610                |
| Liabilities held for sale                                                                                                                                                                                                                                    | 14,908                               | --                   |
| <b>Total liabilities</b>                                                                                                                                                                                                                                     | <b>101,505</b>                       | <b>106,367</b>       |
| <b>Commitments and Contingent Liabilities (Note 12)</b>                                                                                                                                                                                                      |                                      |                      |
| <b>Equity</b>                                                                                                                                                                                                                                                |                                      |                      |
| Preferred stock and additional capital paid-in, \$1 par value, 25 million shares authorized, 26,900 shares issued and outstanding as of September 30, 2013 and none issued and outstanding as of December 31, 2012, \$672.5 aggregate liquidation preference | 650                                  | --                   |
| Common stock, \$.01 par value, 2.0 billion shares authorized and 900 million issued, 456 million and 479 million shares outstanding                                                                                                                          | 9                                    | 9                    |
| Additional capital paid-in                                                                                                                                                                                                                                   | 3,127                                | 3,162                |
| Retained income                                                                                                                                                                                                                                              | 34,885                               | 33,783               |
| Deferred ESOP expense                                                                                                                                                                                                                                        | (39)                                 | (41)                 |
| Treasury stock, at cost (444 million and 421 million shares)                                                                                                                                                                                                 | (18,662)                             | (17,508)             |
| Accumulated other comprehensive income:                                                                                                                                                                                                                      |                                      |                      |
| Unrealized net capital gains and losses:                                                                                                                                                                                                                     |                                      |                      |
| Unrealized net capital gains and losses on fixed income securities with OTTI                                                                                                                                                                                 | 33                                   | (11)                 |
| Other unrealized net capital gains and losses                                                                                                                                                                                                                | 1,804                                | 3,614                |
| Unrealized adjustment to DAC, DSI and insurance reserves                                                                                                                                                                                                     | (123)                                | (769)                |
| Total unrealized net capital gains and losses                                                                                                                                                                                                                | 1,714                                | 2,834                |
| Unrealized foreign currency translation adjustments                                                                                                                                                                                                          | 50                                   | 70                   |
| Unrecognized pension and other postretirement benefit cost                                                                                                                                                                                                   | (954)                                | (1,729)              |
| Total accumulated other comprehensive income                                                                                                                                                                                                                 | 810                                  | 1,175                |
| <b>Total shareholders' equity</b>                                                                                                                                                                                                                            | <b>20,780</b>                        | <b>20,580</b>        |
| <b>Total liabilities and shareholders' equity</b>                                                                                                                                                                                                            | <b>\$ 122,285</b>                    | <b>\$ 126,947</b>    |

See notes to condensed consolidated financial statements.

## THE ALLSTATE CORPORATION AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(\$ in millions)

|                                                                      | Nine months ended<br>September 30, |           |
|----------------------------------------------------------------------|------------------------------------|-----------|
|                                                                      | 2013                               | 2012      |
|                                                                      | (unaudited)                        |           |
| <b>Preferred stock par value</b>                                     |                                    |           |
| Balance, beginning of period                                         | \$ --                              | \$ --     |
| Preferred stock issuance                                             | --                                 | --        |
| Balance, end of period                                               | --                                 | --        |
| <b>Preferred stock additional capital paid-in</b>                    |                                    |           |
| Balance, beginning of period                                         | --                                 | --        |
| Preferred stock issuance                                             | 650                                | --        |
| Balance, end of period                                               | 650                                | --        |
| <b>Common stock</b>                                                  | 9                                  | 9         |
| <b>Additional capital paid-in</b>                                    |                                    |           |
| Balance, beginning of period                                         | 3,162                              | 3,189     |
| Equity incentive plans activity                                      | (35)                               | (35)      |
| Balance, end of period                                               | 3,127                              | 3,154     |
| <b>Retained income</b>                                               |                                    |           |
| Balance, beginning of period                                         | 33,783                             | 31,909    |
| Net income                                                           | 1,459                              | 1,912     |
| Dividends on common stock                                            | (351)                              | (325)     |
| Dividends on preferred stock                                         | (6)                                | --        |
| Balance, end of period                                               | 34,885                             | 33,496    |
| <b>Deferred ESOP expense</b>                                         |                                    |           |
| Balance, beginning of period                                         | (41)                               | (43)      |
| Payments                                                             | 2                                  | 2         |
| Balance, end of period                                               | (39)                               | (41)      |
| <b>Treasury stock</b>                                                |                                    |           |
| Balance, beginning of period                                         | (17,508)                           | (16,795)  |
| Shares acquired                                                      | (1,395)                            | (728)     |
| Shares reissued under equity incentive plans, net                    | 241                                | 155       |
| Balance, end of period                                               | (18,662)                           | (17,368)  |
| <b>Accumulated other comprehensive income</b>                        |                                    |           |
| Balance, beginning of period                                         | 1,175                              | 29        |
| Change in unrealized net capital gains and losses                    | (1,120)                            | 1,480     |
| Change in unrealized foreign currency translation adjustments        | (20)                               | 14        |
| Change in unrecognized pension and other postretirement benefit cost | 775                                | 64        |
| Balance, end of period                                               | 810                                | 1,587     |
| <b>Noncontrolling interest</b>                                       |                                    |           |
| Balance, beginning of period                                         | --                                 | 28        |
| Change in noncontrolling interest ownership                          | --                                 | (28)      |
| Balance, end of period                                               | --                                 | --        |
| <b>Total shareholders' equity</b>                                    | \$ 20,780                          | \$ 20,837 |

See notes to condensed consolidated financial statements.



## THE ALLSTATE CORPORATION AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(\$ in millions)

|                                                                                   | Nine months ended September 30, |                     |
|-----------------------------------------------------------------------------------|---------------------------------|---------------------|
|                                                                                   | 2013                            | (unaudited)<br>2012 |
| <b>Cash flows from operating activities</b>                                       |                                 |                     |
| Net income                                                                        | \$ 1,459                        | \$ 1,912            |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                 |                     |
| Depreciation, amortization and other non-cash items                               | 246                             | 293                 |
| Realized capital gains and losses                                                 | (452)                           | (123)               |
| Loss on extinguishment of debt                                                    | 489                             | --                  |
| Loss (gain) on disposition of operations                                          | 644                             | (15)                |
| Interest credited to contractholder funds                                         | 973                             | 959                 |
| Changes in:                                                                       |                                 |                     |
| Policy benefits and other insurance reserves                                      | (787)                           | (769)               |
| Unearned premiums                                                                 | 670                             | 421                 |
| Deferred policy acquisition costs                                                 | (208)                           | 13                  |
| Premium installment receivables, net                                              | (300)                           | (178)               |
| Reinsurance recoverables, net                                                     | 294                             | (139)               |
| Income taxes                                                                      | 455                             | 669                 |
| Other operating assets and liabilities                                            | (412)                           | (425)               |
| Net cash provided by operating activities                                         | 3,071                           | 2,618               |
| <b>Cash flows from investing activities</b>                                       |                                 |                     |
| Proceeds from sales                                                               |                                 |                     |
| Fixed income securities                                                           | 15,354                          | 13,952              |
| Equity securities                                                                 | 2,231                           | 1,345               |
| Limited partnership interests                                                     | 676                             | 1,067               |
| Mortgage loans                                                                    | 20                              | 11                  |
| Other investments                                                                 | 93                              | 104                 |
| Investment collections                                                            |                                 |                     |
| Fixed income securities                                                           | 4,879                           | 3,892               |
| Mortgage loans                                                                    | 783                             | 682                 |
| Other investments                                                                 | 213                             | 70                  |
| Investment purchases                                                              |                                 |                     |
| Fixed income securities                                                           | (16,645)                        | (16,809)            |
| Equity securities                                                                 | (2,565)                         | (385)               |
| Limited partnership interests                                                     | (911)                           | (1,232)             |
| Mortgage loans                                                                    | (423)                           | (472)               |
| Other investments                                                                 | (880)                           | (275)               |
| Change in short-term investments, net                                             | (544)                           | (1,284)             |
| Change in other investments, net                                                  | 92                              | (6)                 |
| Purchases of property and equipment, net                                          | (116)                           | (176)               |
| (Acquisition) disposition of operations                                           | (24)                            | 13                  |
| Net cash provided by investing activities                                         | 2,233                           | 497                 |
| <b>Cash flows from financing activities</b>                                       |                                 |                     |
| Proceeds from issuance of long-term debt                                          | 2,267                           | 493                 |
| Repayment of long-term debt                                                       | (2,605)                         | (351)               |
| Proceeds from issuance of preferred stock                                         | 651                             | --                  |
| Contractholder fund deposits                                                      | 1,608                           | 1,571               |
| Contractholder fund withdrawals                                                   | (5,458)                         | (3,938)             |
| Dividends paid on common stock                                                    | (237)                           | (322)               |
| Treasury stock purchases                                                          | (1,385)                         | (729)               |
| Shares reissued under equity incentive plans, net                                 | 108                             | 60                  |
| Excess tax benefits on share-based payment arrangements                           | 33                              | 7                   |
| Other                                                                             | (10)                            | (40)                |
| Net cash used in financing activities                                             | (5,028)                         | (3,249)             |
| Transfer of cash to held for sale                                                 | (13)                            | --                  |
| <b>Net increase (decrease) in cash</b>                                            | <b>263</b>                      | <b>(134)</b>        |
| <b>Cash at beginning of period</b>                                                | <b>806</b>                      | <b>776</b>          |

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|                       |    |       |    |     |
|-----------------------|----|-------|----|-----|
| Cash at end of period | \$ | 1,069 | \$ | 642 |
|-----------------------|----|-------|----|-----|

See notes to condensed consolidated financial statements.

**THE ALLSTATE CORPORATION AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**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-liability insurance company with various property-liability and life and investment subsidiaries, including Allstate Life Insurance Company ( ALIC ) (collectively referred to as the Company or Allstate ).

The condensed consolidated financial statements and notes as of September 30, 2013 and for the three-month and nine-month periods ended September 30, 2013 and 2012 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, 2012. The results of operations for the interim periods should not be considered indicative of results to be expected for the full year. All significant intercompany accounts and transactions have been eliminated.

**Adopted accounting standards**

*Disclosures about Offsetting Assets and Liabilities*

In December 2011 and January 2013, the Financial Accounting Standards Board ( FASB ) issued guidance requiring expanded disclosures, including both gross and net information, for derivatives, repurchase and reverse repurchase agreements, and securities borrowing and securities lending transactions that are either offset in the reporting entity's financial statements or those that are subject to an enforceable master netting arrangement or similar agreement. The Company adopted the new guidance in the first quarter of 2013. The new guidance affects disclosures only and therefore had no impact on the Company's results of operations or financial position.

*Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*

In February 2013, the FASB issued guidance requiring expanded disclosures about the amounts reclassified out of accumulated other comprehensive income by component. The guidance requires the presentation of significant amounts reclassified out of accumulated other

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comprehensive income by income statement line item but only if the amount reclassified is required under accounting principles generally accepted in the United States of America ( GAAP ) to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under GAAP to be reclassified in their entirety to net income, cross-reference to other disclosures that provide additional detail about those amounts is required. The Company adopted the new guidance in the first quarter of 2013. The new guidance affects disclosures only and therefore had no impact on the Company's results of operations or financial position.

## 2. Earnings per Common Share

Basic earnings per common share is computed using the weighted average number of common shares outstanding, including unvested 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 computation of basic and diluted earnings per common share is presented in the following table.

| (\$ in millions, except per share data)                                     | Three months ended<br>September 30, |         | Nine months ended<br>September 30, |          |
|-----------------------------------------------------------------------------|-------------------------------------|---------|------------------------------------|----------|
|                                                                             | 2013                                | 2012    | 2013                               | 2012     |
| Numerator:                                                                  |                                     |         |                                    |          |
| Net income                                                                  | \$ 316                              | \$ 723  | \$ 1,459                           | \$ 1,912 |
| Less: Preferred stock dividends                                             | 6                                   | --      | 6                                  | --       |
| Net income available to common shareholders                                 | \$ 310                              | \$ 723  | \$ 1,453                           | \$ 1,912 |
| Denominator:                                                                |                                     |         |                                    |          |
| Weighted average common shares outstanding                                  | 461.1                               | 485.9   | 468.2                              | 491.5    |
| Effect of dilutive potential common shares:                                 |                                     |         |                                    |          |
| Stock options                                                               | 4.2                                 | 2.7     | 3.9                                | 2.2      |
| Restricted stock units and performance stock awards<br>(non-participating)  | 1.8                                 | 1.3     | 1.7                                | 1.0      |
| Weighted average common and dilutive potential common<br>shares outstanding | 467.1                               | 489.9   | 473.8                              | 494.7    |
| Earnings per common share - Basic                                           | \$ 0.67                             | \$ 1.49 | \$ 3.10                            | \$ 3.89  |
| Earnings per common share - Diluted                                         | \$ 0.66                             | \$ 1.48 | \$ 3.07                            | \$ 3.86  |

The effect of dilutive potential common shares does not include the effect of options with an anti-dilutive effect on earnings per common share because their exercise prices exceed the average market price of Allstate common shares during the period or for which the unrecognized compensation cost would have an anti-dilutive effect. Options to purchase 8.4 million and 17.8 million Allstate common shares, with exercise prices ranging from \$41.16 to \$62.42 and \$31.41 to \$62.84, were outstanding for the three-month periods ended September 30, 2013 and 2012, respectively, but were not included in the computation of diluted earnings per common share in those periods. Options to purchase 13.0 million and 22.1 million Allstate common shares, with exercise prices ranging from \$39.05 to \$62.42 and \$26.56 to \$62.84, were outstanding for the nine-month periods ended September 30, 2013 and 2012, respectively, but were not included in the computation of diluted earnings per common share in those periods.

**3. Held for Sale Transaction**

On July 17, 2013, the Company entered into a definitive agreement with Resolution Life Holdings, Inc. to sell Lincoln Benefit Life Company ( LBL ), LBL 's life insurance business generated through independent master brokerage agencies, and all of LBL 's deferred fixed annuity and long-term care insurance business for \$600 million subject to certain adjustments as of the closing date. LBL is reported in the Allstate Financial segment. The transaction is subject to regulatory approvals and other customary closing conditions. The Company expects the closing to occur during the first quarter of 2014. The estimated loss on disposition of \$475 million, after-tax, was recorded in third quarter 2013, excluding any impact of unrealized net capital gains and losses. This transaction met the criteria for held for sale accounting. As a result, the related assets and liabilities are included as single line items in the asset and liability sections of the Condensed Consolidated Statement of Financial Position as of September 30, 2013. The following table summarizes the assets and liabilities held for sale as of September 30, 2013.

(\$ in millions)

**Assets**

|                                   |           |
|-----------------------------------|-----------|
| Investments                       |           |
| Fixed income securities           | \$ 10,514 |
| Mortgage loans                    | 1,400     |
| Short-term investments            | 31        |
| Other investments                 | 294       |
| Total investments                 | 12,239    |
| Cash                              | 13        |
| Deferred policy acquisition costs | 741       |
| Reinsurance recoverables, net     | 1,403     |
| Accrued investment income         | 117       |
| Other assets                      | 52        |
| Separate Accounts                 | 1,655     |
| Assets held for sale              | 16,220    |
| Less: Loss accrual                | (643)     |
| Total assets held for sale        | \$ 15,577 |

**Liabilities**

|                                               |           |
|-----------------------------------------------|-----------|
| Reserve for life-contingent contract benefits | \$ 1,629  |
| Contractholder funds                          | 11,283    |
| Unearned premiums                             | 12        |
| Deferred income taxes                         | 114       |
| Other liabilities and accrued expenses        | 215       |
| Separate Accounts                             | 1,655     |
| Total liabilities held for sale               | \$ 14,908 |

Included in shareholders' equity is \$111 million of accumulated other comprehensive income related to assets held for sale.

**4. Supplemental Cash Flow Information**

Non-cash modifications of certain mortgage loans, fixed income securities, limited partnership interests and other investments, as well as mergers completed with equity securities, totaled \$271 million and \$170 million for the nine months ended September 30, 2013 and 2012, respectively. Non-cash financing activities include \$93 million and \$39 million related to the issuance of Allstate common shares for vested restricted stock units for the nine months ended September 30, 2013 and 2012, respectively.



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

(\$ in millions)

|                                               | Nine months ended<br>September 30, |          |
|-----------------------------------------------|------------------------------------|----------|
|                                               | 2013                               | 2012     |
| <b>Net change in proceeds managed</b>         |                                    |          |
| Net change in short-term investments          | \$ 156                             | \$ (297) |
| Operating cash flow provided (used)           | 156                                | (297)    |
| Net change in cash                            | (3)                                | (6)      |
| Net change in proceeds managed                | \$ 153                             | \$ (303) |
| <b>Net change in liabilities</b>              |                                    |          |
| Liabilities for collateral, beginning of year | \$ (808)                           | \$ (462) |
| Liabilities for collateral, end of period     | (655)                              | (765)    |
| Operating cash flow (used) provided           | \$ (153)                           | \$ 303   |

## 5. Investments

### Fair values

The amortized cost, gross unrealized gains and losses and fair value for fixed income securities are as follows:

| (\$ in millions)                                   | Amortized<br>cost | Gains    | Gross unrealized<br>Losses | Fair<br>value |
|----------------------------------------------------|-------------------|----------|----------------------------|---------------|
| <b>September 30, 2013</b>                          |                   |          |                            |               |
| U.S. government and agencies                       | \$ 2,725          | \$ 158   | \$ (2)                     | \$ 2,881      |
| Municipal                                          | 9,246             | 451      | (86)                       | 9,611         |
| Corporate                                          | 38,285            | 1,777    | (365)                      | 39,697        |
| Foreign government                                 | 1,831             | 119      | (11)                       | 1,939         |
| Asset-backed securities ( ABS )                    | 3,389             | 75       | (43)                       | 3,421         |
| Residential mortgage-backed securities<br>( RMBS ) | 1,787             | 100      | (43)                       | 1,844         |
| Commercial mortgage-backed securities<br>( CMBS )  | 844               | 48       | (17)                       | 875           |
| Redeemable preferred stock                         | 22                | 5        | --                         | 27            |
| Total fixed income securities                      | \$ 58,129         | \$ 2,733 | \$ (567)                   | \$ 60,295     |
| <b>December 31, 2012</b>                           |                   |          |                            |               |
| U.S. government and agencies                       | \$ 4,387          | \$ 326   | \$ --                      | \$ 4,713      |
| Municipal                                          | 12,139            | 1,038    | (108)                      | 13,069        |
| Corporate                                          | 44,943            | 3,721    | (127)                      | 48,537        |
| Foreign government                                 | 2,290             | 228      | (1)                        | 2,517         |
| ABS                                                | 3,623             | 108      | (107)                      | 3,624         |
| RMBS                                               | 3,000             | 142      | (110)                      | 3,032         |

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|                               |           |          |          |           |
|-------------------------------|-----------|----------|----------|-----------|
| CMBS                          | 1,510     | 65       | (77)     | 1,498     |
| Redeemable preferred stock    | 23        | 4        | --       | 27        |
| Total fixed income securities | \$ 71,915 | \$ 5,632 | \$ (530) | \$ 77,017 |

# Scheduled maturities

The scheduled maturities for fixed income securities are as follows as of September 30, 2013:

| (\$ in millions)                       | Amortized<br>cost | Fair<br>value |
|----------------------------------------|-------------------|---------------|
| Due in one year or less                | \$ 2,564          | \$ 2,604      |
| Due after one year through five years  | 22,645            | 23,399        |
| Due after five years through ten years | 17,441            | 18,079        |
| Due after ten years                    | 9,459             | 10,073        |
|                                        | 52,109            | 54,155        |
| ABS, RMBS and CMBS                     | 6,020             | 6,140         |
| Total                                  | \$ 58,129         | \$ 60,295     |

Actual maturities may differ from those scheduled as a result of prepayments by the issuers. ABS, RMBS and CMBS are shown separately because of the potential for prepayment of principal prior to contractual maturity dates.

# Net investment income

Net investment income is as follows:

| (\$ in millions)                  | Three months ended<br>September 30, |        | Nine months ended<br>September 30, |          |
|-----------------------------------|-------------------------------------|--------|------------------------------------|----------|
|                                   | 2013                                | 2012   | 2013                               | 2012     |
| Fixed income securities           | \$ 721                              | \$ 817 | \$ 2,223                           | \$ 2,441 |
| Equity securities                 | 30                                  | 29     | 94                                 | 74       |
| Mortgage loans                    | 99                                  | 92     | 290                                | 277      |
| Limited partnership interests     | 106                                 | 22     | 339                                | 238      |
| Short-term investments            | 1                                   | 2      | 4                                  | 4        |
| Other                             | 44                                  | 33     | 120                                | 97       |
| Investment income, before expense | 1,001                               | 995    | 3,070                              | 3,131    |
| Investment expense                | (51)                                | (55)   | (153)                              | (154)    |
| Net investment income             | \$ 950                              | \$ 940 | \$ 2,917                           | \$ 2,977 |

# Realized capital gains and losses

Realized capital gains and losses by asset type are as follows:

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(\$ in millions)

|                                   | Three months ended |         | Nine months ended |         |
|-----------------------------------|--------------------|---------|-------------------|---------|
|                                   | September 30,      |         | September 30,     |         |
|                                   | 2013               | 2012    | 2013              | 2012    |
| Fixed income securities           | \$ 24              | \$ (50) | \$ 175            | \$ (73) |
| Equity securities                 | (51)               | (15)    | 261               | 157     |
| Mortgage loans                    | (6)                | (3)     | 19                | 5       |
| Limited partnership interests     | 2                  | --      | (1)               | 13      |
| Derivatives                       | (12)               | (2)     | (2)               | 26      |
| Other                             | 2                  | (2)     | --                | (5)     |
| Realized capital gains and losses | \$ (41)            | \$ (72) | \$ 452            | \$ 123  |

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Realized capital gains and losses by transaction type are as follows:

| (\$ in millions)                                                     | Three months ended<br>September 30, |         | Nine months ended<br>September 30, |          |
|----------------------------------------------------------------------|-------------------------------------|---------|------------------------------------|----------|
|                                                                      | 2013                                | 2012    | 2013                               | 2012     |
| Impairment write-downs                                               | \$ (18)                             | \$ (43) | \$ (61)                            | \$ (131) |
| Change in intent write-downs                                         | (70)                                | (3)     | (124)                              | (48)     |
| Net other-than-temporary impairment losses<br>recognized in earnings | (88)                                | (46)    | (185)                              | (179)    |
| Sales                                                                | 59                                  | (24)    | 639                                | 275      |
| Valuation of derivative instruments                                  | --                                  | --      | (1)                                | 1        |
| Settlements of derivative instruments                                | (12)                                | (2)     | (1)                                | 26       |
| Realized capital gains and losses                                    | \$ (41)                             | \$ (72) | \$ 452                             | \$ 123   |

Gross gains of \$74 million and \$109 million and gross losses of \$39 million and \$154 million were realized on sales of fixed income securities during the three months ended September 30, 2013 and 2012, respectively. Gross gains of \$322 million and \$296 million and gross losses of \$83 million and \$291 million were realized on sales of fixed income securities during the nine months ended September 30, 2013 and 2012, respectively.

Other-than-temporary impairment losses by asset type are as follows:

| (\$ in millions)                          | Three months ended<br>September 30, 2013<br>Included |        |         | Nine months ended<br>September 30, 2013<br>Included |        |          |
|-------------------------------------------|------------------------------------------------------|--------|---------|-----------------------------------------------------|--------|----------|
|                                           | Gross                                                | in OCI | Net     | Gross                                               | in OCI | Net      |
| Fixed income securities:                  |                                                      |        |         |                                                     |        |          |
| Municipal                                 | \$ (6)                                               | \$ --  | \$ (6)  | \$ (23)                                             | \$ (5) | \$ (28)  |
| ABS                                       | --                                                   | --     | --      | --                                                  | (1)    | (1)      |
| RMBS                                      | (4)                                                  | 4      | --      | (5)                                                 | 2      | (3)      |
| CMBS                                      | (9)                                                  | 4      | (5)     | (29)                                                | (3)    | (32)     |
| Total fixed income securities             | (19)                                                 | 8      | (11)    | (57)                                                | (7)    | (64)     |
| Equity securities                         | (67)                                                 | --     | (67)    | (118)                                               | --     | (118)    |
| Mortgage loans                            | (6)                                                  | --     | (6)     | 11                                                  | --     | 11       |
| Limited partnership interests             | (2)                                                  | --     | (2)     | (10)                                                | --     | (10)     |
| Other                                     | (2)                                                  | --     | (2)     | (4)                                                 | --     | (4)      |
| Other-than-temporary<br>impairment losses | \$ (96)                                              | \$ 8   | \$ (88) | \$ (178)                                            | \$ (7) | \$ (185) |

| (\$ in millions)              | Three months ended<br>September 30, 2012<br>Included |        |        | Nine months ended<br>September 30, 2012<br>Included |        |         |
|-------------------------------|------------------------------------------------------|--------|--------|-----------------------------------------------------|--------|---------|
|                               | Gross                                                | in OCI | Net    | Gross                                               | in OCI | Net     |
| Fixed income securities:      |                                                      |        |        |                                                     |        |         |
| Municipal                     | \$ (2)                                               | \$ (3) | \$ (5) | \$ (28)                                             | \$ 14  | \$ (14) |
| Corporate                     | (1)                                                  | (1)    | (2)    | (19)                                                | (2)    | (21)    |
| RMBS                          | (4)                                                  | (6)    | (10)   | (59)                                                | (2)    | (61)    |
| CMBS                          | (4)                                                  | 3      | (1)    | (19)                                                | 6      | (13)    |
| Total fixed income securities | (11)                                                 | (7)    | (18)   | (125)                                               | 16     | (109)   |

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|                                           |         |        |         |          |       |          |
|-------------------------------------------|---------|--------|---------|----------|-------|----------|
| Equity securities                         | (22)    | --     | (22)    | (58)     | --    | (58)     |
| Mortgage loans                            | (1)     | --     | (1)     | 3        | --    | 3        |
| Limited partnership interests             | (2)     | --     | (2)     | (5)      | --    | (5)      |
| Other                                     | (3)     | --     | (3)     | (10)     | --    | (10)     |
| Other-than-temporary<br>impairment losses | \$ (39) | \$ (7) | \$ (46) | \$ (195) | \$ 16 | \$ (179) |

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The total amount of other-than-temporary impairment losses included in accumulated other comprehensive income at the time of impairment for fixed income securities, which were not included in earnings, are presented in the following table. The amount excludes \$243 million and \$219 million as of September 30, 2013 and December 31, 2012, respectively, of net unrealized gains related to changes in valuation of the fixed income securities subsequent to the impairment measurement date.

| (\$ in millions) | September 30,<br>2013 | December 31,<br>2012 |
|------------------|-----------------------|----------------------|
| Municipal        | \$ (9)                | \$ (20)              |
| Corporate        | (7)                   | (1)                  |
| ABS              | (10)                  | (14)                 |
| RMBS             | (150)                 | (182)                |
| CMBS             | (16)                  | (19)                 |
| Total            | \$ (192)              | \$ (236)             |

Rollforwards of the cumulative credit losses recognized in earnings for fixed income securities held as of the end of the period are as follows:

| (\$ in millions)                                                                                                                   | Three months ended<br>September 30, |          | Nine months ended<br>September 30, |          |
|------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------|----------|------------------------------------|----------|
|                                                                                                                                    | 2013                                | 2012     | 2013                               | 2012     |
| Beginning balance                                                                                                                  | \$ (564)                            | \$ (781) | \$ (617)                           | \$ (944) |
| Additional credit loss for securities previously other-than-temporarily impaired                                                   | (6)                                 | (15)     | (30)                               | (49)     |
| Additional credit loss for securities not previously other-than-temporarily impaired                                               | (2)                                 | (3)      | (19)                               | (24)     |
| Reduction in credit loss for securities disposed or collected                                                                      | 43                                  | 128      | 136                                | 339      |
| Reduction in credit loss for securities the Company has made the decision to sell or more likely than not will be required to sell | --                                  | --       | --                                 | 7        |
| Change in credit loss due to accretion of increase in cash flows                                                                   | --                                  | 1        | 1                                  | 1        |
| Ending balance (1)                                                                                                                 | \$ (529)                            | \$ (670) | \$ (529)                           | \$ (670) |

(1) The September 30, 2013 ending balance includes \$59 million of cumulative credit losses recognized in earnings for fixed income securities that are classified as held for sale.

The Company uses its best estimate of future cash flows expected to be collected from the fixed income security, discounted at the security's original or current effective rate, as appropriate, to calculate a recovery value and determine whether a credit loss exists. The determination of cash flow estimates is inherently subjective and methodologies may vary depending on facts and circumstances specific to the security. All reasonably available information relevant to the collectability of the security, including past events, current conditions, and reasonable and supportable assumptions and forecasts, are considered when developing the estimate of cash flows expected to be collected. That information generally includes, but is not limited to, the remaining payment terms of the security, prepayment speeds, foreign exchange rates, the financial condition and future earnings potential of the issuer or issuer, expected defaults, expected recoveries, the value of underlying collateral, vintage, geographic concentration, available reserves or escrows, current subordination levels, third party guarantees and other credit enhancements. Other information, such as industry analyst reports and forecasts, sector credit ratings, financial condition of the bond insurer for insured fixed income securities, and other market data relevant to the realizability of contractual cash flows, may also be considered. The estimated fair value of collateral will be used to estimate recovery value if the Company determines that the security is dependent on the liquidation of collateral for ultimate settlement. If the estimated recovery value is less than the amortized cost of the security, a credit loss exists and an other-than-temporary impairment for the difference between the estimated recovery value and amortized cost is recorded in earnings. The portion of the unrealized loss related to factors other than credit remains classified in accumulated other comprehensive income. If the Company

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determines that the fixed income security does not have sufficient cash flow or other information to estimate a recovery value for the security, the Company may conclude that the entire decline in fair value is deemed to be credit related and the loss is recorded in earnings.

**Unrealized net capital gains and losses**

Unrealized net capital gains and losses included in accumulated other comprehensive income are as follows:

| (\$ in millions)                                   | Fair value | Gross unrealized Gains | Gross unrealized Losses | Unrealized net gains (losses) |
|----------------------------------------------------|------------|------------------------|-------------------------|-------------------------------|
| <b>September 30, 2013</b>                          |            |                        |                         |                               |
| Fixed income securities                            | \$ 60,295  | \$ 2,733               | \$ (567)                | \$ 2,166                      |
| Equity securities                                  | 4,812      | 465                    | (23)                    | 442                           |
| Short-term investments                             | 2,694      | --                     | --                      | --                            |
| Derivative instruments (1)                         | (14)       | 2                      | (21)                    | (19)                          |
| EMA limited partnerships (2)                       |            |                        |                         | (3)                           |
| Investments classified as held for sale            |            |                        |                         | 244                           |
| Unrealized net capital gains and losses, pre-tax   |            |                        |                         | 2,830                         |
| Amounts recognized for:                            |            |                        |                         |                               |
| Insurance reserves (3)                             |            |                        |                         | --                            |
| DAC and DSI (4)                                    |            |                        |                         | (189)                         |
| Amounts recognized                                 |            |                        |                         | (189)                         |
| Deferred income taxes                              |            |                        |                         | (927)                         |
| Unrealized net capital gains and losses, after-tax |            |                        |                         | \$ 1,714                      |

(1) Included in the fair value of derivative instruments are \$2 million classified as assets and \$16 million classified as liabilities.

(2) Unrealized net capital gains and losses for limited partnership interests represent the Company's share of EMA limited partnerships' other comprehensive income. Fair value and gross gains and losses are not applicable.

(3) 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 current lower interest rates, resulting in a premium deficiency. Although the Company evaluates premium deficiencies on the combined performance of life insurance and immediate annuities with life contingencies, the adjustment primarily relates to structured settlement annuities with life contingencies, in addition to annuity buy-outs and certain payout annuities with life contingencies.

(4) 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.

|                                                    | Fair value | Gross unrealized Gains | Gross unrealized Losses | Unrealized net gains (losses) |
|----------------------------------------------------|------------|------------------------|-------------------------|-------------------------------|
| <b>December 31, 2012</b>                           |            |                        |                         |                               |
| Fixed income securities                            | \$ 77,017  | \$ 5,632               | \$ (530)                | \$ 5,102                      |
| Equity securities                                  | 4,037      | 494                    | (34)                    | 460                           |
| Short-term investments                             | 2,336      | --                     | --                      | --                            |
| Derivative instruments (1)                         | (17)       | 2                      | (24)                    | (22)                          |
| EMA limited partnerships                           |            |                        |                         | 7                             |
| Unrealized net capital gains and losses, pre-tax   |            |                        |                         | 5,547                         |
| Amounts recognized for:                            |            |                        |                         |                               |
| Insurance reserves                                 |            |                        |                         | (771)                         |
| DAC and DSI                                        |            |                        |                         | (412)                         |
| Amounts recognized                                 |            |                        |                         | (1,183)                       |
| Deferred income taxes                              |            |                        |                         | (1,530)                       |
| Unrealized net capital gains and losses, after-tax |            |                        |                         | \$ 2,834                      |

(1) Included in the fair value of derivative instruments are \$2 million classified as assets and \$19 million classified as liabilities.



## Change in unrealized net capital gains and losses

The change in unrealized net capital gains and losses for the nine months ended September 30, 2013 is as follows:

| (\$ in millions)                                    |            |
|-----------------------------------------------------|------------|
| Fixed income securities                             | \$ (2,936) |
| Equity securities                                   | (18)       |
| Derivative instruments                              | 3          |
| EMA limited partnerships                            | (10)       |
| Investments classified as held for sale             | 244        |
| Total                                               | (2,717)    |
| Amounts recognized for:                             |            |
| Insurance reserves                                  | 771        |
| DAC and DSI                                         | 223        |
| Amounts recognized                                  | 994        |
| Deferred income taxes                               | 603        |
| Decrease in unrealized net capital gains and losses | \$ (1,120) |

## Portfolio monitoring

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

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

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

For equity securities, the Company considers various factors, including whether it has the intent and ability to hold the equity security for a period of time sufficient to recover its cost basis. Where the Company lacks the intent and ability to hold to recovery, or believes the recovery period is extended, the equity security's decline in fair value is considered other than temporary and is recorded in earnings.

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

The Company's portfolio monitoring process includes a quarterly review of all securities to identify instances where the fair value of a security compared to its amortized cost (for fixed income securities) or cost (for equity securities) is below established thresholds. The process also includes the monitoring of other impairment indicators such as ratings, ratings downgrades and payment defaults. The securities identified, in addition to other securities for which the Company may have a concern, are evaluated for potential other-than-temporary impairment using all reasonably available information relevant to the collectability or recovery of the security. Inherent in the Company's evaluation of other-than-temporary impairment for these fixed income and equity securities are assumptions and estimates about the financial condition and future earnings potential of the issue or issuer. Some of the factors that may be considered in evaluating whether a decline in fair value is other than temporary are: 1) the financial condition, near-term and long-term prospects of the issue or issuer, including relevant industry specific market conditions and trends, geographic location and implications of rating agency actions and offering prices; 2) the specific reasons that a security is in an unrealized loss position, including overall market conditions which could affect liquidity; and 3) the length of time and extent to which the fair value has been less than amortized cost or cost.

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The following table summarizes the gross unrealized losses and fair value of fixed income and equity securities by the length of time that individual securities have been in a continuous unrealized loss position.

| (\$ in millions)                               | Less than 12 months |            |                   | 12 months or more |            |                   | Total             |
|------------------------------------------------|---------------------|------------|-------------------|-------------------|------------|-------------------|-------------------|
|                                                | Number of issues    | Fair value | Unrealized losses | Number of issues  | Fair value | Unrealized losses | unrealized losses |
| <b>September 30, 2013</b>                      |                     |            |                   |                   |            |                   |                   |
| Fixed income securities                        |                     |            |                   |                   |            |                   |                   |
| U.S. government and agencies                   | 8                   | \$ 93      | \$ (2)            | --                | \$ --      | \$ --             | (2)               |
| Municipal                                      | 325                 | 2,308      | (46)              | 33                | 191        | (40)              | (86)              |
| Corporate                                      | 767                 | 9,035      | (293)             | 44                | 467        | (72)              | (365)             |
| Foreign government                             | 90                  | 335        | (11)              | 1                 | 1          | --                | (11)              |
| ABS                                            | 46                  | 699        | (6)               | 42                | 407        | (37)              | (43)              |
| RMBS                                           | 285                 | 297        | (6)               | 280               | 261        | (37)              | (43)              |
| CMBS                                           | 11                  | 67         | --                | 10                | 73         | (17)              | (17)              |
| Total fixed income securities                  | 1,532               | 12,834     | (364)             | 410               | 1,400      | (203)             | (567)             |
| Equity securities                              | 210                 | 1,047      | (23)              | 10                | 7          | --                | (23)              |
| Total fixed income and equity securities       | 1,742               | \$ 13,881  | \$ (387)          | 420               | \$ 1,407   | \$ (203)          | \$ (590)          |
| Investment grade fixed income securities       | 1,314               | \$ 11,320  | \$ (306)          | 307               | \$ 826     | \$ (99)           | \$ (405)          |
| Below investment grade fixed income securities | 218                 | 1,514      | (58)              | 103               | 574        | (104)             | (162)             |
| Total fixed income securities                  | 1,532               | \$ 12,834  | \$ (364)          | 410               | \$ 1,400   | \$ (203)          | \$ (567)          |
| <b>December 31, 2012</b>                       |                     |            |                   |                   |            |                   |                   |
| Fixed income securities                        |                     |            |                   |                   |            |                   |                   |
| U.S. government and agencies                   | 6                   | \$ 85      | \$ --             | --                | \$ --      | \$ --             | --                |
| Municipal                                      | 130                 | 1,012      | (13)              | 80                | 717        | (95)              | (108)             |
| Corporate                                      | 133                 | 1,989      | (33)              | 70                | 896        | (94)              | (127)             |
| Foreign government                             | 22                  | 190        | (1)               | --                | --         | --                | (1)               |
| ABS                                            | 12                  | 145        | (1)               | 77                | 794        | (106)             | (107)             |
| RMBS                                           | 117                 | 50         | (1)               | 336               | 638        | (109)             | (110)             |
| CMBS                                           | 11                  | 68         | --                | 44                | 357        | (77)              | (77)              |
| Redeemable preferred stock                     | --                  | --         | --                | 1                 | --         | --                | --                |
| Total fixed income securities                  | 431                 | 3,539      | (49)              | 608               | 3,402      | (481)             | (530)             |
| Equity securities                              | 803                 | 284        | (27)              | 96                | 69         | (7)               | (34)              |
| Total fixed income and equity securities       | 1,234               | \$ 3,823   | \$ (76)           | 704               | \$ 3,471   | \$ (488)          | \$ (564)          |
| Investment grade fixed income securities       | 387                 | \$ 3,141   | \$ (39)           | 409               | \$ 2,172   | \$ (217)          | \$ (256)          |
| Below investment grade fixed income securities | 44                  | 398        | (10)              | 199               | 1,230      | (264)             | (274)             |
| Total fixed income securities                  | 431                 | \$ 3,539   | \$ (49)           | 608               | \$ 3,402   | \$ (481)          | \$ (530)          |

As of September 30, 2013, \$472 million of unrealized losses are related to securities with an unrealized loss position less than 20% of amortized cost or cost, the degree of which suggests that these securities do not pose a high risk of being other-than-temporarily impaired. Of the \$472 million, \$348 million are related to unrealized losses on investment grade fixed income securities. 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 Standard & Poor's (S&P), Fitch, Dominion, Kroll or Realpoint, a rating of aaa, aa, a or bbb from A.M. Best, or a comparable internal rating if an externally provided rating is not available. Unrealized losses on investment grade securities are principally related to increasing risk-free interest rates or widening credit spreads since the time of initial purchase.

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As of September 30, 2013, the remaining \$118 million of unrealized losses are related to securities in unrealized loss positions greater than or equal to 20% of amortized cost or cost. Investment grade fixed income securities comprising \$57 million of these unrealized losses were evaluated based on factors such as discounted cash flows and the financial condition and near-term and long-term prospects of the issue or issuer and were determined to have adequate resources to fulfill contractual obligations. Of the \$118 million, \$58 million are related to below investment grade fixed income securities and \$3 million are related to equity securities. Of these amounts, \$37 million are related to below investment grade fixed income securities that had been in an unrealized loss position greater than or equal to 20% of amortized cost for a period of twelve or more consecutive months as of September 30, 2013.

ABS, RMBS and CMBS in an unrealized loss position were evaluated based on actual and projected collateral losses relative to the securities positions in the respective securitization trusts, security specific expectations of cash

flows, and credit ratings. This evaluation also takes into consideration credit enhancement, measured in terms of (i) subordination from other classes of securities in the trust that are contractually obligated to absorb losses before the class of security the Company owns, (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, and (iii) for ABS and RMBS in an unrealized loss position, credit enhancements from reliable bond insurers, where applicable. Municipal bonds in an unrealized loss position were evaluated based on the quality of the underlying securities. Unrealized losses on equity securities are primarily related to temporary equity market fluctuations of securities that are expected to recover.

As of September 30, 2013, 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. As of September 30, 2013, the Company had the intent and ability to hold equity securities with unrealized losses for a period of time sufficient for them to recover.

### **Limited partnerships**

As of September 30, 2013 and December 31, 2012, the carrying value of equity method limited partnerships totaled \$3.66 billion and \$3.52 billion, respectively. The Company recognizes an impairment loss for equity method limited partnerships when evidence demonstrates that the loss is other than temporary. Evidence of a loss in value that is other than temporary may include the absence of an ability to recover the carrying amount of the investment or the inability of the investee to sustain a level of earnings that would justify the carrying amount of the investment. The Company had no write-downs related to equity method limited partnerships for the three or nine months ended September 30, 2013 and 2012.

As of September 30, 2013 and December 31, 2012, the carrying value for cost method limited partnerships was \$1.44 billion and \$1.41 billion, respectively. To determine if an other-than-temporary impairment has occurred, the Company evaluates whether an impairment indicator has occurred in the period that may have a significant adverse effect on the carrying value of the investment. Impairment indicators may include: significantly reduced valuations of the investments held by the limited partnerships; actual recent cash flows received being significantly less than expected cash flows; reduced valuations based on financing completed at a lower value; completed sale of a material underlying investment at a price significantly lower than expected; or any other adverse events since the last financial statements received that might affect the fair value of the investee's capital. Additionally, the Company's portfolio monitoring process includes a quarterly review of all cost method limited partnerships to identify instances where the net asset value is below established thresholds for certain periods of time, as well as investments that are performing below expectations, for further impairment consideration. If a cost method limited partnership is other-than-temporarily impaired, the carrying value is written down to fair value, generally estimated to be equivalent to the reported net asset value of the underlying funds. The Company had \$2 million and \$10 million of write-downs related to cost method limited partnerships for the three months and nine months ended September 30, 2013, respectively. The Company had \$2 million and \$5 million of write-downs for the three months and nine months ended September 30, 2012, respectively.

### **Mortgage loans**

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

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impairment losses, beyond those identified on a specific loan basis, have been incurred as of September 30, 2013.

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

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

The following table reflects the carrying value of non-impaired fixed rate and variable rate mortgage loans summarized by debt service coverage ratio distribution.

| (\$ in millions)                         |                           | September 30, 2013           |          |                           | December 31, 2012            |          |  |
|------------------------------------------|---------------------------|------------------------------|----------|---------------------------|------------------------------|----------|--|
| Debt service coverage ratio distribution | Fixed rate mortgage loans | Variable rate mortgage loans | Total    | Fixed rate mortgage loans | Variable rate mortgage loans | Total    |  |
| Below 1.0                                | \$ 146                    | \$ --                        | \$ 146   | \$ 267                    | \$ --                        | \$ 267   |  |
| 1.0 - 1.25                               | 700                       | --                           | 700      | 1,208                     | 20                           | 1,228    |  |
| 1.26 - 1.50                              | 1,042                     | 3                            | 1,045    | 1,458                     | 46                           | 1,504    |  |
| Above 1.50                               | 2,683                     | 151                          | 2,834    | 3,268                     | 148                          | 3,416    |  |
| Total non-impaired mortgage loans        | \$ 4,571                  | \$ 154                       | \$ 4,725 | \$ 6,201                  | \$ 214                       | \$ 6,415 |  |

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

The net carrying value of impaired mortgage loans is as follows:

| (\$ in millions)                                      | September 30, 2013 | December 31, 2012 |
|-------------------------------------------------------|--------------------|-------------------|
| Impaired mortgage loans with a valuation allowance    | \$ 92              | \$ 147            |
| Impaired mortgage loans without a valuation allowance | --                 | 8                 |
| Total impaired mortgage loans                         | \$ 92              | \$ 155            |
| Valuation allowance on impaired mortgage loans        | \$ 25              | \$ 42             |

The average balance of impaired loans was \$90 million and \$214 million for the nine months ended September 30, 2013 and 2012, respectively.

The rollforward of the valuation allowance on impaired mortgage loans is as follows:

| (\$ in millions)  | Three months ended September 30, 2013 |       | Nine months ended September 30, 2012 |       |
|-------------------|---------------------------------------|-------|--------------------------------------|-------|
| Beginning balance | \$ 21                                 | \$ 48 | \$ 42                                | \$ 63 |

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|                                                |       |       |       |       |
|------------------------------------------------|-------|-------|-------|-------|
| Net increase (decrease) in valuation allowance | 6     | 1     | (11)  | (3)   |
| Charge offs                                    | --    | (2)   | (4)   | (13)  |
| Mortgage loans classified as held for sale     | (2)   | --    | (2)   | --    |
| Ending balance                                 | \$ 25 | \$ 47 | \$ 25 | \$ 47 |

The carrying value of past due mortgage loans is as follows:

| (\$ in millions)            | September 30,<br>2013 | December 31,<br>2012 |
|-----------------------------|-----------------------|----------------------|
| Less than 90 days past due  | \$ --                 | \$ 21                |
| 90 days or greater past due | 3                     | 4                    |
| Total past due              | 3                     | 25                   |
| Current loans               | 4,814                 | 6,545                |
| Total mortgage loans        | \$ 4,817              | \$ 6,570             |

## 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

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fair values by comparing information obtained from valuation service providers or brokers to other third party valuation sources for selected securities. The Company performs ongoing price validation procedures such as back-testing of actual sales, which corroborate the various inputs used in internal models to market observable data. When fair value determinations are expected to be more variable, the Company validates them through reviews by members of management who have relevant expertise and who are independent of those charged with executing investment transactions.

The Company has two types of situations where investments are classified as Level 3 in the fair value hierarchy. The first is where 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.

The second situation where the Company classifies securities in Level 3 is where specific inputs significant to the fair value estimation models are not market observable. This primarily occurs in the Company's use of broker quotes to value certain securities where the inputs have not been corroborated to be market observable, and the use of valuation models that use significant non-market observable inputs.

Certain assets are not carried at fair value on a recurring basis, including investments such as mortgage loans, limited partnership interests, bank loans and policy loans. Accordingly, such investments are only included in the fair value hierarchy disclosure when the investment is subject to remeasurement at fair value after initial recognition and the resulting remeasurement is reflected in the condensed consolidated financial statements. In addition, derivatives embedded in fixed income securities are not disclosed in the hierarchy as free-standing derivatives since they are presented with the host contracts in fixed income securities.

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

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

Level 1 measurements

- Fixed income securities: Comprise certain U.S. Treasuries. Valuation is based on unadjusted quoted prices for identical assets in active markets that the Company can access.
- Equity securities: Comprise actively traded, exchange-listed equity securities. Valuation is based on unadjusted quoted prices for identical assets in active markets that the Company can access.
- Short-term: Comprise actively traded money market funds that have daily quoted net asset values for identical assets that the Company can access.
- Separate account assets: Comprise actively traded mutual funds that have daily quoted net asset values for identical assets that the Company can access. Net asset values for the actively traded mutual funds in which the separate account assets are invested are obtained daily from the fund managers.
- Assets held for sale: Comprise U.S. Treasury fixed income securities, short-term investments and separate account assets. The valuation is based on the respective asset type as described above.

Level 2 measurements

- Fixed income securities:

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

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

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

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

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

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

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

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

OTC derivatives, including interest rate swaps, foreign currency 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, currency rates, and counterparty 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.

- Assets held for sale: Comprise U.S. government and agencies, municipal, corporate, foreign government, ABS, RMBS and CMBS fixed income securities, and short-term investments. The valuation is based on the respective asset type as described above.

#### Level 3 measurements

- Fixed income securities:

*Municipal:* Municipal bonds that are not rated by third party credit rating agencies but are rated by the National Association of Insurance Commissioners ( NAIC ). 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 includes Auction rate securities ( ARS ) primarily backed by student loans that have become illiquid due to failures in the auction market that are valued using a discounted cash flow model that is widely accepted in the financial services industry and uses significant non-market observable inputs, including the anticipated date liquidity will return to the market.

*Corporate, including privately placed:* Primarily valued based on non-binding broker quotes where the inputs have not been corroborated to be market observable. Also includes equity-indexed notes which are valued using a discounted cash flow model that is widely accepted in the financial services industry and uses significant non-market observable inputs, such as volatility. Other inputs include an interest rate yield curve, as well as published credit spreads for similar assets that incorporate the credit quality and industry sector of the issuer.

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

- Equity securities: The primary inputs to the valuation include quoted prices or quoted net asset values for identical or similar assets in markets that exhibit less liquidity relative to those markets supporting Level 2 fair value measurements.
- 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.
- Assets held for sale: Comprise municipal, corporate, ABS and CMBS fixed income securities. The valuation is based on the respective asset type as described above.

• **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.

• **Liabilities held for sale:** Comprise derivatives embedded in life and annuity contracts. The valuation is the same as described above for contractholder funds.

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

Mortgage loans written-down to fair value in connection with recognizing impairments are valued based on the fair value of the underlying collateral less costs to sell. Limited partnership interests written-down to fair value in connection with recognizing other-than-temporary impairments are valued using net asset values. The carrying value of the LBL business was written-down to fair value in connection with being classified as held for sale.

The following table summarizes the Company's assets and liabilities measured at fair value on a recurring and non-recurring basis as of September 30, 2013.

| (\$ in millions)                                                         | Quoted prices<br>in active<br>markets for<br>identical assets<br>(Level 1) | Significant<br>other<br>observable<br>inputs<br>(Level 2) | Significant<br>unobservable<br>inputs<br>(Level 3) | Counterparty<br>and cash<br>collateral<br>netting | Balance as of<br>September 30,<br>2013 |
|--------------------------------------------------------------------------|----------------------------------------------------------------------------|-----------------------------------------------------------|----------------------------------------------------|---------------------------------------------------|----------------------------------------|
| <b>Assets</b>                                                            |                                                                            |                                                           |                                                    |                                                   |                                        |
| Fixed income securities:                                                 |                                                                            |                                                           |                                                    |                                                   |                                        |
| U.S. government and agencies                                             | \$ 1,662                                                                   | \$ 1,212                                                  | \$ 7                                               |                                                   | \$ 2,881                               |
| Municipal                                                                | --                                                                         | 9,188                                                     | 423                                                |                                                   | 9,611                                  |
| Corporate                                                                | --                                                                         | 38,575                                                    | 1,122                                              |                                                   | 39,697                                 |
| Foreign government                                                       | --                                                                         | 1,939                                                     | --                                                 |                                                   | 1,939                                  |
| ABS                                                                      | --                                                                         | 3,281                                                     | 140                                                |                                                   | 3,421                                  |
| RMBS                                                                     | --                                                                         | 1,842                                                     | 2                                                  |                                                   | 1,844                                  |
| CMBS                                                                     | --                                                                         | 838                                                       | 37                                                 |                                                   | 875                                    |
| Redeemable preferred stock                                               | --                                                                         | 26                                                        | 1                                                  |                                                   | 27                                     |
| Total fixed income securities                                            | 1,662                                                                      | 56,901                                                    | 1,732                                              |                                                   | 60,295                                 |
| Equity securities                                                        | 4,000                                                                      | 684                                                       | 128                                                |                                                   | 4,812                                  |
| Short-term investments                                                   | 671                                                                        | 2,023                                                     | --                                                 |                                                   | 2,694                                  |
| Other investments: Free-standing derivatives                             | --                                                                         | 237                                                       | 6                                                  | \$ (26)                                           | 217                                    |
| Separate account assets                                                  | 4,928                                                                      | --                                                        | --                                                 |                                                   | 4,928                                  |
| Other assets                                                             | --                                                                         | --                                                        | 1                                                  |                                                   | 1                                      |
| Assets held for sale                                                     | 1,697                                                                      | 10,138                                                    | 365                                                |                                                   | 12,200                                 |
| <b>Total recurring basis assets</b>                                      | 12,958                                                                     | 69,983                                                    | 2,232                                              | (26)                                              | 85,147                                 |
| Non-recurring basis (1)                                                  | --                                                                         | --                                                        | 56                                                 | --                                                | 56                                     |
| <b>Total assets at fair value</b>                                        | \$ 12,958                                                                  | \$ 69,983                                                 | \$ 2,288                                           | \$ (26)                                           | \$ 85,203                              |
| % of total assets at fair value                                          | 15.2 %                                                                     | 82.1 %                                                    | 2.7 %                                              | -- %                                              | 100.0 %                                |
| <b>Liabilities</b>                                                       |                                                                            |                                                           |                                                    |                                                   |                                        |
| Contractholder funds: Derivatives embedded in life and annuity contracts | \$ --                                                                      | \$ --                                                     | \$ (283)                                           | \$                                                | (283)                                  |

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|                                              |        |          |             |         |             |
|----------------------------------------------|--------|----------|-------------|---------|-------------|
| Other liabilities: Free-standing derivatives | (1)    | (152)    | (16) \$     | 14      | (155)       |
| Liabilities held for sale                    | --     | --       | (249)       |         | (249)       |
| <b>Total recurring basis liabilities</b>     | (1)    | (152)    | (548)       | 14      | (687)       |
| Non-recurring basis (2)                      | --     | --       | (11,282)    | --      | (11,282)    |
| <b>Total liabilities at fair value</b>       | \$ (1) | \$ (152) | \$ (11,830) | \$ 14   | \$ (11,969) |
| % of total liabilities at fair value         | -- %   | 1.3 %    | 98.8 %      | (0.1) % | 100.0 %     |

- 
- (1) Includes \$27 million of mortgage loans, \$26 million of limited partnership interests and \$3 million of other investments written-down to fair value in connection with recognizing other-than-temporary impairments.
- (2) Relates to LBL business held for sale (see Note 3). The total fair value measurement includes \$15,577 million of assets held for sale and \$(14,908) million of liabilities held for sale, less \$12,200 million of assets and \$(249) million of liabilities measured at fair value on a recurring basis.

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The following table summarizes the Company's assets and liabilities measured at fair value on a recurring and non-recurring basis as of December 31, 2012.

| (\$ in millions)                                                         | Quoted prices<br>in active<br>markets for<br>identical assets<br>(Level 1) | Significant<br>other<br>observable<br>inputs<br>(Level 2) | Significant<br>unobservable<br>inputs<br>(Level 3) | Counterparty<br>and cash<br>collateral<br>netting | Balance as of<br>December 31,<br>2012 |
|--------------------------------------------------------------------------|----------------------------------------------------------------------------|-----------------------------------------------------------|----------------------------------------------------|---------------------------------------------------|---------------------------------------|
| <b>Assets</b>                                                            |                                                                            |                                                           |                                                    |                                                   |                                       |
| Fixed income securities:                                                 |                                                                            |                                                           |                                                    |                                                   |                                       |
| U.S. government and agencies                                             | \$ 2,790                                                                   | \$ 1,915                                                  | \$ 8                                               |                                                   | \$ 4,713                              |
| Municipal                                                                | --                                                                         | 12,104                                                    | 965                                                |                                                   | 13,069                                |
| Corporate                                                                | --                                                                         | 46,920                                                    | 1,617                                              |                                                   | 48,537                                |
| Foreign government                                                       | --                                                                         | 2,517                                                     | --                                                 |                                                   | 2,517                                 |
| ABS                                                                      | --                                                                         | 3,373                                                     | 251                                                |                                                   | 3,624                                 |
| RMBS                                                                     | --                                                                         | 3,029                                                     | 3                                                  |                                                   | 3,032                                 |
| CMBS                                                                     | --                                                                         | 1,446                                                     | 52                                                 |                                                   | 1,498                                 |
| Redeemable preferred stock                                               | --                                                                         | 26                                                        | 1                                                  |                                                   | 27                                    |
| Total fixed income securities                                            | 2,790                                                                      | 71,330                                                    | 2,897                                              |                                                   | 77,017                                |
| Equity securities                                                        | 3,008                                                                      | 858                                                       | 171                                                |                                                   | 4,037                                 |
| Short-term investments                                                   | 703                                                                        | 1,633                                                     | --                                                 |                                                   | 2,336                                 |
| Other investments: Free-standing derivatives                             | --                                                                         | 187                                                       | 3                                                  | \$ (57)                                           | 133                                   |
| Separate account assets                                                  | 6,610                                                                      | --                                                        | --                                                 |                                                   | 6,610                                 |
| Other assets                                                             | 5                                                                          | --                                                        | 1                                                  |                                                   | 6                                     |
| <b>Total recurring basis assets</b>                                      | <b>13,116</b>                                                              | <b>74,008</b>                                             | <b>3,072</b>                                       | <b>(57)</b>                                       | <b>90,139</b>                         |
| Non-recurring basis (1)                                                  | --                                                                         | --                                                        | 9                                                  |                                                   | 9                                     |
| <b>Total assets at fair value</b>                                        | <b>\$ 13,116</b>                                                           | <b>\$ 74,008</b>                                          | <b>\$ 3,081</b>                                    | <b>(57) \$</b>                                    | <b>\$ 90,148</b>                      |
| % of total assets at fair value                                          | 14.6 %                                                                     | 82.1 %                                                    | 3.4 %                                              | (0.1) %                                           | 100.0 %                               |
| <b>Liabilities</b>                                                       |                                                                            |                                                           |                                                    |                                                   |                                       |
| Contractholder funds: Derivatives embedded in life and annuity contracts | \$ --                                                                      | \$ --                                                     | (553)                                              | \$                                                | (553)                                 |
| Other liabilities: Free-standing derivatives                             | --                                                                         | (98)                                                      | (30)                                               | \$ 33                                             | (95)                                  |
| <b>Total liabilities at fair value</b>                                   | <b>\$ --</b>                                                               | <b>\$ (98)</b>                                            | <b>\$ (583)</b>                                    | <b>\$ 33</b>                                      | <b>(648)</b>                          |
| % of total liabilities at fair value                                     | -- %                                                                       | 15.1 %                                                    | 90.0 %                                             | (5.1) %                                           | 100.0 %                               |

(1) Includes \$4 million of mortgage loans, \$4 million of limited partnership interests and \$1 million of other investments written-down to fair value in connection with recognizing other-than-temporary impairments.

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The following table summarizes quantitative information about the significant unobservable inputs used in Level 3 fair value measurements.

| (\$ in millions)                                                                               |    | Fair value | Valuation technique        | Unobservable input                                   | Range          | Weighted average |
|------------------------------------------------------------------------------------------------|----|------------|----------------------------|------------------------------------------------------|----------------|------------------|
| <b>September 30, 2013</b>                                                                      |    |            |                            |                                                      |                |                  |
| ARS backed by student loans                                                                    | \$ | 100        | Discounted cash flow model | Anticipated date liquidity will return to the market | 36 - 54 months | 37 - 49 months   |
| Derivatives embedded in life and annuity contracts Equity-indexed and forward starting options | \$ | (205)      | Stochastic cash flow model | Projected option cost                                | 1.0 - 2.0 %    | 1.72%            |
| Liabilities held for sale Equity-indexed and forward starting options                          | \$ | (249)      | Stochastic cash flow model | Projected option cost                                | 1.0 - 2.0 %    | 1.93%            |
| <b>December 31, 2012</b>                                                                       |    |            |                            |                                                      |                |                  |
| ARS backed by student loans                                                                    | \$ | 394        | Discounted cash flow model | Anticipated date liquidity will return to the market | 18 - 60 months | 31 - 43 months   |
| Derivatives embedded in life and annuity contracts Equity-indexed and forward starting options | \$ | (419)      | Stochastic cash flow model | Projected option cost                                | 1.0 - 2.0 %    | 1.92%            |

If the anticipated date liquidity will return to the market is sooner (later), it would result in a higher (lower) fair value. If the projected option cost increased (decreased), it would result in a higher (lower) liability fair value.

As of September 30, 2013 and December 31, 2012, Level 3 fair value measurements include \$1.22 billion and \$1.87 billion, respectively, of fixed income securities valued based on non-binding broker quotes where the inputs have not been corroborated to be market observable and \$226 million and \$395 million, respectively, of municipal fixed income securities that are not rated by third party credit rating agencies. As of September 30, 2013, Level 3 fair value measurements for assets held for sale include \$345 million of fixed income securities valued based on non-binding broker quotes where the inputs have not been corroborated to be market observable. The Company does not develop the unobservable inputs used in measuring fair value; therefore, these are not included in the table above. However, an increase (decrease) in credit spreads for fixed income securities valued based on non-binding broker quotes would result in a lower (higher) fair value, and an increase (decrease) in the credit rating of municipal bonds that are not rated by third party credit rating agencies would result in a higher (lower) fair value.

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The following table presents the rollforward of Level 3 assets and liabilities held at fair value on a recurring basis during the three months ended September 30, 2013.

(\$ in millions)

|                                                                          | Total gains (losses)<br>included in: |                   |              |                              |                                |
|--------------------------------------------------------------------------|--------------------------------------|-------------------|--------------|------------------------------|--------------------------------|
|                                                                          | Balance as of<br>June 30, 2013       | Net<br>income (1) | OCI          | Transfers<br>into<br>Level 3 | Transfers<br>out of<br>Level 3 |
| <b>Assets</b>                                                            |                                      |                   |              |                              |                                |
| Fixed income securities:                                                 |                                      |                   |              |                              |                                |
| U.S. government and agencies                                             | \$ 7                                 | \$ --             | \$ --        | \$ --                        | \$ --                          |
| Municipal                                                                | 553                                  | (6)               | (1)          | --                           | (56)                           |
| Corporate                                                                | 1,383                                | 10                | 1            | 21                           | (24)                           |
| ABS                                                                      | 288                                  | --                | 15           | --                           | (70)                           |
| RMBS                                                                     | 3                                    | --                | --           | --                           | --                             |
| CMBS                                                                     | 41                                   | --                | 1            | --                           | --                             |
| Redeemable preferred stock                                               | 1                                    | --                | --           | --                           | --                             |
| Total fixed income securities                                            | 2,276                                | 4                 | 16           | 21                           | (150)                          |
| Equity securities                                                        | 125                                  | --                | 3            | --                           | --                             |
| Free-standing derivatives, net                                           | (7)                                  | (2)               | --           | --                           | --                             |
| Other assets                                                             | 1                                    | --                | --           | --                           | --                             |
| Assets held for sale                                                     | --                                   | (1)               | (8)          | 3                            | (2)                            |
| <b>Total recurring Level 3 assets</b>                                    | <b>\$ 2,395</b>                      | <b>\$ 1</b>       | <b>\$ 11</b> | <b>\$ 24</b>                 | <b>\$ (152)</b>                |
| <b>Liabilities</b>                                                       |                                      |                   |              |                              |                                |
| Contractholder funds: Derivatives embedded in life and annuity contracts | \$ (533)                             | \$ 8              | \$ --        | \$ --                        | \$ --                          |
| Liabilities held for sale                                                | --                                   | 16                | --           | --                           | --                             |
| <b>Total recurring Level 3 liabilities</b>                               | <b>\$ (533)</b>                      | <b>\$ 24</b>      | <b>\$ --</b> | <b>\$ --</b>                 | <b>\$ --</b>                   |

|                                                                          | Transfer to<br>held for sale | Purchases/<br>Issues (2) | Sales           | Settlements    | Balance as of<br>September 30,<br>2013 |
|--------------------------------------------------------------------------|------------------------------|--------------------------|-----------------|----------------|----------------------------------------|
| <b>Assets</b>                                                            |                              |                          |                 |                |                                        |
| Fixed income securities:                                                 |                              |                          |                 |                |                                        |
| U.S. government and agencies                                             | \$ --                        | \$ --                    | \$ --           | \$ --          | 7                                      |
| Municipal                                                                | (51)                         | 2                        | (18)            | --             | 423                                    |
| Corporate                                                                | (244)                        | 99                       | (75)            | (49)           | 1,122                                  |
| ABS                                                                      | (85)                         | --                       | --              | (8)            | 140                                    |
| RMBS                                                                     | --                           | --                       | --              | (1)            | 2                                      |
| CMBS                                                                     | (5)                          | --                       | --              | --             | 37                                     |
| Redeemable preferred stock                                               | --                           | --                       | --              | --             | 1                                      |
| Total fixed income securities                                            | (385)                        | 101                      | (93)            | (58)           | 1,732                                  |
| Equity securities                                                        | --                           | --                       | --              | --             | 128                                    |
| Free-standing derivatives, net                                           | --                           | 1                        | --              | (2)            | (10) (3)                               |
| Other assets                                                             | --                           | --                       | --              | --             | 1                                      |
| Assets held for sale                                                     | 385                          | --                       | (10)            | (2)            | 365                                    |
| <b>Total recurring Level 3 assets</b>                                    | <b>\$ --</b>                 | <b>\$ 102</b>            | <b>\$ (103)</b> | <b>\$ (62)</b> | <b>2,216</b>                           |
| <b>Liabilities</b>                                                       |                              |                          |                 |                |                                        |
| Contractholder funds: Derivatives embedded in life and annuity contracts | \$ 265                       | \$ (24)                  | \$ --           | \$ 1           | (283)                                  |
| Liabilities held for sale                                                | (265)                        | (2)                      | --              | 2              | (249)                                  |
| <b>Total recurring Level 3 liabilities</b>                               | <b>\$ --</b>                 | <b>\$ (26)</b>           | <b>\$ --</b>    | <b>\$ 3</b>    | <b>(532)</b>                           |

(1) The effect to net income totals \$25 million and is reported in the Condensed Consolidated Statements of Operations as follows: \$(3) million in realized capital gains and losses, \$3 million in net investment income, \$15 million in interest credited to contractholder funds and \$10 million in life and annuity contract benefits.

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(2) Represents purchases for assets and issues for liabilities.

(3) Comprises \$6 million of assets and \$16 million of liabilities.

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The following table presents the rollforward of Level 3 assets and liabilities held at fair value on a recurring basis during the nine months ended September 30, 2013.

(\$ in millions)

|                                                                          | Total gains (losses)<br>included in:  |                   |              |                              |                                |
|--------------------------------------------------------------------------|---------------------------------------|-------------------|--------------|------------------------------|--------------------------------|
|                                                                          | Balance as of<br>December 31,<br>2012 | Net<br>income (1) | OCI          | Transfers<br>into<br>Level 3 | Transfers<br>out of<br>Level 3 |
| <b>Assets</b>                                                            |                                       |                   |              |                              |                                |
| Fixed income securities:                                                 |                                       |                   |              |                              |                                |
| U.S. government and agencies                                             | \$ 8                                  | \$ --             | \$ --        | \$ --                        | \$ --                          |
| Municipal                                                                | 965                                   | (34)              | 48           | 6                            | (62)                           |
| Corporate                                                                | 1,617                                 | 31                | (38)         | 84                           | (299)                          |
| ABS                                                                      | 251                                   | --                | 30           | 18                           | (86)                           |
| RMBS                                                                     | 3                                     | --                | --           | --                           | --                             |
| CMBS                                                                     | 52                                    | (1)               | 3            | --                           | --                             |
| Redeemable preferred stock                                               | 1                                     | --                | --           | --                           | --                             |
| Total fixed income securities                                            | 2,897                                 | (4)               | 43           | 108                          | (447)                          |
| Equity securities                                                        | 171                                   | 2                 | 4            | --                           | --                             |
| Free-standing derivatives, net                                           | (27)                                  | 20                | --           | --                           | --                             |
| Other assets                                                             | 1                                     | --                | --           | --                           | --                             |
| Assets held for sale                                                     | --                                    | (1)               | (8)          | 3                            | (2)                            |
| <b>Total recurring Level 3 assets</b>                                    | <b>\$ 3,042</b>                       | <b>\$ 17</b>      | <b>\$ 39</b> | <b>\$ 111</b>                | <b>\$ (449)</b>                |
| <b>Liabilities</b>                                                       |                                       |                   |              |                              |                                |
| Contractholder funds: Derivatives embedded in life and annuity contracts | \$ (553)                              | \$ 77             | \$ --        | \$ --                        | \$ --                          |
| Liabilities held for sale                                                | --                                    | 16                | --           | --                           | --                             |
| <b>Total recurring Level 3 liabilities</b>                               | <b>\$ (553)</b>                       | <b>\$ 93</b>      | <b>\$ --</b> | <b>\$ --</b>                 | <b>\$ --</b>                   |

|                                                                          | Transfer to<br>held for sale | Purchases/<br>Issues (2) | Sales           | Settlements     | Balance as of<br>September 30,<br>2013 |
|--------------------------------------------------------------------------|------------------------------|--------------------------|-----------------|-----------------|----------------------------------------|
| <b>Assets</b>                                                            |                              |                          |                 |                 |                                        |
| Fixed income securities:                                                 |                              |                          |                 |                 |                                        |
| U.S. government and agencies                                             | \$ --                        | \$ --                    | \$ --           | (1)             | \$ 7                                   |
| Municipal                                                                | (51)                         | 54                       | (481)           | (22)            | 423                                    |
| Corporate                                                                | (244)                        | 459                      | (351)           | (137)           | 1,122                                  |
| ABS                                                                      | (85)                         | 126                      | (81)            | (33)            | 140                                    |
| RMBS                                                                     | --                           | --                       | --              | (1)             | 2                                      |
| CMBS                                                                     | (5)                          | 6                        | (17)            | (1)             | 37                                     |
| Redeemable preferred stock                                               | --                           | --                       | --              | --              | 1                                      |
| Total fixed income securities                                            | (385)                        | 645                      | (930)           | (195)           | 1,732                                  |
| Equity securities                                                        | --                           | --                       | (49)            | --              | 128                                    |
| Free-standing derivatives, net                                           | --                           | 2                        | --              | (5)             | (10) (3)                               |
| Other assets                                                             | --                           | --                       | --              | --              | 1                                      |
| Assets held for sale                                                     | 385                          | --                       | (10)            | (2)             | 365                                    |
| <b>Total recurring Level 3 assets</b>                                    | <b>\$ --</b>                 | <b>\$ 647</b>            | <b>\$ (989)</b> | <b>\$ (202)</b> | <b>\$ 2,216</b>                        |
| <b>Liabilities</b>                                                       |                              |                          |                 |                 |                                        |
| Contractholder funds: Derivatives embedded in life and annuity contracts | \$ 265                       | (74)                     | \$ --           | 2               | \$ (283)                               |
| Liabilities held for sale                                                | (265)                        | (2)                      | --              | 2               | (249)                                  |
| <b>Total recurring Level 3 liabilities</b>                               | <b>\$ --</b>                 | <b>\$ (76)</b>           | <b>\$ --</b>    | <b>\$ 4</b>     | <b>\$ (532)</b>                        |

(1) The effect to net income totals \$110 million and is reported in the Condensed Consolidated Statements of Operations as follows: \$(1) million in realized capital gains and losses, \$15 million in net investment income, \$40 million in interest credited to contractholder funds and \$56 million in life and annuity contract

benefits.

(2) Represents purchases for assets and issues for liabilities.

(3) Comprises \$6 million of assets and \$16 million of liabilities.

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The following table presents the rollforward of Level 3 assets and liabilities held at fair value on a recurring basis during the three months ended September 30, 2012.

(\$ in millions)

|                                                                          | Total gains (losses)<br>included in: |                   |       |                              |                                |
|--------------------------------------------------------------------------|--------------------------------------|-------------------|-------|------------------------------|--------------------------------|
|                                                                          | Balance as of<br>June 30, 2012       | Net<br>income (1) | OCI   | Transfers<br>into<br>Level 3 | Transfers<br>out of<br>Level 3 |
| <b>Assets</b>                                                            |                                      |                   |       |                              |                                |
| Fixed income securities:                                                 |                                      |                   |       |                              |                                |
| U.S. government and agencies                                             | \$ 8                                 | \$ --             | \$ -- | \$ --                        | --                             |
| Municipal                                                                | 1,144                                | (4)               | 14    | 53                           | --                             |
| Corporate                                                                | 1,524                                | 10                | 39    | 74                           | --                             |
| ABS                                                                      | 334                                  | (9)               | 34    | 43                           | (26)                           |
| RMBS                                                                     | 4                                    | --                | --    | --                           | --                             |
| CMBS                                                                     | 47                                   | (1)               | 1     | --                           | --                             |
| Redeemable preferred stock                                               | 1                                    | --                | --    | --                           | --                             |
| Total fixed income securities                                            | 3,062                                | (4)               | 88    | 170                          | (26)                           |
| Equity securities                                                        | 192                                  | (3)               | --    | --                           | --                             |
| Free-standing derivatives, net                                           | (71)                                 | 11                | --    | --                           | --                             |
| Other assets                                                             | 1                                    | --                | --    | --                           | --                             |
| <b>Total recurring Level 3 assets</b>                                    | \$ 3,184                             | \$ 4              | \$ 88 | \$ 170                       | (26)                           |
| <b>Liabilities</b>                                                       |                                      |                   |       |                              |                                |
| Contractholder funds: Derivatives embedded in life and annuity contracts | \$ (707)                             | \$ 160            | \$ -- | \$ --                        | --                             |
| <b>Total recurring Level 3 liabilities</b>                               | \$ (707)                             | \$ 160            | \$ -- | \$ --                        | --                             |

|                                                                          | Purchases | Sales    | Issues  | Settlements | Balance as of<br>September 30,<br>2012 |
|--------------------------------------------------------------------------|-----------|----------|---------|-------------|----------------------------------------|
| <b>Assets</b>                                                            |           |          |         |             |                                        |
| Fixed income securities:                                                 |           |          |         |             |                                        |
| U.S. government and agencies                                             | \$ --     | \$ --    | \$ --   | \$ --       | 8                                      |
| Municipal                                                                | 4         | (49)     | --      | --          | 1,162                                  |
| Corporate                                                                | 62        | (120)    | --      | (46)        | 1,543                                  |
| ABS                                                                      | --        | (151)    | --      | (3)         | 222                                    |
| RMBS                                                                     | --        | --       | --      | (1)         | 3                                      |
| CMBS                                                                     | 3         | --       | --      | --          | 50                                     |
| Redeemable preferred stock                                               | --        | --       | --      | --          | 1                                      |
| Total fixed income securities                                            | 69        | (320)    | --      | (50)        | 2,989                                  |
| Equity securities                                                        | 2         | (8)      | --      | --          | 183                                    |
| Free-standing derivatives, net                                           | 21        | --       | --      | 9           | (30) (2)                               |
| Other assets                                                             | --        | --       | --      | --          | 1                                      |
| <b>Total recurring Level 3 assets</b>                                    | \$ 92     | \$ (328) | \$ --   | \$ (41)     | 3,143                                  |
| <b>Liabilities</b>                                                       |           |          |         |             |                                        |
| Contractholder funds: Derivatives embedded in life and annuity contracts | \$ --     | \$ --    | (24) \$ | 20 \$       | (551)                                  |
| <b>Total recurring Level 3 liabilities</b>                               | \$ --     | \$ --    | (24) \$ | 20 \$       | (551)                                  |

(1) The effect to net income totals \$164 million and is reported in the Condensed Consolidated Statements of Operations as follows: \$(4) million in realized capital gains and losses, \$7 million in net investment income, \$143 million in interest credited to contractholder funds and \$18 million in life and annuity contract benefits.

(2) Comprises \$2 million of assets and \$32 million of liabilities.



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The following table presents the rollforward of Level 3 assets and liabilities held at fair value on a recurring basis during the nine months ended September 30, 2012.

(\$ in millions)

|                                                                          | Balance as of<br>December 31,<br>2011 |                   | Total gains (losses)<br>included in: |               | Transfers<br>into<br>Level 3 | Transfers<br>out of<br>Level 3 |
|--------------------------------------------------------------------------|---------------------------------------|-------------------|--------------------------------------|---------------|------------------------------|--------------------------------|
|                                                                          |                                       | Net<br>income (1) | OCI                                  |               |                              |                                |
| <b>Assets</b>                                                            |                                       |                   |                                      |               |                              |                                |
| Fixed income securities:                                                 |                                       |                   |                                      |               |                              |                                |
| U.S. government and agencies                                             | \$ --                                 | \$ --             | \$ --                                | \$ 8          | \$ --                        | \$ --                          |
| Municipal                                                                | 1,332                                 | (10)              | 31                                   | 53            | (26)                         |                                |
| Corporate                                                                | 1,405                                 | 16                | 62                                   | 210           | (38)                         |                                |
| ABS                                                                      | 297                                   | 20                | 46                                   | 43            | (77)                         |                                |
| RMBS                                                                     | 51                                    | --                | --                                   | --            | (47)                         |                                |
| CMBS                                                                     | 60                                    | (3)               | 9                                    | --            | (5)                          |                                |
| Redeemable preferred stock                                               | 1                                     | --                | --                                   | --            | --                           |                                |
| Total fixed income securities                                            | 3,146                                 | 23                | 148                                  | 314           | (193)                        |                                |
| Equity securities                                                        | 43                                    | (7)               | 6                                    | --            | --                           |                                |
| Free-standing derivatives, net                                           | (95)                                  | 25                | --                                   | --            | --                           |                                |
| Other assets                                                             | 1                                     | --                | --                                   | --            | --                           |                                |
| <b>Total recurring Level 3 assets</b>                                    | <b>\$ 3,095</b>                       | <b>\$ 41</b>      | <b>\$ 154</b>                        | <b>\$ 314</b> | <b>\$ (193)</b>              |                                |
| <b>Liabilities</b>                                                       |                                       |                   |                                      |               |                              |                                |
| Contractholder funds: Derivatives embedded in life and annuity contracts | \$ (723)                              | \$ 151            | \$ --                                | \$ --         | \$ --                        | \$ --                          |
| <b>Total recurring Level 3 liabilities</b>                               | <b>\$ (723)</b>                       | <b>\$ 151</b>     | <b>\$ --</b>                         | <b>\$ --</b>  | <b>\$ --</b>                 | <b>\$ --</b>                   |

|                                                                          | Purchases     | Sales           | Issues         | Settlements     | Balance as of<br>September 30,<br>2012 |
|--------------------------------------------------------------------------|---------------|-----------------|----------------|-----------------|----------------------------------------|
| <b>Assets</b>                                                            |               |                 |                |                 |                                        |
| Fixed income securities:                                                 |               |                 |                |                 |                                        |
| U.S. government and agencies                                             | \$ --         | \$ --           | \$ --          | \$ --           | \$ 8                                   |
| Municipal                                                                | 46            | (254)           | --             | (10)            | 1,162                                  |
| Corporate                                                                | 193           | (219)           | --             | (86)            | 1,543                                  |
| ABS                                                                      | 74            | (162)           | --             | (19)            | 222                                    |
| RMBS                                                                     | --            | --              | --             | (1)             | 3                                      |
| CMBS                                                                     | 5             | (1)             | --             | (15)            | 50                                     |
| Redeemable preferred stock                                               | 1             | (1)             | --             | --              | 1                                      |
| Total fixed income securities                                            | 319           | (637)           | --             | (131)           | 2,989                                  |
| Equity securities                                                        | 164           | (23)            | --             | --              | 183                                    |
| Free-standing derivatives, net                                           | 27            | --              | --             | 13              | (30) (2)                               |
| Other assets                                                             | --            | --              | --             | --              | 1                                      |
| <b>Total recurring Level 3 assets</b>                                    | <b>\$ 510</b> | <b>\$ (660)</b> | <b>\$ --</b>   | <b>\$ (118)</b> | <b>\$ 3,143</b>                        |
| <b>Liabilities</b>                                                       |               |                 |                |                 |                                        |
| Contractholder funds: Derivatives embedded in life and annuity contracts | \$ --         | \$ --           | \$ (53)        | \$ 74           | \$ (551)                               |
| <b>Total recurring Level 3 liabilities</b>                               | <b>\$ --</b>  | <b>\$ --</b>    | <b>\$ (53)</b> | <b>\$ 74</b>    | <b>\$ (551)</b>                        |

(1) The effect to net income totals \$192 million and is reported in the Condensed Consolidated Statements of Operations as follows: \$19 million in realized capital gains and losses, \$22 million in net investment income, \$119 million in interest credited to contractholder funds and \$32 million in life and annuity contract benefits.

(2) Comprises \$2 million of assets and \$32 million of liabilities.

Transfers between level categorizations may occur due to changes in the availability of market observable inputs, which generally are caused by changes in market conditions such as liquidity, trading volume or bid-ask spreads. Transfers between level categorizations may also occur due to changes in the valuation source. For example, in situations where a fair value quote is not provided by the Company's independent third-party valuation service provider and as a result the price is stale or has been replaced with a broker quote whose inputs have not been corroborated to be market observable, the security is transferred into Level 3. Transfers in and out of level categorizations are reported as having occurred at the beginning of the quarter in which the transfer occurred. Therefore, for all transfers into Level 3, all realized and changes in unrealized gains and losses in the quarter of transfer are reflected in the Level 3 rollforward table.

There were no transfers between Level 1 and Level 2 during the three months and nine months ended September 30, 2013. During the nine months ended September 30, 2012, certain U.S. government securities were transferred into Level 1 from Level 2 as a result of increased liquidity in the market and a sustained increase in the market activity for these assets.

Transfers into Level 3 during the three months and nine months ended September 30, 2013 and 2012 included situations where a fair value quote was not provided by the Company's independent third-party valuation service provider and as a result the price was stale or had been replaced with a broker quote where the inputs have not been corroborated to be market observable resulting in the security being classified as Level 3. Transfers out of Level 3 during the three months and nine months ended September 30, 2013 and 2012 included situations where a broker quote was used in the prior period and a fair value quote became available from the Company's independent third-party valuation service provider in the current period. A quote utilizing the new pricing source was not available as of the prior period, and any gains or losses related to the change in valuation source for individual securities were not significant.

The following table provides the change in unrealized gains and losses included in net income for Level 3 assets and liabilities held as of September 30.

| (\$ in millions)                                                         | Three months ended<br>September 30, |                | Nine months ended<br>September 30, |               |
|--------------------------------------------------------------------------|-------------------------------------|----------------|------------------------------------|---------------|
|                                                                          | 2013                                | 2012           | 2013                               | 2012          |
| <b>Assets</b>                                                            |                                     |                |                                    |               |
| Fixed income securities:                                                 |                                     |                |                                    |               |
| Municipal                                                                | \$ (6)                              | \$ (5)         | \$ (22)                            | \$ (10)       |
| Corporate                                                                | 3                                   | 5              | 9                                  | 13            |
| ABS                                                                      | --                                  | --             | (1)                                | --            |
| RMBS                                                                     | --                                  | --             | (1)                                | (1)           |
| CMBS                                                                     | --                                  | (1)            | (1)                                | (2)           |
| Total fixed income securities                                            | (3)                                 | (1)            | (16)                               | --            |
| Equity securities                                                        | --                                  | (3)            | --                                 | (9)           |
| Free-standing derivatives, net                                           | (2)                                 | (7)            | 14                                 | 4             |
| Assets held for sale                                                     | (1)                                 | --             | (1)                                | --            |
| <b>Total recurring Level 3 assets</b>                                    | <b>\$ (6)</b>                       | <b>\$ (11)</b> | <b>\$ (3)</b>                      | <b>\$ (5)</b> |
| <b>Liabilities</b>                                                       |                                     |                |                                    |               |
| Contractholder funds: Derivatives embedded in life and annuity contracts | \$ 8                                | \$ 160         | \$ 77                              | \$ 151        |
| Liabilities held for sale                                                | 16                                  | --             | 16                                 | --            |
| <b>Total recurring Level 3 liabilities</b>                               | <b>\$ 24</b>                        | <b>\$ 160</b>  | <b>\$ 93</b>                       | <b>\$ 151</b> |

The amounts in the table above represent the change in unrealized gains and losses included in net income for the period of time that the asset or liability was determined to be in Level 3. These gains and losses total \$18 million for the three months ended September 30, 2013 and are reported as follows: \$(8) million in realized capital gains and losses, \$2 million in net investment income, \$14 million in interest credited to contractholder funds and \$10 million in life and annuity contract benefits. These gains and losses total \$149 million for the three months ended September 30, 2012 and are reported as follows: \$(17) million in realized capital gains and losses, \$6 million in net investment income, \$142 million in interest credited to contractholder funds and \$18 million in life and annuity contract benefits. These gains and losses total \$90 million for the nine months ended September 30, 2013 and are reported as follows: \$(12) million in realized capital gains and losses, \$9 million in net investment income, \$37 million in interest credited to contractholder funds and \$56 million in life and annuity contract benefits. These gains and losses total \$146 million for the nine months ended September 30, 2012 and are reported as follows: \$(20) million in realized capital gains and losses, \$16 million in net investment income, \$118 million in interest credited to contractholder funds and \$32 million in life and annuity contract benefits.



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Presented below are the carrying values and fair value estimates of financial instruments not carried at fair value.

## Financial assets

| (\$ in millions)                 | September 30, 2013 |            | December 31, 2012 |            |
|----------------------------------|--------------------|------------|-------------------|------------|
|                                  | Carrying value     | Fair value | Carrying value    | Fair value |
| Mortgage loans                   | \$ 4,817           | \$ 4,987   | \$ 6,570          | \$ 6,886   |
| Cost method limited partnerships | 1,435              | 1,806      | 1,406             | 1,714      |
| Bank loans                       | 1,151              | 1,147      | 682               | 684        |
| Agent loans                      | 328                | 319        | 319               | 314        |
| Assets held for sale             | 1,497              | 1,573      | --                | --         |

The fair value of mortgage loans, including those classified as assets held for sale, is based on discounted contractual cash flows or, if the loans are impaired due to credit reasons, the fair value of collateral less costs to sell. Risk adjusted discount rates are selected using current rates at which similar loans would be made to borrowers with similar characteristics, using similar types of properties as collateral. The fair value of cost method limited partnerships is determined using reported net asset values of the underlying funds. The fair value of bank loans, which are reported in other investments or assets held for sale, is based on broker quotes from brokers familiar with the loans and current market conditions. The fair value of agent loans, which are reported in other investments, is based on discounted cash flow calculations that use discount rates with a spread over U.S. Treasury rates. Assumptions used in developing estimated cash flows and discount rates consider the loan's credit and liquidity risks. The fair value measurements for mortgage loans, cost method limited partnerships, bank loans, agent loans and assets held for sale are categorized as Level 3.

## Financial liabilities

| (\$ in millions)                             | September 30, 2013 |            | December 31, 2012 |            |
|----------------------------------------------|--------------------|------------|-------------------|------------|
|                                              | Carrying value     | Fair value | Carrying value    | Fair value |
| Contractholder funds on investment contracts | \$ 15,698          | \$ 16,227  | \$ 27,014         | \$ 28,019  |
| Long-term debt                               | 6,217              | 6,545      | 6,057             | 7,141      |
| Liability for collateral                     | 655                | 655        | 808               | 808        |
| Liabilities held for sale                    | 7,704              | 7,550      | --                | --         |

The fair value of contractholder funds on investment contracts, including those classified as liabilities held for sale, is based on the terms of the underlying contracts utilizing prevailing market rates for similar contracts adjusted for the Company's own credit risk. Deferred annuities included in contractholder funds are valued using discounted cash flow models which incorporate market value margins, which are based on the cost of holding economic capital, and the Company's own credit risk. Immediate annuities without life contingencies and fixed rate funding agreements are valued at the present value of future benefits using market implied interest rates which include the Company's own credit risk. The fair value measurements for contractholder funds on investment contracts and liabilities held for sale are categorized as Level 3.

The fair value of long-term debt is based on market observable data (such as the fair value of the debt when traded as an asset) or, in certain cases, is determined using discounted cash flow calculations based on current interest rates for instruments with comparable terms and consider the Company's own credit risk. The liability for collateral is valued at carrying value due to its short-term nature. The fair value measurements for long-term debt and liability for collateral are categorized as Level 2.

## 7. Derivative Financial Instruments

The Company uses derivatives to manage 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, and for asset replication. The Company does not use derivatives for speculative purposes.

Property-Liability uses interest rate swaps, swaptions, futures and options to manage the interest rate risks of existing investments. Portfolio duration management is a risk management strategy that is principally employed by Property-Liability wherein financial futures and interest rate swaps 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. Equity index futures and options are used by Property-Liability to offset valuation losses in the equity portfolio during periods of declining equity market values. Credit default swaps are typically used to mitigate the credit risk within the Property-Liability fixed income portfolio. Property-Liability uses equity futures to hedge the market risk related to deferred compensation liability contracts and forward contracts to hedge foreign currency risk associated with holding foreign currency denominated investments and foreign operations.

Asset-liability management is a risk management strategy that is principally employed by Allstate Financial 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. Allstate Financial uses financial futures and interest rate swaps to hedge anticipated asset purchases and liability issuances and futures and options for hedging the equity exposure contained in its equity indexed life and annuity product contracts that offer equity returns to contractholders. In addition, Allstate Financial uses interest rate swaps to hedge interest rate risk inherent in funding agreements. Allstate Financial uses foreign currency swaps and forwards primarily to reduce the foreign currency risk associated with issuing foreign currency denominated funding agreements and holding foreign currency denominated investments. Credit default swaps are typically used to mitigate the credit risk within the Allstate Financial fixed income portfolio.

Asset replication refers to the synthetic creation of assets through the use of derivatives and primarily investment grade host bonds to replicate securities that are either unavailable in the cash markets or more economical to acquire in synthetic form. The Company replicates fixed income securities using a combination of a credit default swap and one or more highly rated fixed income securities to synthetically replicate the economic characteristics of one or more cash market securities.

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 equity returns to contractholders; equity-indexed notes containing equity call options, which provide a coupon payout that is determined using one or more equity-based indices; credit default swaps in synthetic collateralized debt obligations, which provide enhanced coupon rates as a result of selling credit protection; and conversion options in fixed income securities, which provide the Company with the right to convert the instrument into a predetermined number of shares of common stock.

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. Allstate Financial designates certain of its interest rate and foreign currency swap contracts and 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. Allstate Financial designates certain of its foreign currency swap contracts as cash flow hedges when the hedging instrument is highly effective in offsetting the exposure of variations in cash flows for the hedged risk that could affect net income. Amounts are reclassified to net investment income or realized capital gains and losses as the hedged item affects net income.

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

Fair value, which is equal to the carrying value, is the estimated amount that the Company would receive or pay to terminate the derivative contracts at the reporting date. The carrying value amounts for OTC derivatives are further adjusted for the effects, if any, of enforceable master

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netting agreements and are presented on a net basis, by counterparty agreement, in the Condensed Consolidated Statements of Financial Position. For certain exchange traded and cleared derivatives, margin deposits are required as well as daily cash settlements of margin accounts. As of September 30, 2013, the Company pledged \$15 million of cash and securities in the form of margin deposits.

For those derivatives which qualify for fair value hedge accounting, net income includes the changes in the fair value of both the derivative instrument and the hedged risk, and therefore reflects any hedging ineffectiveness. For cash flow hedges, gains and losses are amortized from accumulated other comprehensive income 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.

The following table provides a summary of the volume and fair value positions of derivative instruments as well as their reporting location in the Condensed Consolidated Statement of Financial Position as of September 30, 2013.

(\$ in millions, except number of contracts)

|                                                                     |                                      | Volume (1)      |                     |                 |             |                 |
|---------------------------------------------------------------------|--------------------------------------|-----------------|---------------------|-----------------|-------------|-----------------|
|                                                                     | Balance sheet location               | Notional amount | Number of contracts | Fair value, net | Gross asset | Gross liability |
| <b>Asset derivatives</b>                                            |                                      |                 |                     |                 |             |                 |
| <b>Derivatives designated as accounting hedging instruments</b>     |                                      |                 |                     |                 |             |                 |
| Foreign currency swap agreements                                    | Other investments                    | \$ 16           | n/a                 | \$ 2            | \$ 2        | --              |
| <b>Derivatives not designated as accounting hedging instruments</b> |                                      |                 |                     |                 |             |                 |
| <b>Interest rate contracts</b>                                      |                                      |                 |                     |                 |             |                 |
| Interest rate swap agreements                                       | Other investments                    | 700             | n/a                 | 3               | 4           | (1)             |
| Interest rate cap agreements                                        | Other investments                    | 122             | n/a                 | 2               | 2           | --              |
| <b>Equity and index contracts</b>                                   |                                      |                 |                     |                 |             |                 |
| Options and warrants (2)                                            | Other investments                    | 3               | 10,570              | 208             | 208         | --              |
| <b>Foreign currency contracts</b>                                   |                                      |                 |                     |                 |             |                 |
| Foreign currency forwards                                           | Other investments                    | 355             | n/a                 | 11              | 12          | (1)             |
| <b>Embedded derivative financial instruments</b>                    |                                      |                 |                     |                 |             |                 |
| Conversion options                                                  | Fixed income securities              | 5               | n/a                 | --              | --          | --              |
| Credit default swaps                                                | Fixed income securities              | 12              | n/a                 | (12)            | --          | (12)            |
| Other embedded derivative financial instruments                     | Other investments                    | 1,000           | n/a                 | --              | --          | --              |
| <b>Credit default contracts</b>                                     |                                      |                 |                     |                 |             |                 |
| Credit default swaps - buying protection                            | Other investments                    | 101             | n/a                 | (1)             | 1           | (2)             |
| Credit default swaps - selling protection                           | Other investments                    | 155             | n/a                 | 2               | 2           | --              |
| <b>Other contracts</b>                                              |                                      |                 |                     |                 |             |                 |
| Other contracts                                                     | Other assets                         | 3               | n/a                 | 1               | 1           | --              |
| Subtotal                                                            |                                      | 2,456           | 10,570              | 214             | 230         | (16)            |
| <b>Total asset derivatives</b>                                      |                                      | \$ 2,472        | 10,570              | \$ 216          | \$ 232      | (16)            |
| <b>Liability derivatives</b>                                        |                                      |                 |                     |                 |             |                 |
| <b>Derivatives designated as accounting hedging instruments</b>     |                                      |                 |                     |                 |             |                 |
| Foreign currency swap agreements                                    | Other liabilities & accrued expenses | \$ 132          | n/a                 | \$ (16)         | --          | (16)            |
| <b>Derivatives not designated as accounting hedging instruments</b> |                                      |                 |                     |                 |             |                 |
| <b>Interest rate contracts</b>                                      |                                      |                 |                     |                 |             |                 |
| Interest rate swap agreements                                       | Other liabilities & accrued expenses | 685             | n/a                 | 8               | 8           | --              |
| Interest rate cap agreements                                        | Other liabilities & accrued expenses | 234             | n/a                 | 3               | 3           | --              |
| Financial futures contracts                                         | Other liabilities & accrued expenses | --              | 400                 | --              | --          | --              |
| <b>Equity and index contracts</b>                                   |                                      |                 |                     |                 |             |                 |
| Options and futures                                                 |                                      | 81              | 11,723              | (126)           | 1           | (127)           |

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|                                                                                   |                                      |          |           |       |       |       |
|-----------------------------------------------------------------------------------|--------------------------------------|----------|-----------|-------|-------|-------|
|                                                                                   | Other liabilities & accrued expenses |          |           |       |       |       |
| <b>Embedded derivative financial instruments</b>                                  |                                      |          |           |       |       |       |
| Guaranteed accumulation benefits                                                  | Contractholder funds                 | 734      | n/a       | (54)  | --    | (54)  |
| Guaranteed withdrawal benefits                                                    | Contractholder funds                 | 505      | n/a       | (19)  | --    | (19)  |
| Equity-indexed and forward starting options in life and annuity product contracts | Contractholder funds                 | 1,463    | n/a       | (205) | --    | (205) |
|                                                                                   | Liabilities held for sale            | 2,493    | n/a       | (249) | --    | (249) |
| Other embedded derivative financial instruments                                   | Contractholder funds                 | 85       | n/a       | (5)   | --    | (5)   |
| <b>Credit default contracts</b>                                                   |                                      |          |           |       |       |       |
| Credit default swaps buying protection                                            | Other liabilities & accrued expenses | 355      | n/a       | (7)   | --    | (7)   |
| Credit default swaps selling protection                                           | Other liabilities & accrued expenses | 140      | n/a       | (15)  | --    | (15)  |
| Subtotal                                                                          |                                      | 6,775    | 12,123    | (669) | 12    | (681) |
| <b>Total liability derivatives</b>                                                |                                      | \$ 6,907 | 12,123 \$ | (685) | 12 \$ | (697) |
| <b>Total derivatives</b>                                                          |                                      | \$ 9,379 | 22,693 \$ | (469) |       |       |

(1) Volume for OTC 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)

(2) In addition to the number of contracts presented in the table, the Company held 2,860 stock rights and 887,964 stock warrants. Stock rights and warrants can be converted to cash upon sale of those instruments or exercised for shares of common stock.

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The following table provides a summary of the volume and fair value positions of derivative instruments as well as their reporting location in the Consolidated Statement of Financial Position as of December 31, 2012.

(\$ in millions, except number of contracts)

|                                                                     |                                      | Volume (1)      |                     |                 |             |                 |
|---------------------------------------------------------------------|--------------------------------------|-----------------|---------------------|-----------------|-------------|-----------------|
|                                                                     | Balance sheet location               | Notional amount | Number of contracts | Fair value, net | Gross asset | Gross liability |
| <b>Asset derivatives</b>                                            |                                      |                 |                     |                 |             |                 |
| <b>Derivatives designated as accounting hedging instruments</b>     |                                      |                 |                     |                 |             |                 |
| Foreign currency swap agreements                                    | Other investments                    | \$ 16           | n/a                 | \$ 2            | \$ 2        | --              |
| <b>Derivatives not designated as accounting hedging instruments</b> |                                      |                 |                     |                 |             |                 |
| <b>Interest rate contracts</b>                                      |                                      |                 |                     |                 |             |                 |
| Interest rate swap agreements                                       | Other investments                    | 5,541           | n/a                 | 19              | 28          | (9)             |
| Interest rate cap agreements                                        | Other investments                    | 372             | n/a                 | 1               | 1           | --              |
| Financial futures contracts                                         | Other assets                         | n/a             | 2                   | --              | --          | --              |
| <b>Equity and index contracts</b>                                   |                                      |                 |                     |                 |             |                 |
| Options and warrants (2)                                            | Other investments                    | 146             | 12,400              | 125             | 125         | --              |
| Financial futures contracts                                         | Other assets                         | n/a             | 1,087               | 5               | 5           | --              |
| <b>Foreign currency contracts</b>                                   |                                      |                 |                     |                 |             |                 |
| Foreign currency forwards and options                               | Other investments                    | 258             | n/a                 | 6               | 6           | --              |
| <b>Embedded derivative financial instruments</b>                    |                                      |                 |                     |                 |             |                 |
| Conversion options                                                  | Fixed income securities              | 5               | n/a                 | --              | --          | --              |
| Equity-indexed call options                                         | Fixed income securities              | 90              | n/a                 | 9               | 9           | --              |
| Credit default swaps                                                | Fixed income securities              | 12              | n/a                 | (12)            | --          | (12)            |
| Other embedded derivative financial instruments                     | Other investments                    | 1,000           | n/a                 | --              | --          | --              |
| <b>Credit default contracts</b>                                     |                                      |                 |                     |                 |             |                 |
| Credit default swaps - buying protection                            | Other investments                    | 209             | n/a                 | --              | 2           | (2)             |
| Credit default swaps - selling protection                           | Other investments                    | 308             | n/a                 | 2               | 3           | (1)             |
| <b>Other contracts</b>                                              |                                      |                 |                     |                 |             |                 |
| Other contracts                                                     | Other assets                         | 4               | n/a                 | 1               | 1           | --              |
| Subtotal                                                            |                                      | 7,945           | 13,489              | 156             | 180         | (24)            |
| <b>Total asset derivatives</b>                                      |                                      | \$ 7,961        | 13,489              | \$ 158          | \$ 182      | (24)            |
| <b>Liability derivatives</b>                                        |                                      |                 |                     |                 |             |                 |
| <b>Derivatives designated as accounting hedging instruments</b>     |                                      |                 |                     |                 |             |                 |
| Foreign currency swap agreements                                    | Other liabilities & accrued expenses | \$ 135          | n/a                 | \$ (19)         | --          | (19)            |
| <b>Derivatives not designated as accounting hedging instruments</b> |                                      |                 |                     |                 |             |                 |
| <b>Interest rate contracts</b>                                      |                                      |                 |                     |                 |             |                 |
| Interest rate swap agreements                                       | Other liabilities & accrued expenses | 1,185           | n/a                 | 16              | 18          | (2)             |
| Interest rate swaption agreements                                   | Other liabilities & accrued expenses | 250             | n/a                 | --              | --          | --              |
| Interest rate cap agreements                                        | Other liabilities & accrued expenses | 429             | n/a                 | 1               | 1           | --              |
| Financial futures contracts                                         | Other liabilities & accrued expenses | --              | 357                 | --              | --          | --              |
| <b>Equity and index contracts</b>                                   |                                      |                 |                     |                 |             |                 |
| Options and futures                                                 | Other liabilities & accrued expenses | --              | 12,262              | (58)            | --          | (58)            |
| <b>Foreign currency contracts</b>                                   |                                      |                 |                     |                 |             |                 |
| Foreign currency forwards and options                               | Other liabilities & accrued expenses | 139             | n/a                 | (1)             | 1           | (2)             |

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## **Embedded derivative financial instruments**

|                                                                                   |                      |       |     |       |    |       |
|-----------------------------------------------------------------------------------|----------------------|-------|-----|-------|----|-------|
| Guaranteed accumulation benefits                                                  | Contractholder funds | 820   | n/a | (86)  | -- | (86)  |
| Guaranteed withdrawal benefits                                                    | Contractholder funds | 554   | n/a | (39)  | -- | (39)  |
| Equity-indexed and forward starting options in life and annuity product contracts | Contractholder funds | 3,916 | n/a | (419) | -- | (419) |
| Other embedded derivative financial instruments                                   | Contractholder funds | 85    | n/a | (9)   | -- | (9)   |

## **Credit default contracts**

|                                         |                                      |       |        |       |    |       |
|-----------------------------------------|--------------------------------------|-------|--------|-------|----|-------|
| Credit default swaps buying protection  | Other liabilities & accrued expenses | 420   | n/a    | (3)   | 2  | (5)   |
| Credit default swaps selling protection | Other liabilities & accrued expenses | 285   | n/a    | (29)  | 1  | (30)  |
| Subtotal                                |                                      | 8,083 | 12,619 | (627) | 23 | (650) |

|                                    |  |          |        |          |       |          |
|------------------------------------|--|----------|--------|----------|-------|----------|
| <b>Total liability derivatives</b> |  | \$ 8,218 | 12,619 | \$ (646) | \$ 23 | \$ (669) |
|------------------------------------|--|----------|--------|----------|-------|----------|

|                          |  |           |        |          |  |  |
|--------------------------|--|-----------|--------|----------|--|--|
| <b>Total derivatives</b> |  | \$ 16,179 | 26,108 | \$ (488) |  |  |
|--------------------------|--|-----------|--------|----------|--|--|

(1) Volume for OTC 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)

(2) In addition to the number of contracts presented in the table, the Company held 34,634 stock rights and 879,158 stock warrants. Stock rights and warrants can be converted to cash upon sale of those instruments or exercised for shares of common stock.

The following table provides gross and net amounts for the Company's OTC derivatives, all of which are subject to enforceable master netting agreements.

(\$ in millions)

| (\$ in millions)          | Offsets      |                       |                                    |                             |                                          |            |
|---------------------------|--------------|-----------------------|------------------------------------|-----------------------------|------------------------------------------|------------|
|                           | Gross amount | Counter-party netting | Cash collateral (received) pledged | Net amount on balance sheet | Securities collateral (received) pledged | Net amount |
| <b>September 30, 2013</b> |              |                       |                                    |                             |                                          |            |
| Asset derivatives         | \$ 34        | \$ (16)               | \$ (10)                            | \$ 8                        | \$ (2)                                   | \$ 6       |
| Liability derivatives     | (40)         | 16                    | (2)                                | (26)                        | 24                                       | (2)        |
| <b>December 31, 2012</b>  |              |                       |                                    |                             |                                          |            |
| Asset derivatives         | \$ 66        | \$ (35)               | \$ (22)                            | \$ 9                        | \$ (4)                                   | \$ 5       |
| Liability derivatives     | (70)         | 35                    | (2)                                | (37)                        | 25                                       | (12)       |

The following table provides a summary of the impacts of the Company's foreign currency contracts in cash flow hedging relationships. Amortization of net losses from accumulated other comprehensive income related to cash flow hedges is expected to be \$3 million during the next twelve months. There was no hedge ineffectiveness reported in realized gains and losses for the three months and nine months ended September 30, 2013 or 2012.

(\$ in millions)

|                                                                                   | Three months ended<br>September 30, |        | Nine months ended<br>September 30, |        |
|-----------------------------------------------------------------------------------|-------------------------------------|--------|------------------------------------|--------|
|                                                                                   | 2013                                | 2012   | 2013                               | 2012   |
| (Loss) gain recognized in OCI on derivatives during the period                    | \$ (7)                              | \$ (3) | \$ 2                               | \$ (3) |
| Loss recognized in OCI on derivatives during the term of the hedging relationship | (19)                                | (19)   | (19)                               | (19)   |
| Loss reclassified from AOCI into income (net investment income)                   | --                                  | --     | (1)                                | --     |
| Loss reclassified from AOCI into income (realized capital gains and losses)       | --                                  | --     | --                                 | (1)    |

The following tables present gains and losses from valuation, settlements and hedge ineffectiveness reported on derivatives used in fair value hedging relationships and derivatives not designated as accounting hedging instruments in the Condensed Consolidated Statements of Operations. For the three months and nine months ended September 30, 2013, the Company had no derivatives used in fair value hedging relationships.

(\$ in millions)

|                                              | Realized capital gains and losses | Life and annuity contract benefits | Interest credited to contractholder funds | Operating costs and expenses | Total gain (loss) recognized in net income on derivatives |
|----------------------------------------------|-----------------------------------|------------------------------------|-------------------------------------------|------------------------------|-----------------------------------------------------------|
| <b>Three months ended September 30, 2013</b> |                                   |                                    |                                           |                              |                                                           |
| Interest rate contracts                      | \$ (1)                            | \$ --                              | \$ --                                     | \$ --                        | (1)                                                       |
| Equity and index contracts                   | (4)                               | --                                 | 16                                        | 10                           | 22                                                        |
| Embedded derivative financial instruments    | --                                | 10                                 | (9)                                       | --                           | 1                                                         |
| Foreign currency contracts                   | --                                | --                                 | --                                        | 11                           | 11                                                        |
| Credit default contracts                     | (7)                               | --                                 | --                                        | --                           | (7)                                                       |
| Other contracts                              | --                                | --                                 | --                                        | --                           | --                                                        |
| Total                                        | \$ (12)                           | \$ 10                              | \$ 7                                      | \$ 21                        | 26                                                        |

**Nine months ended September 30, 2013**

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|                                           |    |     |    |    |    |      |    |    |    |     |
|-------------------------------------------|----|-----|----|----|----|------|----|----|----|-----|
| Interest rate contracts                   | \$ | 2   | \$ | -- | \$ | --   | \$ | -- | \$ | 2   |
| Equity and index contracts                |    | (9) |    | -- |    | 63   |    | 23 |    | 77  |
| Embedded derivative financial instruments |    | (1) |    | 56 |    | (35) |    | -- |    | 20  |
| Foreign currency contracts                |    | (4) |    | -- |    | --   |    | 4  |    | --  |
| Credit default contracts                  |    | 10  |    | -- |    | --   |    | -- |    | 10  |
| Other contracts                           |    | --  |    | -- |    | (3)  |    | -- |    | (3) |
| Total                                     | \$ | (2) | \$ | 56 | \$ | 25   | \$ | 27 | \$ | 106 |

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(\$ in millions)

|                                                 | Net<br>investment<br>income | Realized<br>capital<br>gains and<br>losses | Life and<br>annuity<br>contract<br>benefits | Interest<br>credited to<br>contractholder<br>funds | Operating<br>costs and<br>expenses | Total gain<br>(loss)<br>recognized in<br>net income on<br>derivatives |
|-------------------------------------------------|-----------------------------|--------------------------------------------|---------------------------------------------|----------------------------------------------------|------------------------------------|-----------------------------------------------------------------------|
| <b>Three months ended September 30, 2012</b>    |                             |                                            |                                             |                                                    |                                    |                                                                       |
| <b>Derivatives in fair value accounting</b>     |                             |                                            |                                             |                                                    |                                    |                                                                       |
| <b>hedging relationships</b>                    |                             |                                            |                                             |                                                    |                                    |                                                                       |
| Interest rate contracts                         | \$ --                       | \$ --                                      | \$ --                                       | \$ --                                              | \$ --                              | --                                                                    |
| <b>Derivatives not designated as accounting</b> |                             |                                            |                                             |                                                    |                                    |                                                                       |
| <b>hedging instruments</b>                      |                             |                                            |                                             |                                                    |                                    |                                                                       |
| Interest rate contracts                         | --                          | (2)                                        | --                                          | --                                                 | --                                 | (2)                                                                   |
| Equity and index contracts                      | --                          | (6)                                        | --                                          | 19                                                 | 6                                  | 19                                                                    |
| Embedded derivative financial instruments       | --                          | 2                                          | 18                                          | 138                                                | --                                 | 158                                                                   |
| Foreign currency contracts                      | --                          | 1                                          | --                                          | --                                                 | 5                                  | 6                                                                     |
| Credit default contracts                        | --                          | 3                                          | --                                          | --                                                 | --                                 | 3                                                                     |
| Other contracts                                 | --                          | --                                         | --                                          | 1                                                  | --                                 | 1                                                                     |
| Total                                           | \$ --                       | (2) \$                                     | 18 \$                                       | 158 \$                                             | 11 \$                              | 185                                                                   |
| <b>Nine months ended September 30, 2012</b>     |                             |                                            |                                             |                                                    |                                    |                                                                       |
| <b>Derivatives in fair value accounting</b>     |                             |                                            |                                             |                                                    |                                    |                                                                       |
| <b>hedging relationships</b>                    |                             |                                            |                                             |                                                    |                                    |                                                                       |
| Interest rate contracts                         | \$ (1)                      | \$ --                                      | \$ --                                       | \$ --                                              | \$ --                              | (1)                                                                   |
| <b>Derivatives not designated as accounting</b> |                             |                                            |                                             |                                                    |                                    |                                                                       |
| <b>hedging instruments</b>                      |                             |                                            |                                             |                                                    |                                    |                                                                       |
| Interest rate contracts                         | --                          | (1)                                        | --                                          | --                                                 | --                                 | (1)                                                                   |
| Equity and index contracts                      | --                          | (5)                                        | --                                          | 56                                                 | 15                                 | 66                                                                    |
| Embedded derivative financial instruments       | --                          | 21                                         | 32                                          | 140                                                | --                                 | 193                                                                   |
| Foreign currency contracts                      | --                          | 1                                          | --                                          | --                                                 | 7                                  | 8                                                                     |
| Credit default contracts                        | --                          | 11                                         | --                                          | --                                                 | --                                 | 11                                                                    |
| Other contracts                                 | --                          | --                                         | --                                          | 3                                                  | --                                 | 3                                                                     |
| Subtotal                                        | --                          | 27                                         | 32                                          | 199                                                | 22                                 | 280                                                                   |
| Total                                           | \$ (1)                      | 27 \$                                      | 32 \$                                       | 199 \$                                             | 22 \$                              | 279                                                                   |

The following table provides a summary of the changes in fair value of the Company's fair value hedging relationships in the Condensed Consolidated Statements of Operations.

(\$ in millions)

| Location of gain or (loss) recognized in<br>net income on derivatives | Gain (loss) on<br>derivatives<br>Interest rate<br>contracts | Gain (loss) on<br>hedged risk<br>Investments |
|-----------------------------------------------------------------------|-------------------------------------------------------------|----------------------------------------------|
| <b>Three months ended September 30, 2012</b>                          |                                                             |                                              |
| Net investment income                                                 | \$ 1                                                        | (1)                                          |
| <b>Nine months ended September 30, 2012</b>                           |                                                             |                                              |
| Net investment income                                                 | \$ 3                                                        | (3)                                          |

The Company manages its exposure to credit risk by utilizing highly rated counterparties, establishing risk control limits, executing enforceable master netting agreements ( MNAs ) and obtaining collateral where appropriate. The Company uses MNAs for OTC derivative transactions that permit either party to net payments due for transactions and collateral is either pledged or obtained when certain predetermined exposure limits are exceeded. As of September 30, 2013, counterparties pledged \$14 million in cash and securities to the Company, and the Company pledged \$24 million in securities to counterparties which includes \$13 million of collateral posted under MNAs for contracts containing credit-risk-contingent provisions that are in a liability position and \$11 million of collateral posted under MNAs for contracts without credit-risk-contingent liabilities. 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

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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 enforceable master netting agreements.

The following table summarizes the counterparty credit exposure by counterparty credit rating as it relates to the Company's OTC derivatives.

| (\$ in millions) |                           | September 30, 2013  |                     |                                 |                           | December 31, 2012   |                     |                                 |  |
|------------------|---------------------------|---------------------|---------------------|---------------------------------|---------------------------|---------------------|---------------------|---------------------------------|--|
| 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+               | 2                         | \$ 101              | \$ 1                | \$ 1                            | 2                         | \$ 29               | \$ 1                | \$ 1                            |  |
| A                | 3                         | 32                  | 2                   | --                              | 4                         | 2,450               | 13                  | 2                               |  |
| A-               | 4                         | 514                 | 11                  | 4                               | 3                         | 797                 | 8                   | 2                               |  |
| BBB+             | 1                         | 776                 | 4                   | 1                               | 1                         | 3,617               | 11                  | --                              |  |
| Total            | 10                        | \$ 1,423            | \$ 18               | \$ 6                            | 10                        | \$ 6,893            | \$ 33               | \$ 5                            |  |

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

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

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

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

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

| (\$ in millions)                                                                                   | September 30, 2013 | December 31, 2012 |
|----------------------------------------------------------------------------------------------------|--------------------|-------------------|
| Gross liability fair value of contracts containing credit-risk-contingent features                 | \$ 29              | \$ 65             |
| Gross asset fair value of contracts containing credit-risk-contingent features and subject to MNAs | (14)               | (31)              |
| Collateral posted under MNAs for contracts containing credit-risk-contingent features              | (13)               | (25)              |

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|                                                                                                                                      |    |   |    |   |
|--------------------------------------------------------------------------------------------------------------------------------------|----|---|----|---|
| Maximum amount of additional exposure for contracts with credit-risk-contingent features if all features were triggered concurrently | \$ | 2 | \$ | 9 |
|--------------------------------------------------------------------------------------------------------------------------------------|----|---|----|---|

### Credit derivatives - selling protection

Free-standing credit default swaps ( CDS ) are utilized for selling credit protection against a specified credit event. A credit default swap 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.

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The following table shows the CDS notional amounts by credit rating and fair value of protection sold.

| (\$ in millions)                    |       | Notional amount |        |        |              |        | Fair value |      |
|-------------------------------------|-------|-----------------|--------|--------|--------------|--------|------------|------|
|                                     | AAA   | AA              | A      | BBB    | BB and lower | Total  |            |      |
| <b>September 30, 2013</b>           |       |                 |        |        |              |        |            |      |
| <b>Single name</b>                  |       |                 |        |        |              |        |            |      |
| Investment grade corporate debt (1) | \$ -- | \$ 20           | \$ 30  | \$ 65  | \$ --        | \$ 115 | \$         | 2    |
| <b>Baskets</b>                      |       |                 |        |        |              |        |            |      |
| <b>First-to-default</b>             |       |                 |        |        |              |        |            |      |
| Municipal                           | --    | --              | 100    | --     | --           | 100    |            | (16) |
| <b>Index</b>                        |       |                 |        |        |              |        |            |      |
| Investment grade corporate debt (1) | --    | 1               | 20     | 55     | 4            | 80     |            | 1    |
| <b>Total</b>                        | \$ -- | \$ 21           | \$ 150 | \$ 120 | \$ 4         | \$ 295 | \$         | (13) |
| <b>December 31, 2012</b>            |       |                 |        |        |              |        |            |      |
| <b>Single name</b>                  |       |                 |        |        |              |        |            |      |
| Investment grade corporate debt (1) | \$ 5  | \$ 20           | \$ 53  | \$ 80  | \$ 10        | \$ 168 | \$         | --   |
| Municipal                           | --    | 25              | --     | --     | --           | 25     |            | (3)  |
| Subtotal                            | 5     | 45              | 53     | 80     | 10           | 193    |            | (3)  |
| <b>Baskets</b>                      |       |                 |        |        |              |        |            |      |
| <b>First-to-default</b>             |       |                 |        |        |              |        |            |      |
| Municipal                           | --    | --              | 100    | --     | --           | 100    |            | (26) |
| <b>Index</b>                        |       |                 |        |        |              |        |            |      |
| Investment grade corporate debt (1) | --    | 3               | 79     | 204    | 14           | 300    |            | 2    |
| <b>Total</b>                        | \$ 5  | \$ 48           | \$ 232 | \$ 284 | \$ 24        | \$ 593 | \$         | (27) |

(1) Investment grade corporate debt categorization is based on the rating of the underlying name(s) at initial purchase.

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 a specific tranche of a basket, 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 or a tranche of a 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. When a credit event occurs in a tranche of a basket, there is no immediate impact to the Company until cumulative losses in the basket exceed the contractual subordination. To date, realized losses have not exceeded the subordination. 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.

In addition to the CDS described above, the Company's synthetic collateralized debt obligations contain embedded credit default swaps which sell protection on a basket of reference entities. The synthetic collateralized debt obligations are fully funded; therefore, the Company is not obligated to contribute additional funds when credit

events occur related to the reference entities named in the embedded credit default swaps. The Company's maximum amount at risk equals the amount of its aggregate initial investment in the synthetic collateralized debt obligations.

## 8. Reserve for Property-Liability Insurance Claims and Claims Expense

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

Because reserves are estimates of unpaid portions of losses that have occurred, including incurred but not reported (IBNR) losses, the establishment of appropriate reserves, including reserves for catastrophes, is an inherently uncertain and complex process. The ultimate cost of losses may vary materially from recorded amounts, which are based on management's best estimates. The highest degree of uncertainty is associated with reserves for losses incurred in the current reporting period as it contains the greatest proportion of losses that have not been reported or settled. The Company regularly updates its reserve estimates as new information becomes available and as events unfold that may affect the resolution of unsettled claims. Changes in prior year reserve estimates, which may be material, are reported in property-liability 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-liability insurance claims and claims expense, net of reinsurance recoverables, is appropriately established in the aggregate and adequate to cover the ultimate net cost of reported and unreported claims arising from losses which had occurred by the date of the Condensed Consolidated Statements of Financial Position based on available facts, technology, laws and regulations.

## 9. Reinsurance

Property-liability insurance premiums earned and life and annuity premiums and contract charges have been reduced by the reinsurance ceded amounts shown in the following table.

| (\$ in millions)                               | Three months ended<br>September 30, |        | Nine months ended<br>September 30, |        |
|------------------------------------------------|-------------------------------------|--------|------------------------------------|--------|
|                                                | 2013                                | 2012   | 2013                               | 2012   |
| Property-liability insurance premiums earned   | \$ 254                              | \$ 272 | \$ 801                             | \$ 813 |
| Life and annuity premiums and contract charges | 160                                 | 161    | 482                                | 500    |

Property-liability insurance claims and claims expense, life and annuity contract benefits and interest credited to contractholder funds have been reduced by the reinsurance ceded amounts shown in the following table.

(\$ in millions)

|                                                        | Three months ended<br>September 30, |        | Nine months ended<br>September 30, |        |
|--------------------------------------------------------|-------------------------------------|--------|------------------------------------|--------|
|                                                        | 2013                                | 2012   | 2013                               | 2012   |
| Property-liability insurance claims and claims expense | \$ 154                              | \$ 188 | \$ 596                             | \$ 327 |
| Life and annuity contract benefits                     | 117                                 | 184    | 288                                | 388    |
| Interest credited to contractholder funds              | 8                                   | 7      | 22                                 | 21     |

## 10. Capital Structure

### Debt

On January 10, 2013, the Company issued \$500 million of 5.10% Fixed-to-Floating Rate Subordinated Debentures due 2053. The proceeds of this issuance were used for general corporate purposes, including the repurchase of the Company's common stock through open market purchases and through an accelerated repurchase program.

On June 7, 2013, the Company issued \$500 million of 3.15% Senior Notes due 2023 and \$500 million of 4.50% Senior Notes due 2043. The proceeds of this issuance were used to fund the repurchase of debt and for general corporate purposes.

On June 20, 2013, the Company repurchased principal amounts of \$1.83 billion of debt. The Company recognized a loss on extinguishment of \$480 million, pre-tax, representing the excess of the repurchase price over the principal repaid, the write-off of the unamortized debt issuance costs and other costs related to the repurchase transaction.

On August 8, 2013, the Company issued \$800 million of 5.75% Fixed-to-Floating Rate Subordinated Debentures due 2053. The proceeds of this issuance were used for the repayment of certain commercial paper borrowings, to fund the repurchase of debt, for the repurchase of our common stock in open market purchases and for general corporate purposes.

During third quarter 2013, the Company repurchased principal amounts of \$57 million of debt. The Company recognized a loss on extinguishment of \$9 million, pre-tax, representing the excess of the repurchase price over the principal repaid and the write-off of the unamortized debt issuance costs.

Total debt outstanding is presented in the following table.

| (\$ in millions)                                          | September 30,<br>2013 | December 31,<br>2012 |
|-----------------------------------------------------------|-----------------------|----------------------|
| 7.50% Debentures, due 2013                                | \$ --                 | \$ 250               |
| 5.00% Senior Notes, due 2014 (1)                          | 650                   | 650                  |
| 6.20% Senior Notes, due 2014 (1)                          | 300                   | 300                  |
| 6.75% Senior Debentures, due 2018                         | 176                   | 250                  |
| 7.45% Senior Notes, due 2019 (1)                          | 317                   | 700                  |
| 3.15% Senior Notes, due 2023 (1)                          | 500                   | --                   |
| 6.125% Senior Notes, due 2032 (1)                         | 159                   | 250                  |
| 5.35% Senior Notes due 2033 (1)                           | 323                   | 400                  |
| 5.55% Senior Notes due 2035 (1)                           | 555                   | 800                  |
| 5.95% Senior Notes, due 2036 (1)                          | 386                   | 650                  |
| 6.90% Senior Debentures, due 2038                         | 165                   | 250                  |
| 5.20% Senior Notes, due 2042 (1)                          | 72                    | 500                  |
| 4.50% Senior Notes, due 2043 (1)                          | 500                   | --                   |
| 5.10% Subordinated Debentures, due 2053                   | 500                   | --                   |
| 5.75% Subordinated Debentures, due 2053                   | 800                   | --                   |
| 6.125% Junior Subordinated Debentures, due 2067           | 259                   | 500                  |
| 6.50% Junior Subordinated Debentures, due 2067            | 500                   | 500                  |
| Synthetic lease VIE obligations, floating rates, due 2014 | 44                    | 44                   |
| Federal Home Loan Bank ( FHLB ) advances, due 2018        | 11                    | 13                   |
| Total long-term debt                                      | 6,217                 | 6,057                |
| Short-term debt (2)                                       | --                    | --                   |
| Total debt                                                | \$ 6,217              | \$ 6,057             |

(1) Senior Notes are subject to redemption at the Company's option in whole or in part at any time at the greater of either 100% of the principal amount plus accrued and unpaid interest to the redemption date or the discounted sum of the present values of the remaining scheduled payments of principal and interest and accrued and unpaid interest to the redemption date.

(2) The Company classifies any borrowings which have a maturity of twelve months or less at inception as short-term debt.

**Preferred stock**

On June 12, 2013, the Company issued 11,500 shares of 5.625% Noncumulative Perpetual Preferred Stock, Series A, with a \$1.00 par value per share and a liquidation preference of \$25,000 per share, for gross proceeds of \$287.5 million. The proceeds of this issuance were used to fund the repurchase of debt and for general corporate purposes.

On September 30, 2013, the Company issued 15,400 shares of 6.75% Noncumulative Perpetual Preferred Stock, Series C, with a \$1.00 par value per share and a liquidation preference of \$25,000 per share, for gross proceeds of \$385 million. The proceeds of this issuance will be used for general corporate purposes, including to prefund the repayment of debt maturing in 2014.

The preferred stock ranks senior to the Company's common stock with respect to the payment of dividends and liquidation rights. The Company will pay dividends on the preferred stock on a noncumulative basis only when, as and if declared by the Company's board of directors (or a duly authorized committee of the board) and to the extent that the Company has legally available funds to pay dividends. If dividends are declared on the preferred stock, they will be payable quarterly in arrears at an annual fixed rate. Dividends on the preferred stock are not cumulative. Accordingly, in the event dividends are not declared on the preferred stock for payment on any dividend payment date, then those dividends will cease to be payable. If the Company has not declared a dividend before the dividend payment date for any dividend period, the Company has no obligation to pay dividends for that dividend period, whether or not dividends are declared for any future dividend period. No dividends may be paid or declared on the Company's common stock and no shares of the Company's common stock may be repurchased unless the full dividends for the latest completed dividend period on the preferred stock have been declared and paid or provided for.

If the Company fails to meet specified capital adequacy, net income or shareholders' equity levels, the declaration of dividends on the preferred stock is prohibited, except out of the net proceeds of common stock issued during the 90 days prior to the date of declaration.

The preferred stock does not have voting rights except with respect to certain changes in the terms of the preferred stock, in the case of certain dividend nonpayments, certain other fundamental corporate events, mergers or consolidations and as otherwise provided by law. If and when dividends have not been declared and paid in full for at least six quarterly dividend periods or their equivalent (whether or not consecutive), the authorized number of directors then constituting our board of directors will be increased by two. The holders of the preferred stock, together with the holders of all other affected classes and series of voting parity stock, voting as a single class, will be entitled to elect the two additional members of the board of directors of the Company, subject to certain conditions. The board of directors shall at no time have more than two preferred stock directors.

The preferred stock is perpetual and has no maturity date. The preferred stock is redeemable at the Company's option in whole or in part, on or after June 15, 2018 for Series A and October 15, 2018 for Series C, at a redemption price of \$25,000 per share of preferred stock, plus declared and unpaid dividends. Prior to June 15, 2018 for Series A and October 15, 2018 for Series C, the preferred stock is redeemable at the Company's option, in whole but not in part, within 90 days of the occurrence of certain rating agency events at a redemption price equal to \$25,000 per share or, if greater, a make-whole redemption price, plus declared and unpaid dividends.

## **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 include employee termination and relocation benefits, and post-exit rent expenses in connection with these programs, and non-cash charges resulting from pension benefit payments made to agents in connection with the 1999 reorganization of Allstate's multiple agency programs to a single exclusive agency program. The expenses related to these activities are included in the Condensed Consolidated Statements of Operations as restructuring and related charges, and totaled \$13 million and \$9 million during the three months ended September 30, 2013 and 2012, respectively, and \$59 million and \$25 million during the nine months ended September 30, 2013 and 2012, respectively. Restructuring and related charges in the nine months ended September 30, 2013 primarily related to the technology organization, which is fundamentally changing its organizational structure leveraging centralization, global sourcing and automation to meet contemporary business needs; the closure of a call center; and exiting the annuity business.

The following table presents changes in the restructuring liability during the nine months ended September 30, 2013.

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(\$ in millions)

|                                    | Employee<br>costs | Exit<br>costs | Total<br>liability |
|------------------------------------|-------------------|---------------|--------------------|
| Balance as of December 31, 2012    | \$ 6 \$           | 3 \$          | 9                  |
| Expense incurred                   | 40                | 4             | 44                 |
| Adjustments to liability           | (1)               |               | (1)                |
| Payments applied against liability | (21)              | (4)           | (25)               |
| Balance as of September 30, 2013   | \$ 24 \$          | 3 \$          | 27                 |

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

September 30, 2013, the cumulative amount incurred to date for active programs totaled \$110 million for employee costs and \$54 million for exit costs.

## **12. Guarantees and Contingent Liabilities**

### **Shared markets and state facility assessments**

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

### **Guarantees**

The Company provides residual value guarantees on Company leased automobiles. If all outstanding leases were terminated effective September 30, 2013, the Company's maximum obligation pursuant to these guarantees, assuming the automobiles have no residual value, would be \$41 million as of September 30, 2013. The remaining term of each residual value guarantee is equal to the term of the underlying lease that ranges from less than one year to three years. Historically, the Company has not made any material payments pursuant to these guarantees.

The Company owns certain fixed income securities that obligate the Company to exchange credit risk or to forfeit principal due, depending on the nature or occurrence of specified credit events for the reference entities. In the event all such specified credit events were to occur, the Company's maximum amount at risk on these fixed income securities, as measured by the amount of the aggregate initial investment, was \$5 million as of September 30, 2013. The obligations associated with these fixed income securities expire at various dates on or before March 11, 2018.

Related to the disposal through reinsurance of substantially all of Allstate Financial's variable annuity business to Prudential in 2006, the Company and its consolidated subsidiaries, ALIC and ALNY, have agreed to indemnify Prudential for certain pre-closing contingent liabilities (including extra-contractual liabilities of ALIC and ALNY and liabilities specifically excluded from the transaction) that ALIC and ALNY have agreed to retain. In addition, the Company, ALIC and ALNY will each indemnify Prudential for certain post-closing liabilities that may arise from the acts of ALIC, ALNY and their agents, including in connection with ALIC's and ALNY's provision of transition services. The reinsurance agreements contain no limitations or indemnifications with regard to insurance risk transfer, and transferred all of the future risks and responsibilities for performance on the underlying variable annuity contracts to Prudential, including those related to benefit guarantees. Management does not believe this agreement will have a material effect on results of operations, cash flows or financial position of the Company.

In the normal course of business, the Company provides standard indemnifications to contractual counterparties in connection with numerous transactions, including acquisitions and divestitures. The types of indemnifications typically provided include indemnifications for breaches of representations and warranties, taxes and certain other liabilities, such as third party lawsuits. The indemnification clauses are often standard contractual terms and are entered into in the normal course of business based on an assessment that the risk of loss would be remote. The terms of the indemnifications vary in duration and nature. In many cases, the maximum obligation is not explicitly stated and the contingencies

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triggering the obligation to indemnify have not occurred and are not expected to occur. Consequently, the maximum amount of the obligation under such indemnifications is not determinable. Historically, the Company has not made any material payments pursuant to these obligations.

The aggregate liability balance related to all guarantees was not material as of September 30, 2013.

### **Regulation and Compliance**

The Company is subject to changing social, economic and regulatory conditions. 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, restrict the ability of insurers to cancel or non-renew policies, require insurers to continue to write new policies or limit their ability to write new policies, limit insurers' ability to change coverage terms or to impose underwriting standards, impose additional regulations regarding agent and broker compensation, regulate the nature of and amount of investments, and otherwise expand overall regulation of insurance products and the insurance industry. 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; differences in applicable laws and judicial interpretations; the length of time before many of these matters might be resolved by settlement, through litigation, or otherwise; 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 current challenging legal environment faced by large 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***

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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.

As of September 30, 2013, the Company 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 \$810 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. 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***

Allstate is vigorously defending a class action lawsuit in Montana state court challenging aspects of its claim handling practices in Montana. The plaintiff alleges that the Company adjusts claims made by individuals who do not have attorneys in a manner that unfairly resulted in lower payments compared to claimants who were represented by attorneys. In January 2012, the court certified a class of Montana claimants who were not represented by attorneys with respect to the resolution of auto accident claims. The court certified the class to cover an indefinite period that commences in the mid-1990's. The certified claims include claims for declaratory judgment, injunctive relief and punitive damages in an unspecified amount. Injunctive relief may include a claim process by which unrepresented claimants could request that their claims be readjusted. No compensatory damages are sought on behalf of the class. The Company appealed the order certifying the class. In August 2013, the Montana Supreme Court affirmed in part, and reversed in part, the lower court's order granting plaintiff's motion for class certification and remanded the case for trial. The Company petitioned for rehearing of the Montana Supreme Court's decision, which the Court denied. To date no discovery has occurred related to the potential value of the class members' claims. The Company has asserted various defenses with respect

to the plaintiff's claims, which have not been finally resolved. In the Company's judgment a loss is not probable.

***Other proceedings***

The Company is defending certain matters relating to the Company's agency program reorganization announced in 1999. Although these cases have been pending for many years, they currently are in the early stages of litigation because of appellate court proceedings and threshold procedural issues.

- These matters include a lawsuit filed in 2001 by the U.S. Equal Employment Opportunity Commission ( EEOC ) alleging retaliation under federal civil rights laws ( EEOC I ) and a class action filed in 2001 by former employee agents alleging retaliation and age discrimination under the Age Discrimination in Employment Act ( ADEA ), breach of contract and ERISA violations ( Romero I ). In 2004, in the consolidated EEOC I and Romero I litigation, the trial court issued a memorandum and order that, among other things, certified classes of agents, including a mandatory class of agents who had signed a release, for purposes of effecting the court's declaratory judgment that the release was voidable at the option of the release signer. The court also ordered that an agent who voided the release must return to Allstate any and all benefits received by the [agent] in exchange for signing the release. The court also stated that, on the undisputed facts of record, there is no basis for claims of age discrimination. The EEOC and plaintiffs asked the court to clarify and/or reconsider its memorandum and order and in January 2007, the judge denied their request. In June 2007, the court reversed its prior ruling that the release was voidable and granted the Company's motions for summary judgment, ruling that the asserted claims were barred by the release signed by most plaintiffs. Plaintiffs filed a notice of appeal with the U.S. Court of Appeals for the Third Circuit ( Third Circuit ). In July 2009, the Third Circuit vacated the trial court's entry of summary judgment in the Company's favor and remanded the cases to the trial court for additional discovery, including additional discovery related to the validity of the release and waiver. In its opinion, the Third Circuit held that if the release and waiver is held to be valid, then all of the claims in Romero I and EEOC I are barred. Thus, if the waiver and release is upheld, then only the claims in Romero I asserted by the small group of employee agents who did not sign the release and waiver would remain for adjudication. In January 2010, following the remand, the cases were assigned to a new judge for further proceedings in the trial court. Plaintiffs filed their Second Amended Complaint on July 28, 2010. Plaintiffs seek broad but unspecified make whole relief, including back pay, compensatory and punitive damages, liquidated damages, lost investment capital, attorneys' fees and costs, and equitable relief, including reinstatement to employee agent status with all attendant benefits for up to approximately 6,500 former employee agents. Despite the length of time that these matters have been pending, to date only limited discovery has occurred related to the damages claimed by individual plaintiffs, and no damages discovery has occurred related to the claims of the putative class. Nor have plaintiffs provided any calculations of the putative class's alleged back pay or the alleged liquidated, compensatory or punitive damages, instead asserting that such calculations will be provided at a later stage during expert discovery. Damage claims are subject to reduction by amounts and benefits received by plaintiffs and putative class members subsequent to their employment termination. Little to no discovery has occurred with respect to amounts earned or received by plaintiffs and putative class members in mitigation of their alleged losses. Alleged damage amounts and lost benefits of the approximately 6,500 putative class members also are subject to individual variation and determination dependent upon retirement dates, participation in employee benefit programs, and years of service. Discovery limited to the validity of the waiver and release is closed. The parties filed cross motions for summary judgment with respect to the validity of the waiver and release on April 8, 2013, and are awaiting the Court's determination. At present, no class is certified.

- A putative nationwide class action has also been filed by former employee agents alleging various violations of ERISA, including a worker classification issue ( Romero II ). These plaintiffs are challenging certain amendments to the Agents Pension Plan and are seeking to have exclusive agent independent contractors treated as employees for benefit purposes. Romero II was dismissed with prejudice by the trial court, was the subject of further proceedings on appeal, and was reversed and remanded to the trial court in 2005. In June 2007, the court granted the Company's motion to dismiss the case. Plaintiffs filed a notice of appeal with the Third Circuit. In July 2009, the Third Circuit vacated the district court's dismissal of the case and remanded the case to the trial court for additional discovery, and directed that the case be reassigned to another trial court judge. In its opinion, the Third Circuit held that if the release and waiver is held to be valid, then one of plaintiffs' three claims asserted in Romero II is barred. The Third Circuit directed the district court to consider on remand whether the other two claims asserted in Romero II are barred by the release and waiver. In January 2010, following the remand, the case was assigned to a new judge (the same judge for the Romero I and EEOC I cases) for further proceedings in the trial court. On April 23, 2010, plaintiffs filed their First

Amended Complaint. Plaintiffs seek broad but unspecified make whole or other equitable relief, including losses of income and benefits as a result of their decision to retire from the Company between November 1, 1999 and December 31, 2000. They also seek repeal of the challenged amendments to the Agents Pension Plan with all attendant benefits revised and recalculated for thousands of former employee agents, and attorney's fees and costs. Despite the length of time that this matter has been pending, to date only limited discovery has occurred related to the damages claimed by individual plaintiffs, and no damages discovery has occurred related to the claims of the putative class. Nor have plaintiffs provided any calculations of the putative class's alleged losses, instead asserting that such calculations will be provided at a later stage during expert discovery. Damage claims are subject to reduction by amounts and benefits received by plaintiffs and putative class members subsequent to their employment termination. Little to no discovery has occurred with respect to amounts earned or received by plaintiffs and putative class members in mitigation of their alleged losses. Alleged damage amounts and lost benefits of the putative class members also are subject to individual variation and determination dependent upon retirement dates, participation in employee benefit programs, and years of service. As in *Romero I* and *EEOC I*, discovery limited to issues relating to the validity of the waiver and release is closed. The parties filed cross motions for summary judgment with respect to the validity of the waiver and release on April 8, 2013, and are awaiting the Court's determination. At present, class certification has not been decided.

In these agency program reorganization matters, the threshold issue of the validity and scope of the waiver and release is yet to be decided and, if decided in favor of the Company, would preclude any damages being awarded in *Romero I* and *EEOC I* and may also preclude damages from being awarded in *Romero II*. In the Company's judgment a loss is not probable. Allstate has been vigorously defending these lawsuits and other matters related to its agency program reorganization.

#### **Asbestos and environmental**

Allstate's reserves for asbestos claims were \$1.03 billion and \$1.03 billion, net of reinsurance recoverables of \$482 million and \$496 million, as of September 30, 2013 and December 31, 2012, respectively. Reserves for environmental claims were \$213 million and \$193 million, net of reinsurance recoverables of \$60 million and \$48 million, as of September 30, 2013 and December 31, 2012, respectively. Approximately 57% and 58% of the total net asbestos and environmental reserves as of September 30, 2013 and December 31, 2012, respectively, were for incurred but not reported estimated losses.

Management believes its net loss reserves for asbestos, environmental and other discontinued lines exposures are appropriately established based on available facts, technology, laws and regulations. However, establishing net loss reserves for asbestos, environmental and other discontinued lines claims is subject to uncertainties that are much greater than those presented by other types of claims. The ultimate cost of losses may vary materially from recorded amounts, which are based on management's best estimate. Among the complications are lack of historical data, long reporting delays, uncertainty as to the number and identity of insureds with potential exposure and unresolved legal issues regarding policy coverage; unresolved legal issues regarding the determination, availability and timing of exhaustion of policy limits; plaintiffs' evolving and expanding theories of liability; availability and collectability of recoveries from reinsurance; retrospectively determined premiums and other contractual agreements; estimates of the extent and timing of any contractual liability; the impact of bankruptcy protection sought by various asbestos producers and other asbestos defendants; and other uncertainties. There are also complex legal issues concerning the interpretation of various insurance policy provisions and whether those losses are covered, or were ever intended to be covered, and could be recoverable through retrospectively determined premium, reinsurance or other contractual agreements. Courts have reached different and sometimes inconsistent conclusions as to when losses are deemed to have occurred and which policies provide coverage; what types of losses are covered; whether there is an insurer obligation to defend; how policy limits are determined; how policy exclusions and conditions are applied and interpreted; and whether clean-up costs represent insured property damage. Management believes these issues are not likely to be resolved in the near future, and the ultimate costs may vary materially from the amounts currently recorded resulting in material changes in loss reserves. In addition, while the Company believes that improved actuarial techniques and databases have assisted in its ability to estimate asbestos, environmental, and other discontinued lines net loss reserves, these refinements may subsequently prove to be inadequate indicators of the extent of probable losses. Due to the uncertainties and factors described above, management believes it is not practicable to develop a meaningful range for any such additional net loss reserves that may be required.



### **13. Income Taxes**

During the third quarter of 2013, the Company settled cases involving its 2005 through 2008 federal income tax returns at the Internal Revenue Service Appeals Office. Settlement of the examination of these tax years resulted in a \$26 million decrease to the liability for unrecognized tax benefits, reducing the balance to zero.

### **14. Benefit Plans**

#### **Pension plan amendment**

Defined benefit pension plans cover most full-time employees, certain part-time employees and employee-agents. In July 2013, the Company approved and communicated to affected employees amendments to the plans effective January 1, 2014 to introduce a new cash balance formula to replace the current formulas (including the final average pay formula and the current cash balance formula) under which eligible employees accrue benefits.

In connection with the amendments, the Company remeasured the pension benefit obligations effective July 15, 2013, resulting in a decrease to unrecognized pension and other postretirement benefit cost in accumulated other comprehensive income of \$599 million, after-tax. The decrease primarily reflects the new plan formula and an increase in the discount rate to 4.75% as of July 15, 2013 from 4.00% as of December 31, 2012. The expected long-term rate of return on plan assets of 7.75% for 2013 was unchanged. A settlement loss of \$76 million, pre-tax, was recorded in net income in the Corporate and Other segment in the third quarter of 2013 as part of the remeasurement.

The Company will perform the annual remeasurement of the pension benefit obligations as of December 31, 2013. The remeasurement may include additional settlement losses of a comparable or greater amount depending on the level of lump sum benefit payments made in the fourth quarter of 2013.

#### **Postretirement life insurance benefit amendment**

The Company provides certain life insurance benefits for eligible employees hired before January 1, 2003 when they retire. In July 2013, the Company decided to eliminate this benefit effective January 1, 2014 for all current eligible employees and effective January 1, 2016 for all eligible retirees who retired after 1989. In connection with the amendment, the Company remeasured the postretirement benefit obligations effective July 15, 2013, resulting in a decrease to unrecognized pension and other postretirement benefit cost in accumulated other comprehensive income of \$59 million, after-tax. The decrease primarily reflects the modified benefit applicability, partially offset by a decrease in the discount rate to 3.75% as of July 15, 2013 from 4.25% as of December 31, 2012. A curtailment of benefits occurs because the amendment eliminates benefits for all future services for current employees. Accordingly, a curtailment gain of \$181 million, pre-tax, was recorded in net income in the Corporate and Other segment in the third quarter of 2013.



# Components of Net Periodic Pension and Postretirement Benefit Costs

The components of net periodic cost for the Company's pension and postretirement benefit plans are as follows:

| (\$ in millions)                          | Three months ended<br>September 30, |       | Nine months ended<br>September 30, |        |
|-------------------------------------------|-------------------------------------|-------|------------------------------------|--------|
|                                           | 2013                                | 2012  | 2013                               | 2012   |
| <b>Pension benefits</b>                   |                                     |       |                                    |        |
| Service cost                              | \$ 32                               | \$ 38 | \$ 111                             | \$ 114 |
| Interest cost                             | 66                                  | 74    | 198                                | 223    |
| Expected return on plan assets            | (100)                               | (98)  | (293)                              | (295)  |
| Amortization of:                          |                                     |       |                                    |        |
| Prior service credit                      | (12)                                | (1)   | (13)                               | (2)    |
| Net actuarial loss                        | 54                                  | 45    | 184                                | 134    |
| Settlement loss                           | 85                                  | 10    | 104                                | 29     |
| Net periodic pension cost                 | \$ 125                              | \$ 68 | \$ 291                             | \$ 203 |
| <b>Postretirement benefits</b>            |                                     |       |                                    |        |
| Service cost                              | \$ 3                                | \$ 3  | \$ 10                              | \$ 9   |
| Interest cost                             | 6                                   | 9     | 23                                 | 27     |
| Amortization of:                          |                                     |       |                                    |        |
| Prior service credit                      | (5)                                 | (6)   | (17)                               | (17)   |
| Net actuarial gain                        | (5)                                 | (5)   | (11)                               | (15)   |
| Curtailement gain                         | (181)                               | --    | (181)                              | --     |
| Net periodic postretirement (credit) cost | \$ (182)                            | \$ 1  | \$ (176)                           | \$ 4   |

**15. Business Segments**

Summarized revenue data for each of the Company's reportable segments are as follows:

| (\$ in millions)                                                  | Three months ended<br>September 30, |          | Nine months ended<br>September 30, |           |
|-------------------------------------------------------------------|-------------------------------------|----------|------------------------------------|-----------|
|                                                                   | 2013                                | 2012     | 2013                               | 2012      |
| <b>Revenues</b>                                                   |                                     |          |                                    |           |
| <i>Property-Liability</i>                                         |                                     |          |                                    |           |
| Property-liability insurance premiums                             |                                     |          |                                    |           |
| Standard auto                                                     | \$ 4,483                            | \$ 4,310 | \$ 13,277                          | \$ 12,875 |
| Non-standard auto                                                 | 162                                 | 177      | 497                                | 544       |
| Total auto                                                        | 4,645                               | 4,487    | 13,774                             | 13,419    |
| Homeowners                                                        | 1,679                               | 1,595    | 4,925                              | 4,747     |
| Other personal lines                                              | 648                                 | 614      | 1,905                              | 1,826     |
| Allstate Protection                                               | 6,972                               | 6,696    | 20,604                             | 19,992    |
| Discontinued Lines and Coverages                                  | --                                  | 1        | --                                 | 1         |
| Total property-liability insurance premiums                       | 6,972                               | 6,697    | 20,604                             | 19,993    |
| Net investment income                                             | 309                                 | 299      | 993                                | 964       |
| Realized capital gains and losses                                 | (26)                                | (16)     | 391                                | 192       |
| Total Property-Liability                                          | 7,255                               | 6,980    | 21,988                             | 21,149    |
| <i>Allstate Financial</i>                                         |                                     |          |                                    |           |
| Life and annuity premiums and contract charges                    |                                     |          |                                    |           |
| Traditional life insurance                                        | 120                                 | 117      | 355                                | 347       |
| Immediate annuities with life contingencies                       | 6                                   | 10       | 22                                 | 36        |
| Accident and health insurance                                     | 180                                 | 164      | 539                                | 486       |
| Total life and annuity premiums                                   | 306                                 | 291      | 916                                | 869       |
| Interest-sensitive life insurance                                 | 272                                 | 267      | 813                                | 790       |
| Fixed annuities                                                   | 6                                   | 5        | 13                                 | 16        |
| Total contract charges                                            | 278                                 | 272      | 826                                | 806       |
| Total life and annuity premiums and contract charges              | 584                                 | 563      | 1,742                              | 1,675     |
| Net investment income                                             | 633                                 | 632      | 1,901                              | 1,982     |
| Realized capital gains and losses                                 | (16)                                | (56)     | 60                                 | (69)      |
| Total Allstate Financial                                          | 1,201                               | 1,139    | 3,703                              | 3,588     |
| <i>Corporate and Other</i>                                        |                                     |          |                                    |           |
| Service fees                                                      | 3                                   | 1        | 6                                  | 3         |
| Net investment income                                             | 8                                   | 9        | 23                                 | 31        |
| Realized capital gains and losses                                 | 1                                   | --       | 1                                  | --        |
| Total Corporate and Other before reclassification of service fees | 12                                  | 10       | 30                                 | 34        |
| Reclassification of service fees (1)                              | (3)                                 | (1)      | (6)                                | (3)       |
| Total Corporate and Other                                         | 9                                   | 9        | 24                                 | 31        |
| Consolidated revenues                                             | \$ 8,465                            | \$ 8,128 | \$ 25,715                          | \$ 24,768 |

(1) For presentation in the Condensed Consolidated Statements of Operations, service fees of the Corporate and Other segment are reclassified to operating costs and expenses.



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Summarized financial performance data for each of the Company's reportable segments are as follows:

| (\$ in millions)                                                                                                                                               | Three months ended<br>September 30, |        | Nine months ended<br>September 30, |          |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------|--------|------------------------------------|----------|
|                                                                                                                                                                | 2013                                | 2012   | 2013                               | 2012     |
| <b>Net income</b>                                                                                                                                              |                                     |        |                                    |          |
| <i>Property-Liability</i>                                                                                                                                      |                                     |        |                                    |          |
| Underwriting income (loss)                                                                                                                                     |                                     |        |                                    |          |
| Allstate Protection                                                                                                                                            | \$ 831                              | \$ 701 | \$ 1,566                           | \$ 1,365 |
| Discontinued Lines and Coverages                                                                                                                               | (134)                               | (42)   | (142)                              | (49)     |
| Total underwriting income                                                                                                                                      | 697                                 | 659    | 1,424                              | 1,316    |
| Net investment income                                                                                                                                          | 309                                 | 299    | 993                                | 964      |
| Income tax expense on operations                                                                                                                               | (333)                               | (308)  | (780)                              | (717)    |
| Realized capital gains and losses, after-tax                                                                                                                   | (17)                                | (11)   | 253                                | 125      |
| Loss on disposition of operations, after-tax                                                                                                                   | --                                  | --     | (1)                                | --       |
| Property-Liability net income available to common shareholders                                                                                                 | 656                                 | 639    | 1,889                              | 1,688    |
| <i>Allstate Financial</i>                                                                                                                                      |                                     |        |                                    |          |
| Life and annuity premiums and contract charges                                                                                                                 | 584                                 | 563    | 1,742                              | 1,675    |
| Net investment income                                                                                                                                          | 633                                 | 632    | 1,901                              | 1,982    |
| Periodic settlements and accruals on non-hedge derivative instruments                                                                                          | 2                                   | 15     | 17                                 | 45       |
| Contract benefits and interest credited to contractholder funds                                                                                                | (800)                               | (810)  | (2,380)                            | (2,441)  |
| Operating costs and expenses and amortization of deferred policy acquisition costs                                                                             | (241)                               | (264)  | (670)                              | (703)    |
| Restructuring and related charges                                                                                                                              | (4)                                 | --     | (7)                                | --       |
| Income tax expense on operations                                                                                                                               | (47)                                | (39)   | (175)                              | (173)    |
| Operating income                                                                                                                                               | 127                                 | 97     | 428                                | 385      |
| Realized capital gains and losses, after-tax                                                                                                                   | (12)                                | (36)   | 37                                 | (45)     |
| Valuation changes on embedded derivatives that are not hedged, after-tax                                                                                       | (10)                                | 97     | (13)                               | 88       |
| DAC and DSI accretion (amortization) related to realized capital gains and losses and valuation changes on embedded derivatives that are not hedged, after-tax | 1                                   | (28)   | (2)                                | (38)     |
| DAC and DSI unlocking related to realized capital gains and losses, after-tax                                                                                  | 7                                   | 4      | 7                                  | 4        |
| Reclassification of periodic settlements and accruals on non-hedge derivative instruments, after-tax                                                           | (1)                                 | (9)    | (11)                               | (29)     |
| (Loss) gain on disposition of operations, after-tax                                                                                                            | (472)                               | 6      | (470)                              | 10       |
| Allstate Financial net (loss) income available to common shareholders                                                                                          | (360)                               | 131    | (24)                               | 375      |
| <i>Corporate and Other</i>                                                                                                                                     |                                     |        |                                    |          |
| Service fees (1)                                                                                                                                               | 3                                   | 1      | 6                                  | 3        |
| Net investment income                                                                                                                                          | 8                                   | 9      | 23                                 | 31       |
| Operating costs and expenses (1)                                                                                                                               | (162)                               | (91)   | (366)                              | (286)    |
| Income tax benefit on operations                                                                                                                               | 58                                  | 34     | 130                                | 101      |
| Preferred stock dividends                                                                                                                                      | (6)                                 | --     | (6)                                | --       |
| Operating loss                                                                                                                                                 | (99)                                | (47)   | (213)                              | (151)    |
| Realized capital gains and losses, after-tax                                                                                                                   | 1                                   | --     | 1                                  | --       |
| Loss on extinguishment of debt, after-tax                                                                                                                      | (6)                                 | --     | (318)                              | --       |
| Postretirement benefits curtailment gain, after-tax                                                                                                            | 118                                 | --     | 118                                | --       |
| Corporate and Other net income (loss) available to common shareholders                                                                                         | 14                                  | (47)   | (412)                              | (151)    |

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|                                                          |    |     |    |     |    |       |    |       |
|----------------------------------------------------------|----|-----|----|-----|----|-------|----|-------|
| Consolidated net income available to common shareholders | \$ | 310 | \$ | 723 | \$ | 1,453 | \$ | 1,912 |
|----------------------------------------------------------|----|-----|----|-----|----|-------|----|-------|

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(1) For presentation in the Condensed Consolidated Statements of Operations, service fees of the Corporate and Other segment are reclassified to operating costs and expenses.

## 16. Other Comprehensive Income

The components of other comprehensive income on a pre-tax and after-tax basis are as follows:

| (\$ in millions)                                                                                  |          | Three months ended September 30, |           |          |             |           |
|---------------------------------------------------------------------------------------------------|----------|----------------------------------|-----------|----------|-------------|-----------|
|                                                                                                   | Pre-tax  | 2013<br>Tax                      | After-tax | Pre-tax  | 2012<br>Tax | After-tax |
| Unrealized net holding gains and losses arising during the period, net of related offsets         | \$ 68    | \$ (23)                          | \$ 45     | \$ 1,177 | \$ (412)    | \$ 765    |
| Less: reclassification adjustment of realized capital gains and losses                            | (28)     | 10                               | (18)      | (70)     | 25          | (45)      |
| Unrealized net capital gains and losses                                                           | 96       | (33)                             | 63        | 1,247    | (437)       | 810       |
| Unrecognized pension and other postretirement benefit cost arising during the period              | 934      | (327)                            | 607       | (13)     | 5           | (8)       |
| Less: reclassification adjustment of net periodic cost recognized in operating costs and expenses | (117)    | 40                               | (77)      | (43)     | 15          | (28)      |
| Unrecognized pension and other postretirement benefit cost                                        | 1,051    | (367)                            | 684       | 30       | (10)        | 20        |
| Unrealized foreign currency translation adjustments                                               | 20       | (7)                              | 13        | 19       | (7)         | 12        |
| Other comprehensive income                                                                        | \$ 1,167 | \$ (407)                         | 760       | \$ 1,296 | \$ (454)    | 842       |
| Net income                                                                                        |          |                                  | 316       |          |             | 723       |
| Comprehensive income                                                                              |          |                                  | \$ 1,076  |          |             | \$ 1,565  |

| (\$ in millions)                                                                                  |            | Nine months ended September 30, |           |          |             |           |
|---------------------------------------------------------------------------------------------------|------------|---------------------------------|-----------|----------|-------------|-----------|
|                                                                                                   | Pre-tax    | 2013<br>Tax                     | After-tax | Pre-tax  | 2012<br>Tax | After-tax |
| Unrealized net holding gains and losses arising during the period, net of related offsets         | \$ (1,285) | \$ 450                          | \$ (835)  | \$ 2,337 | \$ (816)    | \$ 1,521  |
| Less: reclassification adjustment of realized capital gains and losses                            | 438        | (153)                           | 285       | 63       | (22)        | 41        |
| Unrealized net capital gains and losses                                                           | (1,723)    | 603                             | (1,120)   | 2,274    | (794)       | 1,480     |
| Unrecognized pension and other postretirement benefit cost arising during the period              | 943        | (329)                           | 614       | (33)     | 13          | (20)      |
| Less: reclassification adjustment of net periodic cost recognized in operating costs and expenses | (247)      | 86                              | (161)     | (129)    | 45          | (84)      |
| Unrecognized pension and other postretirement benefit cost                                        | 1,190      | (415)                           | 775       | 96       | (32)        | 64        |
| Unrealized foreign currency translation adjustments                                               | (31)       | 11                              | (20)      | 22       | (8)         | 14        |
| Other comprehensive (loss) income                                                                 | \$ (564)   | \$ 199                          | (365)     | \$ 2,392 | \$ (834)    | 1,558     |
| Net income                                                                                        |            |                                 | 1,459     |          |             | 1,912     |
| Comprehensive income                                                                              |            |                                 | \$ 1,094  |          |             | \$ 3,470  |



**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Shareholders of

The Allstate Corporation

Northbrook, IL 60062

We have reviewed the accompanying condensed consolidated statement of financial position of The Allstate Corporation and subsidiaries (the Company) as of September 30, 2013, and the related condensed consolidated statements of operations and comprehensive income for the three-month and nine-month periods ended September 30, 2013 and 2012, and of shareholders' equity and cash flows for the nine-month periods ended September 30, 2013 and 2012. These interim financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information 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 Public Company Accounting Oversight Board (United States), 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.

Based on our reviews, we are not aware of any material modifications that should be made to such condensed consolidated interim 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), the consolidated statement of financial position of The Allstate Corporation and subsidiaries as of December 31, 2012, 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 20, 2013, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated statement of financial position as of December 31, 2012 is fairly stated, in all material respects, in relation to the consolidated statement of financial position from which it has been derived.

/s/ Deloitte & Touche LLP

Chicago, Illinois

October 30, 2013

**Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE THREE-MONTH AND NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2013 AND 2012**

**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 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 2012. Further analysis of our insurance segments is provided in the Property-Liability Operations (which includes the Allstate Protection and the Discontinued Lines and Coverages segments) and in the Allstate Financial Segment sections of Management's Discussion and Analysis (MD&A). The segments are consistent with the way in which we use financial information to evaluate business performance and to determine the allocation of resources.

Allstate is focused on the following priorities:

- grow insurance premiums;
- maintain auto profitability;
- raise returns in homeowners and annuity businesses;
- proactively manage investments; and
- reduce our cost structure.

**HIGHLIGHTS**

- Consolidated net income available to common shareholders was \$310 million in the third quarter of 2013 compared to \$723 million in the third quarter of 2012, and \$1.45 billion in the first nine months of 2013 compared to \$1.91 billion in the first nine months of 2012. Net income available to common shareholders per diluted common share was \$0.66 in the third quarter of 2013 compared to \$1.48 in the third quarter of 2012, and \$3.07 in the first nine months of 2013 compared to \$3.86 in the first nine months of 2012.
- Property-Liability net income available to common shareholders was \$656 million in the third quarter of 2013 compared to \$639 million in the third quarter of 2012, and \$1.89 billion in the first nine months of 2013 compared to \$1.69 billion in the first nine months of 2012.
- The Property-Liability combined ratio was 90.0 in the third quarter of 2013 compared to 90.2 in the third quarter of 2012 and 93.1 in the first nine months of 2013 compared to 93.4 in the first nine months of 2012.
- Allstate Financial net loss available to common shareholders was \$360 million in the third quarter of 2013 and \$24 million in the first nine months of 2013 compared to net income available to common shareholders of \$131 million in the third quarter of 2012 and \$375 million in the

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first nine months of 2012.

- On July 17, 2013, we entered into a definitive agreement with Resolution Life Holdings, Inc. to sell Lincoln Benefit Life Company ( LBL ), LBL 's life insurance business generated through independent master brokerage agencies, and all of LBL 's deferred fixed annuity and long-term care insurance business for \$600 million subject to certain adjustments as of the closing date. The estimated loss on disposition of \$475 million, after-tax, was recorded in third quarter 2013.
- Total revenues were \$8.47 billion in the third quarter of 2013 compared to \$8.13 billion in the third quarter of 2012, and \$25.72 billion in the first nine months of 2013 compared to \$24.77 billion in the first nine months of 2012.
- Property-Liability premiums earned totaled \$6.97 billion in the third quarter of 2013, an increase of 4.1% from \$6.70 billion in the third quarter of 2012, and \$20.60 billion in the first nine months of 2013, an increase of 3.1% from \$19.99 billion in the first nine months of 2012.
- Investments totaled \$80.48 billion as of September 30, 2013, decreasing from \$97.28 billion as of December 31, 2012. Investments classified as held for sale totaled \$12.24 billion as of September 30, 2013. Net investment income was \$950 million in the third quarter 2013, an increase of 1.1% from \$940 million in the third quarter of 2012, and \$2.92 billion in the first nine months of 2013, a decrease of 2.0% from \$2.98 billion in the first nine months of 2012.
- Net realized capital losses were \$41 million in the third quarter of 2013 compared to \$72 million in the third quarter of 2012, and net realized capital gains were \$452 million in the first nine months of 2013 compared to \$123 million in the first nine months of 2012.
- On August 8, 2013, we issued \$800 million of 5.75% Fixed-to-Floating Rate Subordinated Debentures due 2053.

- On September 30, 2013, we issued 15,400 shares of 6.75% Noncumulative Perpetual Preferred Stock for gross proceeds of \$385 million.
- Book value per diluted common share (ratio of common shareholders' equity to total common shares outstanding and dilutive potential common shares outstanding) was \$43.49 as of September 30, 2013, an increase of 2.0% from \$42.64 as of September 30, 2012 and an increase of 2.6% from \$42.39 as of December 31, 2012.
- For the twelve months ended September 30, 2013, return on the average of beginning and ending period common shareholders' equity was 9.0%, a decrease of 4.6 points from 13.6% for the twelve months ended September 30, 2012.
- As of September 30, 2013, shareholders' equity was \$20.78 billion. This total included \$2.83 billion in deployable assets at the parent holding company level.
- In July 2013, we announced changes to our employee pension and other postretirement benefit offerings. The pension and other postretirement benefit obligations were remeasured in third quarter 2013 resulting in a net \$69 million increase to net income and a \$658 million increase to accumulated other comprehensive income.

## CONSOLIDATED NET INCOME

(\$ in millions)

|                                                                   | Three months ended<br>September 30, |          | Nine months ended<br>September 30, |           |
|-------------------------------------------------------------------|-------------------------------------|----------|------------------------------------|-----------|
|                                                                   | 2013                                | 2012     | 2013                               | 2012      |
| <b>Revenues</b>                                                   |                                     |          |                                    |           |
| Property-liability insurance premiums                             | \$ 6,972                            | \$ 6,697 | \$ 20,604                          | \$ 19,993 |
| Life and annuity premiums and contract charges                    | 584                                 | 563      | 1,742                              | 1,675     |
| Net investment income                                             | 950                                 | 940      | 2,917                              | 2,977     |
| Realized capital gains and losses:                                |                                     |          |                                    |           |
| Total other-than-temporary impairment losses                      | (96)                                | (39)     | (178)                              | (195)     |
| Portion of loss recognized in other comprehensive income          | 8                                   | (7)      | (7)                                | 16        |
| Net other-than-temporary impairment losses recognized in earnings | (88)                                | (46)     | (185)                              | (179)     |
| Sales and other realized capital gains and losses                 | 47                                  | (26)     | 637                                | 302       |
| Total realized capital gains and losses                           | (41)                                | (72)     | 452                                | 123       |
| Total revenues                                                    | 8,465                               | 8,128    | 25,715                             | 24,768    |
| <b>Costs and expenses</b>                                         |                                     |          |                                    |           |
| Property-liability insurance claims and claims expense            | (4,427)                             | (4,293)  | (13,628)                           | (13,442)  |
| Life and annuity contract benefits                                | (498)                               | (453)    | (1,427)                            | (1,354)   |
| Interest credited to contractholder funds                         | (317)                               | (215)    | (973)                              | (959)     |
| Amortization of deferred policy acquisition costs                 | (1,026)                             | (1,016)  | (2,933)                            | (2,937)   |
| Operating costs and expenses                                      | (937)                               | (1,010)  | (3,129)                            | (3,023)   |
| Restructuring and related charges                                 | (13)                                | (9)      | (59)                               | (25)      |
| Loss on extinguishment of debt                                    | (9)                                 | --       | (489)                              | --        |
| Interest expense                                                  | (83)                                | (93)     | (280)                              | (281)     |
| Total costs and expenses                                          | (7,310)                             | (7,089)  | (22,918)                           | (22,021)  |
| (Loss) gain on disposition of operations                          | (646)                               | 9        | (644)                              | 15        |
| Income tax expense                                                | (193)                               | (325)    | (694)                              | (850)     |
| <b>Net income</b>                                                 | 316                                 | 723      | 1,459                              | 1,912     |
| Preferred stock dividends                                         | (6)                                 | --       | (6)                                | --        |
| <b>Net income available to common shareholders</b>                | \$ 310                              | \$ 723   | \$ 1,453                           | \$ 1,912  |

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|                                             |    |       |    |      |    |       |    |       |
|---------------------------------------------|----|-------|----|------|----|-------|----|-------|
| Property-Liability                          | \$ | 656   | \$ | 639  | \$ | 1,889 | \$ | 1,688 |
| Allstate Financial                          |    | (360) |    | 131  |    | (24)  |    | 375   |
| Corporate and Other                         |    | 14    |    | (47) |    | (412) |    | (151) |
| Net income available to common shareholders | \$ | 310   | \$ | 723  | \$ | 1,453 | \$ | 1,912 |

**IMPACT OF LOW INTEREST RATE ENVIRONMENT**

The low interest rate environment in the U.S. has resulted in our current reinvestment yields being lower than the overall portfolio income yield, primarily for our investments in fixed income securities and commercial mortgage loans. During 2012, the Federal Reserve Board announced its decision to keep interest rates low through at least 2014 and to increase the prominence of the unemployment rate as an input to monetary policy decisions. More recent announcements in 2013 have begun to foreshadow the potential tapering of large-scale purchases of longer-term Treasury and agency mortgage-backed securities in the open market. The Federal Open Market Committee has also reiterated that it expects a highly accommodative stance of monetary policy to remain appropriate for a considerable time after the asset purchase program ends and the economic recovery strengthens. Despite the measured commentary and assurances around monetary policy remaining accommodative, interest rates have risen in 2013 and risk markets have become more volatile. We anticipate that interest rates will continue to increase but remain below historic averages and the portfolio income yield for some period. We also expect capital markets to remain volatile while they adjust to a new equilibrium.

Deferred annuity contracts with fixed and guaranteed crediting rates, or floors that limit crediting rate reductions, are adversely impacted by a prolonged low interest rate environment since we may not be able to reduce crediting rates sufficiently to maintain investment spreads. Financial results of long duration products that do not have stated crediting rate guarantees but for which underlying assets may have to be reinvested at interest rates that are lower than portfolio rates, such as structured settlements and term life insurance, may also be adversely impacted.

The following table summarizes the weighted average guaranteed crediting rates and weighted average current crediting rates as of September 30, 2013 for certain fixed annuities and interest-sensitive life contracts where management has the ability to change the crediting rate, subject to a contractual minimum. Other products, including equity-indexed, variable and immediate annuities, equity-indexed and variable life, and institutional products totaling \$6.28 billion of contractholder funds, have been excluded from the analysis because management does not have the ability to change the crediting rate or the minimum crediting rate is not considered meaningful in this context.

| (\$ in millions)                               | Weighted<br>average<br>guaranteed<br>crediting<br>rates | Weighted<br>average<br>current<br>crediting<br>rates | Contractholder<br>funds |
|------------------------------------------------|---------------------------------------------------------|------------------------------------------------------|-------------------------|
| Annuities with annual crediting rate resets    | 2.91%                                                   | 2.92%                                                | \$ 6,775                |
| Annuities with multi-year rate guarantees (1): |                                                         |                                                      |                         |
| Resettable in next 12 months                   | 1.18                                                    | 4.17                                                 | 1,292                   |
| Resettable after 12 months                     | 1.22                                                    | 3.46                                                 | 2,593                   |
| Interest-sensitive life insurance              | 4.02                                                    | 4.17                                                 | 7,539                   |

(1) These contracts include interest rate guarantee periods which are typically 5 or 6 years.

Investing activity will continue to decrease our portfolio yield as long as market yields remain below the current portfolio yield. In the Allstate Financial segment, the portfolio yield has been less impacted by reinvestment in the current low interest rate environment, as much of the investment cash flows have been used to fund the managed reduction in spread-based liabilities. The declines in both invested assets and portfolio yield are expected to result in lower net investment income in future periods.

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For the Allstate Financial Segment, we expect approximately 5.6% of the amortized cost of fixed income securities not subject to prepayment and approximately 12.3% of commercial mortgage loans to mature through 2014. Allstate Financial has \$25.98 billion of such fixed income securities and \$4.39 billion of such commercial mortgage loans as of September 30, 2013. Additionally, for asset-backed securities ( ABS ), residential mortgage-backed securities ( RMBS ) and commercial mortgage-backed securities ( CMBS ) that have the potential for prepayment and are therefore not categorized by contractual maturity, we received periodic principal payments of \$1.21 billion in the first nine months of 2013. To the extent portfolio cash flows are reinvested, the average pre-tax investment yield of 5.1% is expected to decline due to lower market yields.

For the Property-Liability segment, we expect approximately 5.8% of the amortized cost of fixed income securities not subject to prepayment to mature through 2014. Property-Liability has \$24.91 billion of such assets as of September 30, 2013. Additionally, for ABS, RMBS and CMBS securities that have the potential for prepayment and are therefore not categorized by contractual maturity, we received periodic principal payments of \$408 million in the first nine months of 2013. We have been shortening the maturity profile of the fixed income securities in this segment to make the portfolio less sensitive to a future rise in interest rates. This approach to reducing interest rate risk results in realized capital gains, but will contribute to lower portfolio yields as sales proceeds are invested at lower market yields. The average pre-tax investment yield of 3.9% is expected to decline due to reinvesting at lower market yields.

In order to mitigate the unfavorable impact that the current interest rate environment has on investment results, we are:

- Optimizing return and risk in an uncertain economic climate and volatile investment market.
- Reducing our exposure to interest rate risk by targeting a shorter maturity profile in the Property-Liability portfolio.
- Shifting the portfolio mix in the next few years to have less reliance on lending to borrowers and a greater proportion of ownership of assets including real estate and other cash-generating assets.
- Managing the alignment of assets with respect to Allstate Financial's changing liability profile.

We expect volatility in accumulated other comprehensive income resulting from changes in unrealized net capital gains and losses and unrecognized pension cost.

These topics are discussed in more detail in the respective sections of the MD&A.

## PROPERTY-LIABILITY HIGHLIGHTS

- Property-Liability net income available to common shareholders was \$656 million in the third quarter of 2013 compared to \$639 million in the third quarter of 2012, and \$1.89 billion in the first nine months of 2013 compared to \$1.69 billion in the first nine months of 2012.
- Property-Liability premiums written totaled \$7.44 billion in the third quarter of 2013, an increase of 5.3% from \$7.06 billion in the third quarter of 2012, and \$21.21 billion in the first nine months of 2013, an increase of 4.0% from \$20.39 billion in the first nine months of 2012.
- The Property-Liability loss ratio was 63.5 in the third quarter of 2013 compared to 64.1 in the third quarter of 2012, and 66.1 in the first nine months of 2013 compared to 67.2 in the first nine months of 2012.
- Catastrophe losses were \$128 million in the third quarter of 2013 compared to \$206 million in the third quarter of 2012, and \$1.13 billion in the first nine months of 2013 compared to \$1.28 billion in the first nine months of 2012.
- Allstate Protection prior year reserve reestimates totaled \$101 million favorable in the third quarter of 2013 compared to \$191 million favorable in the third quarter of 2012, and \$200 million favorable in the first nine months of 2013 compared to \$559 million favorable in the first nine months of 2012.

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- Our 2013 annual Discontinued Lines and Coverages reserve review resulted in a \$74 million unfavorable reestimate of asbestos reserves, a \$30 million unfavorable reestimate of environmental reserves and a \$30 million unfavorable reestimate of other exposure reserves, partially offset by a \$1 million decrease in our allowance for future uncollectable reinsurance in the third quarter of 2013 compared to \$26 million unfavorable reestimate of asbestos reserves, a \$22 million unfavorable reestimate of environmental reserves and a \$5 million unfavorable reestimate of other exposure reserves, partially offset by a \$14 million decrease in our allowance for future uncollectable reinsurance in the third quarter of 2012.
- Property-Liability underwriting income was \$697 million in the third quarter of 2013 compared to \$659 million in the third quarter of 2012, and \$1.42 billion in the first nine months of 2013 compared to \$1.32 billion in the first nine months of 2012. Underwriting income, a measure not based on accounting principles generally accepted in the United States of America ( GAAP ), is defined below.
- Property-Liability investments were \$38.19 billion as of September 30, 2013, a decrease of 0.1% from \$38.22 billion as of December 31, 2012. Net investment income was \$309 million in the third quarter of 2013, an increase of 3.3% from \$299 million in the third quarter of 2012, and \$993 million in the first nine months of 2013, an increase of 3.0% from \$964 million in the first nine months of 2012.

- Net realized capital losses were \$26 million in the third quarter of 2013 compared to \$16 million in the third quarter of 2012, and net realized capital gains were \$391 million in the first nine months of 2013 compared to \$192 million in the first nine months of 2012.

## PROPERTY-LIABILITY OPERATIONS

**Overview** Our Property-Liability operations consist of two reporting segments: Allstate Protection and Discontinued Lines and Coverages. Allstate Protection comprises three brands: Allstate, Encompass and Esurance. Allstate Protection is principally engaged in the sale of personal property and casualty insurance, primarily private passenger auto and homeowners insurance, to individuals in the United States and Canada. Discontinued Lines and Coverages includes results from insurance coverage that we no longer write and results for certain commercial and other businesses in run-off. These segments are consistent with the groupings of financial information that management uses to evaluate performance and to determine the allocation of resources.

Underwriting income, a measure that is not based on GAAP and is reconciled to net income available to common shareholders below, is calculated as premiums earned, less claims and claims expense ( losses ), amortization of deferred policy acquisition costs ( DAC ), operating costs and expenses and restructuring and related charges, as determined using 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. It is also an integral component of incentive compensation. It is useful for investors to evaluate the components of income separately and in the aggregate when reviewing performance. Net income available to common shareholders is the GAAP measure most directly comparable to underwriting income. Underwriting income should not be considered as a substitute for net income available to common shareholders and does not reflect the overall profitability of the business.

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:

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

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

- Effect of catastrophe losses on combined ratio - the percentage of catastrophe losses included in claims and claims expense to premiums earned. This ratio includes prior year reserve reestimates of catastrophe losses.

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- Effect of prior year reserve reestimates on combined ratio - the percentage 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 business combination expenses and the amortization of purchased intangible assets on combined and expense ratio - the percentage of business combination expenses and the amortization of purchased intangible assets to premiums earned.
- Effect of restructuring and related charges on combined ratio - the percentage 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.

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Summarized financial data, a reconciliation of underwriting income to net income available to common shareholders, and GAAP operating ratios for our Property-Liability operations are presented in the following table.

| (\$ in millions, except ratios)                                                                               | Three months ended<br>September 30, |          | Nine months ended<br>September 30, |           |
|---------------------------------------------------------------------------------------------------------------|-------------------------------------|----------|------------------------------------|-----------|
|                                                                                                               | 2013                                | 2012     | 2013                               | 2012      |
| Premiums written                                                                                              | \$ 7,438                            | \$ 7,063 | \$ 21,214                          | \$ 20,390 |
| <b>Revenues</b>                                                                                               |                                     |          |                                    |           |
| Premiums earned                                                                                               | \$ 6,972                            | \$ 6,697 | \$ 20,604                          | \$ 19,993 |
| Net investment income                                                                                         | 309                                 | 299      | 993                                | 964       |
| Realized capital gains and losses                                                                             | (26)                                | (16)     | 391                                | 192       |
| Total revenues                                                                                                | 7,255                               | 6,980    | 21,988                             | 21,149    |
| <b>Costs and expenses</b>                                                                                     |                                     |          |                                    |           |
| Claims and claims expense                                                                                     | (4,427)                             | (4,293)  | (13,628)                           | (13,442)  |
| Amortization of DAC                                                                                           | (929)                               | (870)    | (2,690)                            | (2,613)   |
| Operating costs and expenses                                                                                  | (910)                               | (866)    | (2,810)                            | (2,597)   |
| Restructuring and related charges                                                                             | (9)                                 | (9)      | (52)                               | (25)      |
| Total costs and expenses                                                                                      | (6,275)                             | (6,038)  | (19,180)                           | (18,677)  |
| Loss on disposition of operations                                                                             | --                                  | --       | (1)                                | --        |
| Income tax expense                                                                                            | (324)                               | (303)    | (918)                              | (784)     |
| <b>Net income available to common shareholders</b>                                                            | \$ 656                              | \$ 639   | \$ 1,889                           | \$ 1,688  |
| <b>Underwriting income</b>                                                                                    | \$ 697                              | \$ 659   | \$ 1,424                           | \$ 1,316  |
| Net investment income                                                                                         | 309                                 | 299      | 993                                | 964       |
| Income tax expense on operations                                                                              | (333)                               | (308)    | (780)                              | (717)     |
| Realized capital gains and losses, after-tax                                                                  | (17)                                | (11)     | 253                                | 125       |
| Loss on disposition of operations, after-tax                                                                  | --                                  | --       | (1)                                | --        |
| <b>Net income available to common shareholders</b>                                                            | \$ 656                              | \$ 639   | \$ 1,889                           | \$ 1,688  |
| Catastrophe losses (1)                                                                                        | \$ 128                              | \$ 206   | \$ 1,134                           | \$ 1,284  |
| <b>GAAP operating ratios</b>                                                                                  |                                     |          |                                    |           |
| Claims and claims expense ratio                                                                               | 63.5                                | 64.1     | 66.1                               | 67.2      |
| Expense ratio                                                                                                 | 26.5                                | 26.1     | 27.0                               | 26.2      |
| Combined ratio                                                                                                | 90.0                                | 90.2     | 93.1                               | 93.4      |
| Effect of catastrophe losses on combined ratio (1)                                                            | 1.8                                 | 3.1      | 5.5                                | 6.4       |
| Effect of prior year reserve reestimates on combined ratio (1) (2)                                            | 0.5                                 | (2.2)    | (0.3)                              | (2.6)     |
| Effect of business combination expenses and the amortization of purchased intangible assets on combined ratio | 0.3                                 | 0.4      | 0.3                                | 0.5       |
| Effect of restructuring and related charges on combined ratio                                                 | 0.1                                 | 0.1      | 0.3                                | 0.1       |
| Effect of Discontinued Lines and Coverages on combined ratio                                                  | 1.9                                 | 0.7      | 0.7                                | 0.2       |

(1) Prior year reserve reestimates included in catastrophe losses totaled \$34 million and \$84 million favorable in the three months and nine months ended September 30, 2013, respectively, compared to \$76 million and \$330 million favorable in the three months and nine months ended September 30, 2012, respectively.

(2) Includes both Allstate Protection and Discontinued Lines and Coverages prior year reserve reestimates.



**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 terms of the policies is recorded as unearned premiums on our Condensed Consolidated Statements of Financial Position.

A reconciliation of premiums written to premiums earned is shown in the following table.

| (\$ in millions)                    | Three months ended<br>September 30, |          | Nine months ended<br>September 30, |           |
|-------------------------------------|-------------------------------------|----------|------------------------------------|-----------|
|                                     | 2013                                | 2012     | 2013                               | 2012      |
| <b>Premiums written:</b>            |                                     |          |                                    |           |
| Allstate Protection                 | \$ 7,438                            | \$ 7,064 | \$ 21,214                          | \$ 20,390 |
| Discontinued Lines and Coverages    | --                                  | (1)      | --                                 | --        |
| Property-Liability premiums written | 7,438                               | 7,063    | 21,214                             | 20,390    |
| Increase in unearned premiums       | (518)                               | (411)    | (656)                              | (442)     |
| Other                               | 52                                  | 45       | 46                                 | 45        |
| Property-Liability premiums earned  | \$ 6,972                            | \$ 6,697 | \$ 20,604                          | \$ 19,993 |
| <b>Premiums earned:</b>             |                                     |          |                                    |           |
| Allstate Protection                 | \$ 6,972                            | \$ 6,696 | \$ 20,604                          | \$ 19,992 |
| Discontinued Lines and Coverages    | --                                  | 1        | --                                 | 1         |
| Property-Liability                  | \$ 6,972                            | \$ 6,697 | \$ 20,604                          | \$ 19,993 |

## ALLSTATE PROTECTION SEGMENT

Premiums written by brand are shown in the following table.

| (\$ in millions)     | Three months ended September 30, |          |                 |        |                |        |                     |          |
|----------------------|----------------------------------|----------|-----------------|--------|----------------|--------|---------------------|----------|
|                      | Allstate brand                   |          | Encompass brand |        | Esurance brand |        | Allstate Protection |          |
|                      | 2013                             | 2012     | 2013            | 2012   | 2013           | 2012   | 2013                | 2012     |
| Standard auto        | \$ 4,119                         | \$ 3,988 | \$ 172          | \$ 163 | \$ 357         | \$ 282 | \$ 4,648            | \$ 4,433 |
| Non-standard auto    | 161                              | 176      | --              | --     | --             | --     | 161                 | 176      |
| Homeowners           | 1,779                            | 1,686    | 129             | 108    | --             | --     | 1,908               | 1,794    |
| Other personal lines |                                  |          |                 |        |                |        |                     |          |
| (1)                  | 692                              | 635      | 28              | 26     | 1              | --     | 721                 | 661      |
| Total                | \$ 6,751                         | \$ 6,485 | \$ 329          | \$ 297 | \$ 358         | \$ 282 | \$ 7,438            | \$ 7,064 |

  

|                      | Nine months ended September 30, |           |                 |        |                |        |                     |           |
|----------------------|---------------------------------|-----------|-----------------|--------|----------------|--------|---------------------|-----------|
|                      | Allstate brand                  |           | Encompass brand |        | Esurance brand |        | Allstate Protection |           |
|                      | 2013                            | 2012      | 2013            | 2012   | 2013           | 2012   | 2013                | 2012      |
| Standard auto        | \$ 12,114                       | \$ 11,828 | \$ 486          | \$ 465 | \$ 993         | \$ 768 | \$ 13,593           | \$ 13,061 |
| Non-standard auto    | 491                             | 539       | --              | --     | --             | --     | 491                 | 539       |
| Homeowners           | 4,740                           | 4,583     | 346             | 297    | --             | --     | 5,086               | 4,880     |
| Other personal lines |                                 |           |                 |        |                |        |                     |           |
| (1)                  | 1,963                           | 1,837     | 79              | 73     | 2              | --     | 2,044               | 1,910     |

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|       |    |        |    |        |    |     |    |     |    |     |    |     |    |        |    |        |
|-------|----|--------|----|--------|----|-----|----|-----|----|-----|----|-----|----|--------|----|--------|
| Total | \$ | 19,308 | \$ | 18,787 | \$ | 911 | \$ | 835 | \$ | 995 | \$ | 768 | \$ | 21,214 | \$ | 20,390 |
|-------|----|--------|----|--------|----|-----|----|-----|----|-----|----|-----|----|--------|----|--------|

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(1) Other personal lines include commercial, renters, condominium, involuntary auto and other personal lines.

Premiums earned by brand are shown in the following table.

(\$ in millions)

|                      | Three months ended September 30, |          |                 |        |                |        |                     |          |      |      |
|----------------------|----------------------------------|----------|-----------------|--------|----------------|--------|---------------------|----------|------|------|
|                      | Allstate brand                   |          | Encompass brand |        | Esurance brand |        | Allstate Protection |          |      |      |
|                      | 2013                             | 2012     | 2013            | 2012   | 2013           | 2012   | 2013                | 2012     | 2013 | 2012 |
| Standard auto        | \$ 4,003                         | \$ 3,910 | \$ 158          | \$ 152 | \$ 322         | \$ 248 | \$ 4,483            | \$ 4,310 |      |      |
| Non-standard auto    | 162                              | 177      | --              | --     | --             | --     | 162                 | 177      |      |      |
| Homeowners           | 1,568                            | 1,499    | 111             | 96     | --             | --     | 1,679               | 1,595    |      |      |
| Other personal lines | 622                              | 591      | 26              | 23     | --             | --     | 648                 | 614      |      |      |
| Total                | \$ 6,355                         | \$ 6,177 | \$ 295          | \$ 271 | \$ 322         | \$ 248 | \$ 6,972            | \$ 6,696 |      |      |

|                      | Nine months ended September 30, |           |                 |        |                |        |                     |           |      |      |
|----------------------|---------------------------------|-----------|-----------------|--------|----------------|--------|---------------------|-----------|------|------|
|                      | Allstate brand                  |           | Encompass brand |        | Esurance brand |        | Allstate Protection |           |      |      |
|                      | 2013                            | 2012      | 2013            | 2012   | 2013           | 2012   | 2013                | 2012      | 2013 | 2012 |
| Standard auto        | \$ 11,895                       | \$ 11,716 | \$ 471          | \$ 456 | \$ 911         | \$ 703 | \$ 13,277           | \$ 12,875 |      |      |
| Non-standard auto    | 497                             | 544       | --              | --     | --             | --     | 497                 | 544       |      |      |
| Homeowners           | 4,609                           | 4,466     | 316             | 281    | --             | --     | 4,925               | 4,747     |      |      |
| Other personal lines | 1,829                           | 1,757     | 75              | 69     | 1              | --     | 1,905               | 1,826     |      |      |
| Total                | \$ 18,830                       | \$ 18,483 | \$ 862          | \$ 806 | \$ 912         | \$ 703 | \$ 20,604           | \$ 19,992 |      |      |

Premium measures and statistics that are used to analyze the business are calculated and described below. Measures and statistics presented exclude Allstate Canada, specialty auto and excess and surplus lines.

- Policies in force ( 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.
- Average premium-gross written: 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. Allstate brand average gross premiums represent the appropriate policy term for each line, which is 6 months for standard and non-standard auto and 12 months for homeowners. Encompass brand average gross premiums represent the appropriate policy term for each line, which is 12 months for standard auto and homeowners. Esurance brand average gross premiums represent the appropriate policy term, which is 6 months for standard auto.
- Renewal ratio: Renewal policies issued during the period, based on contract effective dates, divided by the total policies issued 6 months prior for standard and non-standard auto (12 months prior for Encompass brand standard auto) or 12 months prior for homeowners.
- New issued applications: Item counts of automobiles or homeowners insurance applications for insurance policies that were issued during the period, regardless of whether the customer was previously insured by another Allstate Protection market segment. Does not include automobiles that are added by existing customers.

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Standard auto premiums written totaled \$4.65 billion in the third quarter of 2013, a 4.8% increase from \$4.43 billion in the third quarter of 2012, and \$13.59 billion in the first nine months of 2013, a 4.1% increase from \$13.06 billion in the first nine months of 2012.

| <u>Standard auto</u>                    | Allstate brand |        | Encompass brand |        | Esurance brand |        |
|-----------------------------------------|----------------|--------|-----------------|--------|----------------|--------|
|                                         | 2013           | 2012   | 2013            | 2012   | 2013           | 2012   |
| <b>Three months ended September 30,</b> |                |        |                 |        |                |        |
| PIF (thousands)                         | 17,015         | 16,941 | 742             | 697    | 1,254          | 962    |
| Average premium-gross written (1)       | \$ 459         | \$ 450 | \$ 901          | \$ 912 | \$ 480         | \$ 485 |
| Renewal ratio (%)                       | 89.7           | 89.0   | 79.4            | 77.0   | 79.9           | 79.7   |
| Approved rate changes (2):              |                |        |                 |        |                |        |
| # of states                             | 10             | 13     | 9               | 3      | 14             | 7      |
| Countrywide (%) (3)                     | 0.7            | 0.3    | 1.4             | 0.7    | 1.1            | 1.2    |
| State specific (%) (4) (5)              | 3.1            | 1.8    | 5.7             | 4.5    | 5.2            | 4.2    |
| <b>Nine months ended September 30,</b>  |                |        |                 |        |                |        |
| PIF (thousands)                         | 17,015         | 16,941 | 742             | 697    | 1,254          | 962    |
| Average premium-gross written (1)       | \$ 458         | \$ 448 | \$ 901          | \$ 914 | \$ 485         | \$ 496 |
| Renewal ratio (%)                       | 89.6           | 88.9   | 78.6            | 74.7   | 80.9           | 80.6   |
| Approved rate changes (2):              |                |        |                 |        |                |        |
| # of states                             | 25             | 34     | 23              | 18     | 30             | 28     |
| Countrywide (%) (3)                     | 1.1            | 2.3    | 3.8             | 2.4    | 3.7            | 2.4    |
| State specific (%) (4) (5)              | 2.3            | 4.2    | 5.5             | 4.2    | 5.0            | 3.8    |

(1) Policy term is six months for Allstate and Esurance brands and twelve months for Encompass brand.

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

(3) Represents the impact in the states where rate changes were approved during the period as a percentage of total countrywide prior year-end premiums written.

(4) Represents the impact in the states where rate changes were approved during the period as a percentage of its respective total prior year-end premiums written in those states.

(5) Based on historical premiums written in those states, rate changes approved for standard auto totaled \$131 million and \$225 million in the three months and nine months ended September 30, 2013, respectively, compared to \$62 million and \$384 million in the three months and nine months ended September 30, 2012, respectively.

Allstate brand standard auto premiums written totaled \$4.12 billion in the third quarter of 2013, a 3.3% increase from \$3.99 billion in the third quarter of 2012, and \$12.11 billion in the first nine months of 2013, a 2.4% increase from \$11.83 billion in the first nine months of 2012. Excluding Florida and New York, Allstate brand standard auto premiums written totaled \$3.37 billion in the third quarter of 2013, a 4.3% increase from \$3.23 billion in the third quarter of 2012, and \$9.88 billion in the first nine months of 2013, a 3.5% increase from \$9.55 billion in the first nine months of 2012. Factors impacting premiums written were the following:

0.4% increase in PIF as of September 30, 2013 compared to September 30, 2012, and a 0.5% increase compared to December 31, 2012. Excluding Florida and New York, PIF increased 0.6% as of September 30, 2013 compared to September 30, 2012.

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22.4% increase in new issued applications to 563 thousand in the third quarter of 2013 from 460 thousand in the third quarter of 2012, and 15.1% increase to 1,589 thousand in the first nine months of 2013 from 1,381 thousand in the first nine months of 2012. Excluding Florida and New York, new issued applications increased 23.0% to 498 thousand in the third quarter of 2013 from 405 thousand in the third quarter of 2012, and increased 14.9% to 1,402 thousand in the first nine months of 2013 from 1,220 thousand in the first nine months of 2012. New issued applications increased in 41 and 40 states in the third quarter and first nine months of 2013, respectively, compared to the same periods of 2012.

2.0% and 2.2% increase in average gross premium in the third quarter and first nine months of 2013, respectively, compared to the same periods of 2012.

0.7 point increase in the renewal ratio in both the third quarter and first nine months of 2013 compared to the same periods of 2012. In the third quarter and first nine months of 2013, 33 and 34 states, including Florida and New York, respectively, had favorable comparisons to the same periods of 2012.

We remain committed to maintaining appropriate margins in our auto business and at the same time are taking strategic actions to grow the business. As a result, in addition to demonstrating continued success in maintaining consistent profitability, we grew PIF year-over-year in the third quarter of 2013 for the first time in several years driven by several factors including:

Continued enhancement of pricing methodologies.

Expanded homeowners availability, which improves our value proposition for those customers who prefer to bundle their insurance needs.

Re-engagement of the agency force and growing agency footprint.

Introduction of innovative products and services such as Drivewise® to improve the customer experience. Drivewise enables participating customers to be eligible for discounts based on driving performance. Currently available in 22 states with 8 more due to rollout before year-end. Approximately 30% of new auto customers sign up for Drivewise where available. Of customers actively participating in the program, more than 70 percent receive a discount.

Beginning February 2013, Allstate brand customers are immediately assigned an Allstate agency relationship at the time of purchase. The majority of Allstate brand customers who purchased their policies directly through call centers and the internet prior to February 2013 were assigned an Allstate exclusive agency relationship in the second quarter of 2013.

Encompass brand standard auto premiums written totaled \$172 million in the third quarter of 2013, a 5.5% increase from \$163 million in the third quarter of 2012, and \$486 million in the first nine months of 2013, an increase of 4.5% from \$465 million in the first nine months of 2012. Excluding Florida, Encompass brand standard auto premiums written totaled \$172 million in the third quarter of 2013, a 9.6% increase from \$157 million in the third quarter of 2012, and \$485 million in the first nine months of 2013, a 8.0% increase from \$449 million in the first nine months of 2012. The increase was primarily due to a 6.5% increase in PIF as of September 30, 2013 compared to September 30, 2012 and actions taken to enhance our highly differentiated package policy. New issued applications increased 16.2% to 43 thousand in the third quarter of 2013 from 37 thousand in the third quarter of 2012, and increased 13.3% to 119 thousand in the first nine months of 2013 from 105 thousand in the first nine months of 2012. The renewal ratio increased 2.4 points and 3.9 points in the third quarter and first nine months of 2013, respectively, compared to the same periods of 2012.

Esurance brand standard auto premiums written totaled \$357 million in the third quarter of 2013, a 26.6% increase from \$282 million in the third quarter of 2012, and \$993 million in the first nine months of 2013, a 29.3% increase from \$768 million in the first nine months of 2012. The increase was primarily due to a 30.4% increase in PIF as of September 30, 2013 compared to September 30, 2012. New issued applications increased 9.3% to 188 thousand in the third quarter of 2013 from 172 thousand in the third quarter of 2012, and 32.7% to 585 thousand in the first nine months of 2013 from 441 thousand in the first nine months of 2012. Growth in new issued applications was driven by increased advertising, which resulted in an increase in quotes. Our conversion rate was comparable to the prior period. The renewal ratio increased 0.2 points and 0.3 points in the third quarter and first nine months of 2013, respectively, compared to the same periods of 2012.



*Non-standard auto premiums written* totaled \$161 million in the third quarter of 2013, a 8.5% decrease from \$176 million in the third quarter of 2012, and \$491 million in the first nine months of 2013, a 8.9% decrease from \$539 million in the first nine months of 2012. The decrease in both periods were primarily due to a decrease in PIF due to fewer policies available to renew and a 1.0% decrease in new issued applications to 191 thousand in the first nine months of 2013 from 193 thousand in the first nine months of 2012, partially offset by increases in average gross premium in both periods and an increase in the renewal ratio in the first nine months of 2013. New issued applications increased 7.1% to 60 thousand in the third quarter of 2013 from 56 thousand in the third quarter of 2012.

| <b>Allstate brand<br/>Non-standard auto</b> | <b>Three months ended<br/>September 30,</b> |             | <b>Nine months ended<br/>September 30,</b> |             |
|---------------------------------------------|---------------------------------------------|-------------|--------------------------------------------|-------------|
|                                             | <b>2013</b>                                 | <b>2012</b> | <b>2013</b>                                | <b>2012</b> |
| PIF (thousands)                             | 479                                         | 528         | 479                                        | 528         |
| Average premium-gross written (6 months)    | \$ 601                                      | \$ 596      | \$ 603                                     | \$ 598      |
| Renewal ratio (%) (6 months)                | 70.0                                        | 70.1        | 70.6                                       | 70.1        |
| Approved rate changes:                      |                                             |             |                                            |             |
| # of states                                 | 3                                           | 4           | 7                                          | 8           |
| Countrywide (%)                             | 0.3                                         | 0.2         | 0.4                                        | 0.8         |
| State specific (%) (1)                      | 4.8                                         | 5.8         | 4.2                                        | 3.8         |

(1) Based on historical premiums written in those states, rate changes approved for non-standard auto totaled \$2 million and \$3 million in the three months and nine months ended September 30, 2013, respectively, compared to \$1 million and \$5 million in the three months and nine months ended September 30, 2012, respectively.

*Homeowners premiums written* totaled \$1.91 billion in the third quarter of 2013, a 6.4% increase from \$1.79 billion in the third quarter of 2012, and \$5.09 billion in the first nine months of 2013, a 4.2% increase from \$4.88 billion in the first nine months of 2012. Excluding the cost of catastrophe reinsurance, premiums written increased 4.9% and 3.3% in the third quarter and first nine months of 2013, respectively, compared to the same periods of 2012.

| <b>Homeowners</b>                         | <b>Allstate brand</b> |             | <b>Encompass brand</b> |             |
|-------------------------------------------|-----------------------|-------------|------------------------|-------------|
|                                           | <b>2013</b>           | <b>2012</b> | <b>2013</b>            | <b>2012</b> |
| <b>Three months ended September 30,</b>   |                       |             |                        |             |
| PIF (thousands)                           | 5,828                 | 6,042       | 350                    | 320         |
| Average premium-gross written (12 months) | \$ 1,132              | \$ 1,096    | \$ 1,390               | \$ 1,323    |
| Renewal ratio (%) (12 months)             | 87.8                  | 87.2        | 87.4                   | 84.5        |
| Approved rate changes (1):                |                       |             |                        |             |
| # of states                               | 3                     | 10          | 11                     | 5(3)        |
| Countrywide (%)                           | 0.3                   | 0.8         | 1.4                    | 0.3         |
| State specific (%) (2)                    | 6.8                   | 7.3         | 6.9                    | 2.5         |
| <b>Nine months ended September 30,</b>    |                       |             |                        |             |
| PIF (thousands)                           | 5,828                 | 6,042       | 350                    | 320         |
| Average premium-gross written (12 months) | \$ 1,124              | \$ 1,081    | \$ 1,368               | \$ 1,311    |
| Renewal ratio (%) (12 months)             | 87.4                  | 87.2        | 86.7                   | 82.3        |
| Approved rate changes (1):                |                       |             |                        |             |
| # of states                               | 25                    | 28          | 26                     | 19(3)       |
| Countrywide (%)                           | 2.1                   | 4.0         | 4.7                    | 3.0         |
| State specific (%) (2)                    | 5.4                   | 8.9         | 6.4                    | 5.1         |

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

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(2) Based on historical premiums written in those states, rate changes approved for homeowners totaled \$22 million and \$150 million in the three months and nine months ended September 30, 2013, respectively, compared to \$48 million and \$257 million in the three months and nine months ended September 30, 2012, respectively.

(3) Includes Washington D.C.

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Allstate brand homeowners premiums written totaled \$1.78 billion in the third quarter of 2013, a 5.5% increase from \$1.69 billion in the third quarter of 2012, and \$4.74 billion in the first nine months of 2013, a 3.4% increase from \$4.58 billion in the first nine months of 2012. Factors impacting premiums written were the following:

3.5% decrease in PIF as of September 30, 2013 compared to September 30, 2012 due to fewer policies available to renew, and a 2.4% decrease compared to December 31, 2012

45.7% increase in new issued applications to 169 thousand in the third quarter of 2013 from 116 thousand in the third quarter of 2012, and 31.8% increase to 439 thousand in the first nine months of 2013 from 333 thousand in the first nine months of 2012. New issued applications increased in 47 and 44 states in the third quarter and first nine months of 2013, respectively, compared to the same periods of 2012.

3.3% and 4.0% increase in average gross premium in the third quarter and first nine months of 2013, respectively, compared to the same periods of 2012 primarily due to rate changes

0.6 point and 0.2 point increase in the renewal ratio in the third quarter and first nine months of 2013, respectively, compared to the same periods of 2012. In the third quarter and first nine months of 2013, 28 and 19 states, including Florida and New York, respectively, had favorable comparisons to the same periods of 2012.

\$21 million decrease in the cost of our catastrophe reinsurance program to \$96 million in the third quarter of 2013 from \$117 million in the third quarter of 2012, and \$31 million decrease to \$327 million in the first nine months of 2013 from \$358 million in the first nine months of 2012

Our primary focus continues to be on improving returns in our homeowners business which is progressing as expected. The rate of PIF decline continues to moderate due to several factors including:

Selectively entering areas previously closed to new business where we believe we will earn an appropriate return for the risk.

Continued rollout of our Allstate House and Home product which provides options of coverage for roof damage including graduated coverage and pricing based on roof type and age. House and Home has been rolled out in 27 states, making it available to approximately 60% of the U.S. population as of September 30, 2013. States with House and Home show new business growth greater than the countrywide average.

A decreased need for profitability improvement actions which has helped retention return to more normal levels.

Encompass brand homeowners premiums written totaled \$129 million in the third quarter of 2013, a 19.4% increase from \$108 million in the third quarter of 2012, and \$346 million in the first nine months of 2013, a 16.5% increase from \$297 million in the first nine months of 2012. The increase was primarily due to a 9.4% increase in PIF as of September 30, 2013 compared to September 30, 2012 and actions taken to enhance our highly differentiated package policy. New issued applications increased 15.8% to 22 thousand in the third quarter of 2013 from 19 thousand in the third quarter of 2012, and increased 17.3% to 61 thousand in the first nine months of 2013 from 52 thousand in the first nine months of 2012. The renewal ratio increased 2.9 points and 4.4 points in the third quarter and first nine months of 2013, respectively, compared to the same periods of 2012.

*Other personal lines* Allstate brand other personal lines premiums written totaled \$692 million in the third quarter of 2013, a 9.0% increase from \$635 million in the third quarter of 2012, and \$1.96 billion in the first nine months of 2013, a 6.9% increase from \$1.84 billion in the first nine months of 2012. Allstate brand other personal lines includes Emerging Businesses other personal lines (landlord, renters, condominium, other

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property, Allstate Roadside Services and Allstate Dealer Services) for which premiums written increased 12.3% to \$557 million in the third quarter of 2013 from \$496 million in the third quarter of 2012, and increased 9.8% to \$1.54 billion in the first nine months of 2013 from \$1.41 billion in the first nine months of 2012.

**Underwriting results** are shown in the following table.

| (\$ in millions)                                      | Three months ended    |                       | Nine months ended     |                       |
|-------------------------------------------------------|-----------------------|-----------------------|-----------------------|-----------------------|
|                                                       | September 30,<br>2013 | September 30,<br>2012 | September 30,<br>2013 | September 30,<br>2012 |
| Premiums written                                      | \$ 7,438              | \$ 7,064              | \$ 21,214             | \$ 20,390             |
| Premiums earned                                       | \$ 6,972              | \$ 6,696              | \$ 20,604             | \$ 19,992             |
| Claims and claims expense                             | (4,292)               | (4,251)               | (13,487)              | (13,395)              |
| Amortization of DAC                                   | (929)                 | (870)                 | (2,690)               | (2,613)               |
| Other costs and expenses                              | (911)                 | (865)                 | (2,809)               | (2,594)               |
| Restructuring and related charges                     | (9)                   | (9)                   | (52)                  | (25)                  |
| Underwriting income                                   | \$ 831                | \$ 701                | \$ 1,566              | \$ 1,365              |
| Catastrophe losses                                    | \$ 128                | \$ 206                | \$ 1,134              | \$ 1,284              |
| <b>Underwriting income (loss) by line of business</b> |                       |                       |                       |                       |
| Standard auto                                         | \$ 150                | \$ 256                | \$ 456                | \$ 493                |
| Non-standard auto                                     | 35                    | 33                    | 79                    | 79                    |
| Homeowners                                            | 558                   | 416                   | 866                   | 652                   |
| Other personal lines                                  | 88                    | (4)                   | 165                   | 141                   |
| Underwriting income                                   | \$ 831                | \$ 701                | \$ 1,566              | \$ 1,365              |
| <b>Underwriting income (loss) by brand</b>            |                       |                       |                       |                       |
| Allstate brand                                        | \$ 866                | \$ 746                | \$ 1,722              | \$ 1,514              |
| Encompass brand                                       | 19                    | 1                     | 6                     | (3)                   |
| Esurance brand                                        | (54)                  | (46)                  | (162)                 | (146)                 |
| Underwriting income                                   | \$ 831                | \$ 701                | \$ 1,566              | \$ 1,365              |

Allstate Protection had underwriting income of \$831 million in the third quarter of 2013 compared to \$701 million in the third quarter of 2012, and \$1.57 billion in the first nine months of 2013 compared to \$1.37 billion in the first nine months of 2012. The increases in both periods were primarily due to an increase in underwriting income in homeowners and other personal lines, partially offset by a decrease in underwriting income in standard auto. Homeowners underwriting income was \$558 million in the third quarter of 2013 compared to \$416 million in the third quarter of 2012, primarily due to increased premiums earned, decreased loss costs and decreased catastrophe losses, partially offset by higher expenses and lower favorable reserve reestimates. Homeowners underwriting income was \$866 million in the first nine months of 2013 compared to \$652 million in the first nine months of 2012, primarily due to decreased loss costs, increased premiums earned and decreased catastrophe losses, partially offset by unfavorable reserve reestimates and higher expenses. Other personal lines underwriting income was \$88 million in the third quarter of 2013 compared to an underwriting loss of \$4 million in the third quarter of 2012, primarily due to increased premiums earned, decreased loss costs, decreased catastrophe losses and favorable reserve reestimates. Other personal lines underwriting income was \$165 million in the first nine months of 2013 compared to \$141 million in the first nine months of 2012, primarily due to increased premiums earned, decreased loss costs and decreased catastrophe losses, partially offset by higher expenses and lower favorable reserve reestimates. Standard auto underwriting income was \$150 million in the third quarter of 2013 compared to \$256 million in the third quarter of 2012, primarily due to higher incurred losses, lower favorable reserve reestimates and higher expenses, partially offset by increased premiums earned and decreased catastrophe losses. Standard auto underwriting income was \$456 million in the first nine months of 2013 compared to \$493 million in the first nine months of 2012, primarily due to higher incurred losses, higher expenses and lower favorable reserve reestimates, partially offset by increased premiums earned and decreased catastrophe losses including favorable Sandy reserve reestimates.

**Catastrophe losses** were \$128 million and \$1.13 billion in the third quarter and first nine months of 2013, respectively, compared to \$206 million and \$1.28 billion in the third quarter and first nine months of 2012, respectively.

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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 an event that produces a number of claims in excess of a preset,

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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, tornadoes, hailstorms, wildfires, tropical storms, hurricanes, earthquakes and volcanoes. We are also exposed to man-made catastrophic events, such as certain types of terrorism or industrial accidents. The nature and level of catastrophes in any period cannot be reliably predicted.

Catastrophe losses by the size of event are shown in the following table.

| (\$ in millions)                  |                  | Three months ended |                           |       |                       |        |                                    |
|-----------------------------------|------------------|--------------------|---------------------------|-------|-----------------------|--------|------------------------------------|
|                                   |                  | September 30, 2013 |                           |       |                       |        |                                    |
|                                   | Number of events |                    | Claims and claims expense |       | Combined ratio impact |        | Average catastrophe loss per event |
| <b>Size of catastrophe loss</b>   |                  |                    |                           |       |                       |        |                                    |
| \$101 million to \$250 million    | --               | --%                | \$ --                     | --%   | --                    | \$ --  | --                                 |
| \$50 million to \$100 million     | 1                | 3.8                | 56                        | 43.8  | 0.8                   |        | 56                                 |
| Less than \$50 million            | 25               | 96.2               | 140                       | 109.4 | 2.0                   |        | 6                                  |
| Total                             | 26               | 100.0%             | 196                       | 153.2 | 2.8                   |        | 8                                  |
| Prior year reserve reestimates    |                  |                    | (34)                      | (1)   | (26.6)                | (0.5)  |                                    |
| Prior quarter reserve reestimates |                  |                    | (34)                      |       | (26.6)                | (0.5)  |                                    |
| Total catastrophe losses          |                  |                    | \$ 128                    |       | 100.0%                | 1.8    |                                    |
|                                   |                  |                    |                           |       |                       |        |                                    |
|                                   |                  | Nine months ended  |                           |       |                       |        |                                    |
|                                   |                  | September 30, 2013 |                           |       |                       |        |                                    |
|                                   | Number of events |                    | Claims and claims expense |       | Combined ratio impact |        | Average catastrophe loss per event |
| <b>Size of catastrophe loss</b>   |                  |                    |                           |       |                       |        |                                    |
| \$101 million to \$250 million    | 2                | 3.3%               | \$ 300                    | 26.5% | 1.4                   | \$ 150 |                                    |
| \$50 million to \$100 million     | 5                | 8.2                | 389                       | 34.3  | 1.9                   |        | 78                                 |
| Less than \$50 million            | 54               | 88.5               | 529                       | 46.6  | 2.6                   |        | 10                                 |
| Total                             | 61               | 100.0%             | 1,218                     | 107.4 | 5.9                   |        | 20                                 |
| Prior year reserve reestimates    |                  |                    | (84)                      | (1)   | (7.4)                 | (0.4)  |                                    |
| Total catastrophe losses          |                  |                    | \$ 1,134                  |       | 100.0%                | 5.5    |                                    |

(1) Reserve reestimates related to Sandy in the three months ended September 30, 2013 totaled \$2 million favorable, including \$8 million unfavorable for auto, \$8 million favorable for homeowners and \$2 million favorable for other personal lines. Reserve reestimates related to Sandy in the first nine months ended September 30, 2013 totaled \$41 million favorable, including \$42 million favorable for auto, \$16 million unfavorable for homeowners and \$15 million favorable for other personal lines.

Catastrophe losses by the type of event are shown in the following table.

| (\$ in millions) | Three months ended | Nine months ended |
|------------------|--------------------|-------------------|
|                  | September 30,      | September 30,     |

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|                                   | Number |           |        |                     | Number   |           |          |                     |
|-----------------------------------|--------|-----------|--------|---------------------|----------|-----------|----------|---------------------|
|                                   | 2013   | of events | 2012   | Number<br>of events | 2013     | of events | 2012     | Number<br>of events |
| Hurricanes/Tropical storms        | \$ --  | --        | \$ 81  | 1                   | \$ 14    | 1         | \$ 89    | 2                   |
| Tornadoes                         | --     | --        | --     | --                  | 126      | 2         | 295      | 5                   |
| Wind/Hail                         | 195    | 25        | 225    | 26                  | 1,022    | 52        | 1,156    | 56                  |
| Wildfires                         | 1      | 1         | 7      | 2                   | 43       | 5         | 67       | 10                  |
| Other events                      | --     | --        | --     | --                  | 13       | 1         | 7        | 1                   |
| Prior year reserve reestimates    | (34)   |           | (76)   |                     | (84)     |           | (330)    |                     |
| Prior quarter reserve reestimates | (34)   |           | (31)   |                     | --       |           | --       |                     |
| Total catastrophe losses          | \$ 128 | 26        | \$ 206 | 29                  | \$ 1,134 | 61        | \$ 1,284 | 74                  |

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Catastrophe losses, including prior year reserve reestimates, excluding hurricanes named or numbered by the National Weather Service, fires following earthquakes and earthquakes totaled \$1.23 billion and \$1.30 billion in the first nine months of 2013 and 2012, respectively.

**Combined ratio** Loss ratios by product, and expense and combined ratios by brand, are shown in the following table.

|                                        | Three months ended |      |                                                |      |                                                            |       |                                                                                                               |      | Nine months ended |      |                                                |      |                                                            |        |                                                                                                               |      |
|----------------------------------------|--------------------|------|------------------------------------------------|------|------------------------------------------------------------|-------|---------------------------------------------------------------------------------------------------------------|------|-------------------|------|------------------------------------------------|------|------------------------------------------------------------|--------|---------------------------------------------------------------------------------------------------------------|------|
|                                        | September 30,      |      |                                                |      |                                                            |       |                                                                                                               |      | September 30,     |      |                                                |      |                                                            |        |                                                                                                               |      |
|                                        | Ratio (1)          |      | Effect of catastrophe losses on combined ratio |      | Effect of prior year reserve reestimates on combined ratio |       | Effect of business combination expenses and the amortization of purchased intangible assets on combined ratio |      | Ratio (1)         |      | Effect of catastrophe losses on combined ratio |      | Effect of prior year reserve reestimates on combined ratio |        | Effect of business combination expenses and the amortization of purchased intangible assets on combined ratio |      |
|                                        | 2013               | 2012 | 2013                                           | 2012 | 2013                                                       | 2012  | 2013                                                                                                          | 2012 | 2013              | 2012 | 2013                                           | 2012 | 2013                                                       | 2012   | 2013                                                                                                          | 2012 |
| <b>Allstate brand loss ratio:</b>      |                    |      |                                                |      |                                                            |       |                                                                                                               |      |                   |      |                                                |      |                                                            |        |                                                                                                               |      |
| Standard auto                          | 69.2               | 66.9 | 0.9                                            | 1.3  | (0.5)                                                      | (3.2) |                                                                                                               |      | 68.7              | 68.8 | 1.3                                            | 2.1  | (1.3)                                                      | (2.2)  |                                                                                                               |      |
| Non-standard auto                      | 54.3               | 58.2 | --                                             | 1.1  | (8.0)                                                      | (4.5) |                                                                                                               |      | 60.2              | 62.1 | 0.8                                            | 0.9  | (4.2)                                                      | (2.0)  |                                                                                                               |      |
| Homeowners                             | 41.1               | 49.0 | 4.7                                            | 7.8  | (3.3)                                                      | (4.3) |                                                                                                               |      | 57.3              | 62.5 | 18.5                                           | 20.1 | 0.1                                                        | (5.2)  |                                                                                                               |      |
| Other personal lines                   | 56.4               | 70.4 | --                                             | 3.6  | (0.5)                                                      | 2.7   |                                                                                                               |      | 58.1              | 62.6 | 3.0                                            | 4.6  | (0.8)                                                      | (2.3)  |                                                                                                               |      |
| <b>Total Allstate brand loss ratio</b> | 60.6               | 62.7 | 1.7                                            | 3.1  | (1.4)                                                      | (2.9) |                                                                                                               |      | 64.7              | 66.5 | 5.7                                            | 6.7  | (1.0)                                                      | (2.9)  |                                                                                                               |      |
| <b>Allstate brand expense ratio</b>    | 25.8               | 25.2 | --                                             | --   | --                                                         | --    | 0.1                                                                                                           | 0.1  | 26.2              | 25.3 | --                                             | --   | --                                                         | --     | 0.1                                                                                                           | 0.1  |
| <b>Allstate brand combined ratio</b>   | 86.4               | 87.9 | 1.7                                            | 3.1  | (1.4)                                                      | (2.9) | 0.1                                                                                                           | 0.1  | 90.9              | 91.8 | 5.7                                            | 6.7  | (1.0)                                                      | (2.9)  | 0.1                                                                                                           | 0.1  |
| <b>Encompass brand loss ratio:</b>     |                    |      |                                                |      |                                                            |       |                                                                                                               |      |                   |      |                                                |      |                                                            |        |                                                                                                               |      |
| Standard auto                          | 70.9               | 79.6 | 1.9                                            | 1.3  | (7.6)                                                      | 0.7   |                                                                                                               |      | 73.5              | 79.8 | 0.6                                            | 1.5  | (4.9)                                                      | 0.4    |                                                                                                               |      |
| Homeowners                             | 56.8               | 58.3 | 13.5                                           | 13.5 | --                                                         | (8.3) |                                                                                                               |      | 61.4              | 60.1 | 16.5                                           | 11.7 | --                                                         | (5.0)  |                                                                                                               |      |
| Other personal lines                   | 50.0               | 56.5 | (3.8)                                          | --   | (11.5)                                                     | (4.3) |                                                                                                               |      | 72.0              | 62.3 | 5.3                                            | --   | 2.7                                                        | (10.1) |                                                                                                               |      |
| <b>Total Encompass</b>                 | 63.7               | 69.4 | 5.8                                            | 5.5  | (5.1)                                                      | (3.7) |                                                                                                               |      | 68.9              | 71.2 | 6.8                                            | 5.0  | (2.4)                                                      | (2.7)  |                                                                                                               |      |

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|                                    |       |       |     |     |       |       |     |     |       |       |     |     |       |       |     |      |    |
|------------------------------------|-------|-------|-----|-----|-------|-------|-----|-----|-------|-------|-----|-----|-------|-------|-----|------|----|
| brand loss ratio                   |       |       |     |     |       |       |     |     |       |       |     |     |       |       |     |      |    |
| Encompass brand expense ratio      | 29.9  | 30.2  | --  | --  | --    | --    | --  | --  | 30.4  | 29.2  | --  | --  | --    | --    | --  | --   | -- |
| Encompass brand combined ratio     | 93.6  | 99.6  | 5.8 | 5.5 | (5.1) | (3.7) | --  | --  | 99.3  | 100.4 | 6.8 | 5.0 | (2.4) | (2.7) | --  | --   |    |
|                                    |       |       |     |     |       |       |     |     |       |       |     |     |       |       |     |      |    |
| Esurance brand loss ratio:         |       |       |     |     |       |       |     |     |       |       |     |     |       |       |     |      |    |
| Standard auto                      | 78.0  | 77.4  | 0.6 | 0.8 | --    | --    |     |     | 78.2  | 75.5  | 1.1 | 1.3 | --    | --    |     |      |    |
| Other personal lines               | --    | --    | --  | --  | --    | --    |     |     | 100.0 | --    | --  | --  | --    | --    |     |      |    |
|                                    |       |       |     |     |       |       |     |     |       |       |     |     |       |       |     |      |    |
| Total Esurance brand loss ratio    | 78.0  | 77.4  | 0.6 | 0.8 | --    | --    |     |     | 78.2  | 75.5  | 1.1 | 1.3 | --    | --    |     |      |    |
| Esurance brand expense ratio       | 38.8  | 41.1  | --  | --  | --    | --    | 4.7 | 8.1 | 39.6  | 45.3  | --  | --  | --    | --    | 5.0 | 11.2 |    |
| Esurance brand combined ratio      | 116.8 | 118.5 | 0.6 | 0.8 | --    | --    | 4.7 | 8.1 | 117.8 | 120.8 | 1.1 | 1.3 | --    | --    | 5.0 | 11.2 |    |
|                                    |       |       |     |     |       |       |     |     |       |       |     |     |       |       |     |      |    |
| Allstate Protection loss ratio     | 61.6  | 63.5  | 1.8 | 3.1 | (1.4) | (2.9) |     |     | 65.5  | 67.0  | 5.5 | 6.4 | (1.0) | (2.8) |     |      |    |
| Allstate Protection expense ratio  | 26.5  | 26.0  | --  | --  | --    | --    | 0.3 | 0.4 | 26.9  | 26.2  | --  | --  | --    | --    | 0.3 | 0.5  |    |
| Allstate Protection combined ratio | 88.1  | 89.5  | 1.8 | 3.1 | (1.4) | (2.9) | 0.3 | 0.4 | 92.4  | 93.2  | 5.5 | 6.4 | (1.0) | (2.8) | 0.3 | 0.5  |    |

(1) Ratios are calculated using the premiums earned for the respective line of business.

*Standard auto loss ratio* for the Allstate brand increased 2.3 points in the third quarter compared to the same period of 2012, primarily due to lower favorable reserve reestimates. Standard auto loss ratio for the Allstate brand decreased 0.1 points in the first nine months of 2013 compared to the same period of 2012, primarily due to lower catastrophe losses, partially offset by lower favorable reserve reestimates. Florida loss ratios were 70.8 and 70.1 in the third quarter and first nine months of 2013, respectively, compared to 65.6 and 67.9 in the third quarter and first nine months of 2012, respectively. For New York, the loss ratio was 74.3 and 69.9 in the third quarter and first nine months of 2013, respectively, compared to 67.8 and 66.9 in the third quarter and first nine months of 2012, respectively. Excluding the impact of reserve reestimates and catastrophe losses, both states have experienced improvement over time as a result of management actions, including rate increases, underwriting restrictions, increased claims staffing and review, and on-going efforts to combat fraud and abuse. We continue to closely monitor profitability in these markets.

Claim frequencies (rate of claim occurrence per policy in force) in the bodily injury and property damage coverages increased 1.6% and 1.1% in the third quarter of 2013, respectively, compared to the third quarter of 2012, and claim frequency in the bodily injury and property damage coverages decreased 0.2% and increased 0.4% in the first nine months of 2013, respectively, compared to the first nine months of 2012. Frequencies in both coverages continue to perform within the historical ranges. Bodily injury and property damage coverage paid claim severities (average cost per claim) increased 2.7% and 0.6% in the third quarter of 2013, respectively, compared to the third quarter of 2012, and increased 4.8% and 1.1% in the first nine months of 2013, respectively, compared to the first nine months of 2012. Bodily injury severity for the first nine months is showing only moderate growth compared to the historical Consumer Price Index trends after adjusting for geographic mix, age of claims and policy limit shifts.

Encompass brand standard auto loss ratio decreased 8.7 points and 6.3 points in the third quarter and first nine months of 2013, respectively, compared to the same periods of 2012, primarily due to favorable reserve reestimates. Encompass is focused on profitability management actions which include rate increases in certain geographies.

Esurance brand standard auto loss ratio increased 0.6 points and 2.7 points in the third quarter and first nine months of 2013, respectively, compared to the same periods of 2012, primarily due to increases in the volume of new business, increased utilization of price discounts and higher unallocated loss adjustment expense. Esurance is focused on profitability management actions, including raising rates and tightening underwriting. These actions have contributed to deceleration in the rate of growth in the third quarter of 2013 compared to the first half of 2013.

*Homeowners loss ratio* for the Allstate brand decreased 7.9 points to 41.1 in the third quarter of 2013 from 49.0 in the third quarter of 2012, primarily due to increased premiums earned, decreased loss costs and lower catastrophe losses, partially offset by lower favorable reserve reestimates. Homeowners loss ratio for the Allstate brand decreased 5.2 points to 57.3 in the first nine months of 2013 from 62.5 in the first nine months of 2012, primarily due to decreased loss costs, increased premiums earned and lower catastrophe losses, partially offset by unfavorable reserve reestimates. Claim frequency excluding catastrophe losses decreased 0.8% and increased 0.2% in the third quarter and first nine months of 2013, respectively, compared to the same periods of 2012. Paid claim severity excluding catastrophe losses decreased 3.0% and 1.0% in the third quarter and first nine months of 2013, respectively, compared to the same periods of 2012.

Encompass brand homeowners loss ratio decreased 1.5 points in the third quarter of 2013 compared to the same period of 2012, primarily due to increased premiums earned, partially offset by favorable reserve reestimates in the prior year period. Encompass brand homeowners loss ratio increased 1.3 points in the first nine months of 2013 compared to the same period of 2012, primarily due to higher catastrophe losses. Excluding the impact of catastrophe losses, the Encompass brand homeowners loss ratio decreased 1.5 points and 3.5 points in the third quarter and first nine months of 2013, respectively, compared to the same periods of 2012.

**Expense ratio** for Allstate Protection increased 0.5 points and 0.7 points in the third quarter and first nine months of 2013, respectively, compared to the same periods of 2012. The impact of specific costs and expenses on the expense ratio are shown in the following table.

|                                                                               | <b>Allstate brand</b> |             | <b>Three months ended September 30,</b> |      |                       |      | <b>Allstate Protection</b> |             |
|-------------------------------------------------------------------------------|-----------------------|-------------|-----------------------------------------|------|-----------------------|------|----------------------------|-------------|
|                                                                               | <b>2013</b>           | <b>2012</b> | <b>Encompass brand</b>                  |      | <b>Esurance brand</b> |      | <b>2013</b>                | <b>2012</b> |
| Amortization of DAC                                                           | 13.6                  | 13.2        | 18.3                                    | 17.7 | 2.8                   | 2.4  | 13.3                       | 13.0        |
| Advertising expenses                                                          | 2.7                   | 2.4         | --                                      | --   | 14.6                  | 16.5 | 3.2                        | 2.9         |
| Business combination expenses and amortization of purchased intangible assets | 0.1                   | 0.1         | --                                      | --   | 4.7                   | 8.1  | 0.3                        | 0.4         |
| Other costs and expenses                                                      | 9.3                   | 9.4         | 11.6                                    | 12.5 | 16.7                  | 14.1 | 9.6                        | 9.6         |
| Restructuring and related charges                                             | 0.1                   | 0.1         | --                                      | --   | --                    | --   | 0.1                        | 0.1         |
| Total expense ratio                                                           | 25.8                  | 25.2        | 29.9                                    | 30.2 | 38.8                  | 41.1 | 26.5                       | 26.0        |

|                                                                               | <b>Allstate brand</b> |             | <b>Nine months ended September 30,</b> |      |                       |      | <b>Allstate Protection</b> |             |
|-------------------------------------------------------------------------------|-----------------------|-------------|----------------------------------------|------|-----------------------|------|----------------------------|-------------|
|                                                                               | <b>2013</b>           | <b>2012</b> | <b>Encompass brand</b>                 |      | <b>Esurance brand</b> |      | <b>2013</b>                | <b>2012</b> |
| Amortization of DAC                                                           | 13.3                  | 13.2        | 18.0                                   | 17.5 | 2.6                   | 2.4  | 13.1                       | 13.0        |
| Advertising expenses                                                          | 2.9                   | 2.8         | 0.5                                    | 0.4  | 15.6                  | 17.6 | 3.3                        | 3.2         |
| Business combination expenses and amortization of purchased intangible assets | 0.1                   | 0.1         | --                                     | --   | 5.0                   | 11.2 | 0.3                        | 0.5         |
| Other costs and expenses                                                      | 9.6                   | 9.1         | 11.6                                   | 11.3 | 16.4                  | 14.1 | 9.9                        | 9.4         |
| Restructuring and related charges                                             | 0.3                   | 0.1         | 0.3                                    | --   | --                    | --   | 0.3                        | 0.1         |
| Total expense ratio                                                           | 26.2                  | 25.3        | 30.4                                   | 29.2 | 39.6                  | 45.3 | 26.9                       | 26.2        |

Amortization of DAC primarily includes agent remuneration and premium taxes. In 2013, Allstate exclusive agent remuneration comprises a base commission, variable compensation and a bonus. Commissions are trending slightly above the prior year, which had only a base commission. Variable compensation has two components: agency success factors (local presence, Allstate Financial product sales and licensed staff), which must be achieved in order to qualify for the second component, customer experience (customer satisfaction survey). In addition, a bonus that is also a percentage of premiums can be earned by agents up to the same level as the prior year. To qualify for the bonus in 2013, agents must achieve a minimum loss ratio and an amount of sales of Allstate Financial products. The bonus is earned by increases in multi-line households and increases in Property-Liability policies in force and Allstate Financial policies in force.

Other costs and expenses increased in the first nine months of 2013 compared to the same period of 2012, primarily due to higher technology related costs and increased expenses at Esurance. Esurance is developing additional products to complement its auto line of business and provide a more comprehensive solution to its customers. In addition, Esurance is investing in geographic expansion of its auto product. Esurance expanded its renters product from 5 to 12 states, expanded auto from 35 to 39 states, and introduced its motorcycle product in 3 states so far during 2013.

Restructuring and related charges were \$9 million and \$52 million in the third quarter and first nine months of 2013, respectively, primarily related to the technology organization, which is fundamentally changing its organizational structure leveraging centralization, global sourcing and automation to meet contemporary business needs; and the closure of a call center.

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We have taken actions to reduce our future cost structure, including changes to our employee pension and other postretirement benefit offerings announced in July 2013, changes to the technology organization, and the closure of a call center. We expect the Allstate Protection expense ratio will decline over time.

**Reserve reestimates** The tables below show Allstate Protection net reserves representing the estimated cost of outstanding claims as they were recorded at the beginning of years 2013 and 2012, and the effect of reestimates in each year.

| (\$ in millions)          | January 1 reserves |        |      |        |
|---------------------------|--------------------|--------|------|--------|
|                           | 2013               |        | 2012 |        |
| Auto                      | \$                 | 11,383 | \$   | 11,404 |
| Homeowners                |                    | 2,008  |      | 2,439  |
| Other personal lines      |                    | 2,250  |      | 2,237  |
| Total Allstate Protection | \$                 | 15,641 | \$   | 16,080 |

| (\$ in millions, except ratios) | Three months ended<br>September 30, |          |                    |       | Nine months ended<br>September 30, |          |                    |       |
|---------------------------------|-------------------------------------|----------|--------------------|-------|------------------------------------|----------|--------------------|-------|
|                                 | Reserve                             |          | Effect on          |       | Reserve                            |          | Effect on          |       |
|                                 | reestimate (1)                      |          | combined ratio (2) |       | reestimate (1)                     |          | combined ratio (2) |       |
|                                 | 2013                                | 2012     | 2013               | 2012  | 2013                               | 2012     | 2013               | 2012  |
| Auto (3)                        | \$ (44)                             | \$ (134) | (0.6)              | (2.0) | \$ (193)                           | \$ (265) | (0.9)              | (1.4) |
| Homeowners (3)                  | (51)                                | (72)     | (0.7)              | (1.1) | 5                                  | (247)    | --                 | (1.2) |
| Other personal lines (3)        | (6)                                 | 15       | (0.1)              | 0.2   | (12)                               | (47)     | (0.1)              | (0.2) |
| Total Allstate Protection       | \$ (101)                            | \$ (191) | (1.4)              | (2.9) | \$ (200)                           | \$ (559) | (1.0)              | (2.8) |
| Allstate brand                  | \$ (86)                             | \$ (181) | (1.2)              | (2.7) | \$ (179)                           | \$ (537) | (0.9)              | (2.7) |
| Encompass brand                 | (15)                                | (10)     | (0.2)              | (0.2) | (21)                               | (22)     | (0.1)              | (0.1) |
| Esurance brand                  | --                                  | --       | --                 | --    | --                                 | --       | --                 | --    |
| Total Allstate Protection       | \$ (101)                            | \$ (191) | (1.4)              | (2.9) | \$ (200)                           | \$ (559) | (1.0)              | (2.8) |

(1) Favorable reserve reestimates are shown in parentheses.

(2) Ratios are calculated using Property-Liability premiums earned.

(3) Prior year reserve reestimates included in catastrophe losses for auto, homeowners and other personal lines totaled \$5 million unfavorable, \$33 million favorable and \$6 million favorable in the three months ended September 30, 2013, respectively, compared to \$9 million favorable, \$57 million favorable and \$10 million favorable in the three months ended September 30, 2012, respectively. Prior year reserve reestimates included in catastrophe losses for auto, homeowners and other personal lines totaled \$66 million favorable, \$12 million unfavorable and \$30 million favorable in the nine months ended September 30, 2013, respectively, compared to \$30 million favorable, \$244 million favorable and \$56 million favorable in the nine months ended September 30, 2012, respectively. The effect of catastrophe losses included in prior year reserve reestimates on the combined ratio for auto, homeowners and other personal lines totaled 0.1 unfavorable, 0.5 favorable and 0.1 favorable in the three months ended September 30, 2013, respectively, compared to 0.1 favorable, 0.9 favorable and 0.1 favorable in the three months ended September 30, 2012, respectively. The effect of catastrophe losses included in prior year reserve reestimates on the combined ratio for auto, homeowners and other personal lines totaled 0.3 favorable, 0.0 unfavorable and 0.1 favorable in the nine months ended September 30, 2013, respectively, compared to 0.2 favorable, 1.2 favorable and 0.3 favorable in the nine months ended September 30, 2012, respectively.

**DISCONTINUED LINES AND COVERAGES SEGMENT**

**Overview** The Discontinued Lines and Coverages segment includes results from insurance coverage that we no longer write and results for certain commercial and other businesses in run-off. Our exposure to asbestos, environmental and other discontinued lines claims is reported in this segment. We have assigned management of this segment to a designated group of professionals with expertise in claims handling, policy coverage interpretation, exposure identification and reinsurance collection. As part of its responsibilities, this group may at times be engaged in policy buybacks, settlements and reinsurance assumed and ceded commutations.

Summarized underwriting results are presented in the following table.

| (\$ in millions)             | Three months ended<br>September 30, |         | Nine months ended<br>September 30, |         |
|------------------------------|-------------------------------------|---------|------------------------------------|---------|
|                              | 2013                                | 2012    | 2013                               | 2012    |
| Premiums written             | \$ --                               | \$ (1)  | \$ --                              | \$ --   |
| Premiums earned              | \$ --                               | \$ 1    | \$ --                              | \$ 1    |
| Claims and claims expense    | (135)                               | (42)    | (141)                              | (47)    |
| Operating costs and expenses | 1                                   | (1)     | (1)                                | (3)     |
| Underwriting loss            | \$ (134)                            | \$ (42) | \$ (142)                           | \$ (49) |

Underwriting losses of \$134 million and \$142 million in the third quarter and first nine months of 2013, respectively, were primarily related to our annual review using established industry and actuarial best practices resulting in a \$74 million unfavorable reestimate of asbestos reserves, a \$30 million unfavorable reestimate of environmental reserves and a \$30 million unfavorable reestimate of other exposure reserves, partially offset by a \$1 million decrease in our allowance for future uncollectable reinsurance. Underwriting losses of \$42 million and \$49 million in the third quarter and first nine months of 2012, respectively, were primarily related to a \$26 million unfavorable reestimate of asbestos reserves, a \$22 million unfavorable reestimate of environmental reserves and a \$5 million unfavorable reestimate of other exposure reserves, partially offset by a \$14 million decrease in our allowance for future uncollectable reinsurance.

For asbestos exposures, our 2013 annual review resulted in an increase in estimated reserves of \$74 million primarily related to a cedent's settlement with a bankrupt insured of asbestos claims in excess of a previously advised amount and loss trends from other claims. Reserves for asbestos claims were \$1.03 billion and \$1.03 billion, net of reinsurance recoverables of \$482 million and \$496 million, as of September 30, 2013 and December 31, 2012, respectively. We continue to be encouraged that the pace of industry claim activity has slowed, reflecting various state legislative actions and increased legal scrutiny of the legitimacy of claims. Incurred but not reported (IBNR) represents 57% of total net asbestos reserves as of September 30, 2013 with no change from December 31, 2012. IBNR provides for estimated probable future unfavorable reserve development of known claims and future reporting of additional unknown claims from current and new policyholders and ceding companies. In the third quarter of 2012, our review resulted in an increase in estimated reserves of \$26 million.

For environmental exposures, our 2013 annual review resulted in an increase in estimated reserves of \$30 million primarily related to an adverse court ruling for site-specific disputed coverage. Reserves for environmental claims were \$213 million and \$193 million, net of reinsurance recoverables of \$60 million and \$48 million, as of September 30, 2013 and December 31, 2012, respectively. IBNR represents 53% of total net environmental reserves, 7 points lower than as of December 31, 2012. In the third quarter of 2012, our review resulted in an increase in estimated reserves of \$22 million.

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For other exposures, our 2013 annual review resulted in an increase in estimated reserves of \$30 million primarily due to unanticipated increases in both indemnity and defense payments claims severity and frequency, associated with safety equipment manufacturers, reaching additional coverage and adverse court developments. Reserves for other exposure claims were \$437 million and \$418 million as of September 30, 2013 and December 31, 2012, respectively. In the third quarter of 2012, our review resulted in an increase in estimated reserves of \$5 million.

As of September 30, 2013, the allowance for uncollectible reinsurance was \$88 million, or approximately 12.4% of total recoverables from reinsurers in the Discontinued Lines and Coverages segment, compared to \$87 million or 12.4% of total recoverables as of December 31, 2012.

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

## PROPERTY-LIABILITY INVESTMENT RESULTS

**Net investment income** The following table presents net investment income.

| (\$ in millions)                  | Three months ended<br>September 30, |        | Nine months ended<br>September 30, |        |
|-----------------------------------|-------------------------------------|--------|------------------------------------|--------|
|                                   | 2013                                | 2012   | 2013                               | 2012   |
| Fixed income securities           | \$ 219                              | \$ 275 | \$ 699                             | \$ 814 |
| Equity securities                 | 26                                  | 28     | 85                                 | 69     |
| Mortgage loans                    | 6                                   | 5      | 16                                 | 16     |
| Limited partnership interests     | 69                                  | 11     | 235                                | 120    |
| Short-term investments            | 1                                   | --     | 2                                  | 2      |
| Other                             | 11                                  | 4      | 27                                 | 9      |
| Investment income, before expense | 332                                 | 323    | 1,064                              | 1,030  |
| Investment expense                | (23)                                | (24)   | (71)                               | (66)   |
| Net investment income             | \$ 309                              | \$ 299 | \$ 993                             | \$ 964 |

The average pre-tax investment yields are presented in the following table. Pre-tax yield is calculated as annualized investment income before investment expense (including dividend income in the case of equity securities) divided by the average of the investment balances at the end of each quarter during the year. Investment balances, for purposes of the pre-tax yield calculation, exclude unrealized capital gains and losses.

|                                                | Three months ended<br>September 30, |      | Nine months ended<br>September 30, |      |
|------------------------------------------------|-------------------------------------|------|------------------------------------|------|
|                                                | 2013                                | 2012 | 2013                               | 2012 |
| Fixed income securities: tax-exempt            | 3.2%                                | 4.2% | 3.5%                               | 4.4% |
| Fixed income securities: tax-exempt equivalent | 4.7                                 | 6.1  | 5.1                                | 6.4  |
| Fixed income securities: taxable               | 3.2                                 | 3.7  | 3.3                                | 3.7  |
| Equity securities                              | 2.8                                 | 3.3  | 3.2                                | 2.6  |
| Mortgage loans                                 | 4.4                                 | 4.3  | 4.3                                | 4.3  |
| Limited partnership interests                  | 9.3                                 | 1.5  | 10.4                               | 5.4  |
| Total portfolio                                | 3.6                                 | 3.6  | 3.9                                | 3.8  |

Net investment income increased 3.3% to \$309 million in the third quarter of 2013 from \$299 million in the third quarter of 2012, primarily due to higher limited partnership income, partially offset by lower fixed income yields. Net investment income increased 3.0% to \$993 million in the first nine months of 2013 from \$964 million in the first nine months of 2012, primarily due to higher limited partnership income, average investment balances and equity dividends, as well as prepayment fee income and litigation proceeds which together increased income by a total of \$19 million in the first nine months of 2013, partially offset by lower fixed income yields. The decrease in fixed income yields is primarily due to actions taken to reduce interest rate risk through dispositions of long-duration municipal and corporate fixed income securities and increased investment in floating rate securities, short term and intermediate corporate fixed income securities. While the dispositions generated net realized capital gains, we expect a decline in investment income prospectively due to the lower yield on the reinvestment of proceeds.



Net realized capital gains and losses are presented in the following table.

| (\$ in millions)                                                  | Three months ended<br>September 30, |         | Nine months ended<br>September 30, |         |
|-------------------------------------------------------------------|-------------------------------------|---------|------------------------------------|---------|
|                                                                   | 2013                                | 2012    | 2013                               | 2012    |
| Impairment write-downs                                            | \$ (8)                              | \$ (31) | \$ (33)                            | \$ (93) |
| Change in intent write-downs                                      | (63)                                | (2)     | (109)                              | (31)    |
| Net other-than-temporary impairment losses recognized in earnings | (71)                                | (33)    | (142)                              | (124)   |
| Sales                                                             | 52                                  | 27      | 549                                | 324     |
| Valuation of derivative instruments                               | 5                                   | 3       | 2                                  | 7       |
| Settlements of derivative instruments                             | (12)                                | (13)    | (18)                               | (15)    |
| Realized capital gains and losses, pre-tax                        | (26)                                | (16)    | 391                                | 192     |
| Income tax benefit (expense)                                      | 9                                   | 5       | (138)                              | (67)    |
| Realized capital gains and losses, after-tax                      | \$ (17)                             | \$ (11) | \$ 253                             | \$ 125  |

For a further discussion of net realized capital gains and losses, see the Investments section of the MD&A.

## ALLSTATE FINANCIAL HIGHLIGHTS

- Net loss available to common shareholders was \$360 million and \$24 million in the third quarter and first nine months of 2013, respectively, compared to net income available to common shareholders of \$131 million and \$375 million in the third quarter and first nine months of 2012, respectively.
- Premiums and contract charges on underwritten products, including traditional life, interest-sensitive life and accident and health insurance, totaled \$572 million in the third quarter of 2013, an increase of 4.4% from \$548 million in the third quarter of 2012, and \$1.71 billion in the first nine months of 2013, an increase of 5.2% from \$1.62 billion in the first nine months of 2012.
- Investments totaled \$39.60 billion as of September 30, 2013, reflecting a decrease of \$17.40 billion from \$57.00 billion as of December 31, 2012. Investments classified as held for sale totaled \$12.24 billion as of September 30, 2013. Net investment income increased 0.2% to \$633 million in the third quarter of 2013 and decreased 4.1% to \$1.90 billion in the first nine months of 2013 from \$632 million and \$1.98 billion in the third quarter and first nine months of 2012, respectively.
- Net realized capital losses totaled \$16 million in the third quarter of 2013 compared to \$56 million in the third quarter of 2012, and net realized capital gains totaled \$60 million in the first nine months of 2013 compared to net realized capital losses of \$69 million in the first nine months of 2012.
- During third quarter 2013, a \$58 million pre-tax charge to income was recorded related to our annual comprehensive review of the DAC, deferred sales inducement costs and secondary guarantee liability balances. This compares to a \$27 million pre-tax charge to income in the third quarter of 2012.
- During third quarter 2013, a loss on disposition of \$475 million, after-tax, was recorded relating to the sale of Lincoln Benefit Life Company.
- Contractholder funds totaled \$24.48 billion as of September 30, 2013, reflecting a decrease of \$14.84 billion from \$39.32 billion as of December 31, 2012. Contractholder funds classified as held for sale totaled \$11.28 billion as of September 30, 2013.

**ALLSTATE FINANCIAL SEGMENT**

**Strategic actions**

On July 17, 2013, we announced our plans to exit the independent master brokerage agencies distribution channel. In connection with this announcement, on July 17, 2013, we entered into a definitive agreement with Resolution Life Holdings, Inc. to sell Lincoln Benefit Life Company, LBL's life insurance business generated through independent master brokerage agencies, and all of LBL's deferred fixed annuity and long-term care insurance business for \$600 million subject to certain adjustments as of the closing date. The transaction is subject to regulatory approvals and other customary closing conditions. We expect the closing to occur during the first quarter of 2014. The estimated loss on disposition of \$475 million, after-tax, was recorded in third quarter 2013. The business being sold had \$341 million of premiums and contract charges in 2012. Effective July 18, 2013, we no longer offer any products through the independent master brokerage agency distribution channel.

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Effective January 1, 2014, we will no longer offer fixed annuities. Allstate exclusive agencies and exclusive financial specialists will have non-proprietary fixed annuities available to sell.

We are planning to outsource the administration of our annuity business to a third party administration company by the end of 2014. We expect to have restructuring expense charges relating to these changes in late 2013 and into 2014.

**Summary analysis** Summarized financial data is presented in the following table.

| (\$ in millions)                                          | Three months ended<br>September 30, |        | Nine months ended<br>September 30, |          |
|-----------------------------------------------------------|-------------------------------------|--------|------------------------------------|----------|
|                                                           | 2013                                | 2012   | 2013                               | 2012     |
| <b>Revenues</b>                                           |                                     |        |                                    |          |
| Life and annuity premiums and contract charges            | \$ 584                              | \$ 563 | \$ 1,742                           | \$ 1,675 |
| Net investment income                                     | 633                                 | 632    | 1,901                              | 1,982    |
| Realized capital gains and losses                         | (16)                                | (56)   | 60                                 | (69)     |
| Total revenues                                            | 1,201                               | 1,139  | 3,703                              | 3,588    |
| <b>Costs and expenses</b>                                 |                                     |        |                                    |          |
| Life and annuity contract benefits                        | (498)                               | (453)  | (1,427)                            | (1,354)  |
| Interest credited to contractholder funds                 | (317)                               | (215)  | (973)                              | (959)    |
| Amortization of DAC                                       | (97)                                | (146)  | (243)                              | (324)    |
| Operating costs and expenses                              | (132)                               | (147)  | (420)                              | (424)    |
| Restructuring and related charges                         | (4)                                 | --     | (7)                                | --       |
| Total costs and expenses                                  | (1,048)                             | (961)  | (3,070)                            | (3,061)  |
| (Loss) gain on disposition of operations                  | (646)                               | 9      | (643)                              | 15       |
| Income tax benefit (expense)                              | 133                                 | (56)   | (14)                               | (167)    |
| Net (loss) income available to common shareholders        | \$ (360)                            | \$ 131 | \$ (24)                            | \$ 375   |
| <b>Net (loss) income available to common shareholders</b> |                                     |        |                                    |          |
| Life insurance                                            | \$ 19                               | \$ 42  | \$ 152                             | \$ 165   |
| Accident and health insurance                             | 26                                  | 23     | 75                                 | 62       |
| Annuities and institutional products                      | 70                                  | 66     | 224                                | 148      |
| Loss on sale of LBL                                       | (475)                               | --     | (475)                              | --       |
| Net (loss) income available to common shareholders        | \$ (360)                            | \$ 131 | \$ (24)                            | \$ 375   |

*Net loss available to common shareholders* was \$360 million in the third quarter of 2013 compared to net income available to common shareholders of \$131 million in the third quarter of 2012. The unfavorable change was primarily due to the loss on disposition related to the LBL sale and higher interest credited to contractholder funds, partially offset by decreased amortization of DAC and lower net realized capital losses.

Net loss available to common shareholders was \$24 million in the first nine months of 2013 compared to net income available to common shareholders of \$375 million in the first nine months of 2012. The unfavorable change was primarily due to the loss on disposition related to the LBL sale and lower net investment income, partially offset by net realized capital gains in the first nine months of 2013 compared to net realized capital losses in the first nine months of 2012 and decreased amortization of DAC.

**Analysis of revenues** Total revenues increased 5.4% or \$62 million in the third quarter of 2013 compared to the third quarter of 2012, primarily due to lower net realized capital losses and higher life and annuity premiums and contract charges. Total revenues increased 3.2% or \$115 million in the first nine months of 2013 compared to the first nine months of 2012, primarily due to net realized capital gains in the first nine months of 2013 compared to net realized capital losses in the first nine months of 2012 and higher life and annuity premiums and contract charges, partially offset by lower net investment income.

*Life and annuity premiums and contract charges* Premiums represent revenues generated from traditional life insurance, immediate annuities with life contingencies, and accident and health insurance products that have significant mortality or morbidity risk. Contract charges are revenues generated from interest-sensitive and variable life insurance and fixed annuities for which deposits are classified as contractholder funds or separate account liabilities. Contract charges are assessed against the contractholder account values for maintenance, administration, cost of insurance and surrender prior to contractually specified dates.

The following table summarizes life and annuity premiums and contract charges by product.

| (\$ in millions)                                          | Three months ended<br>September 30, |               | Nine months ended<br>September 30, |                 |
|-----------------------------------------------------------|-------------------------------------|---------------|------------------------------------|-----------------|
|                                                           | 2013                                | 2012          | 2013                               | 2012            |
| <b>Underwritten products</b>                              |                                     |               |                                    |                 |
| Traditional life insurance premiums                       | \$ 120                              | \$ 117        | \$ 355                             | \$ 347          |
| Accident and health insurance premiums                    | 180                                 | 164           | 539                                | 486             |
| Interest-sensitive life insurance contract charges        | 272                                 | 267           | 813                                | 790             |
| Subtotal                                                  | 572                                 | 548           | 1,707                              | 1,623           |
| <b>Annuities</b>                                          |                                     |               |                                    |                 |
| Immediate annuities with life contingencies premiums      | 6                                   | 10            | 22                                 | 36              |
| Other fixed annuity contract charges                      | 6                                   | 5             | 13                                 | 16              |
| Subtotal                                                  | 12                                  | 15            | 35                                 | 52              |
| <b>Life and annuity premiums and contract charges (1)</b> | <b>\$ 584</b>                       | <b>\$ 563</b> | <b>\$ 1,742</b>                    | <b>\$ 1,675</b> |

(1) Contract charges related to the cost of insurance totaled \$182 million and \$180 million for the third quarter of 2013 and 2012, respectively, and \$541 million and \$523 million in the first nine months of 2013 and 2012, respectively.

Total premiums and contract charges increased 3.7% and 4.0% in the third quarter and the first nine months of 2013, respectively, compared to the same periods of 2012, primarily due to growth in Allstate Benefits accident and health insurance business in force and higher contract charges on interest-sensitive life insurance products primarily resulting from the growth of insurance in force and the aging of our policyholders, partially offset by lower sales of immediate annuities with life contingencies. Effective March 22, 2013, we no longer offer structured settlement annuities. We continue to service the in-force structured settlement contracts.

*Contractholder funds* represent interest-bearing liabilities arising from the sale of products such as interest-sensitive life insurance, fixed annuities and funding agreements. The balance of contractholder funds is equal to the cumulative deposits received and interest credited to the contractholder less cumulative contract benefits, surrenders, withdrawals, maturities and contract charges for mortality or administrative expenses. The following table shows the changes in contractholder funds.

| (\$ in millions)                                               | Three months ended<br>September 30, |           | Nine months ended<br>September 30, |           |
|----------------------------------------------------------------|-------------------------------------|-----------|------------------------------------|-----------|
|                                                                | 2013                                | 2012      | 2013                               | 2012      |
| <b>Contractholder funds, beginning balance</b>                 | \$ 36,357                           | \$ 40,832 | \$ 39,319                          | \$ 42,332 |
| <b>Deposits</b>                                                |                                     |           |                                    |           |
| Fixed annuities                                                | 218                                 | 272       | 786                                | 610       |
| Interest-sensitive life insurance                              | 330                                 | 323       | 1,044                              | 990       |
| Total deposits                                                 | 548                                 | 595       | 1,830                              | 1,600     |
| <b>Interest credited</b>                                       | 321                                 | 213       | 985                                | 961       |
| <b>Benefits, withdrawals, maturities and other adjustments</b> |                                     |           |                                    |           |
| Benefits                                                       | (392)                               | (341)     | (1,186)                            | (1,029)   |
| Surrenders and partial withdrawals                             | (807)                               | (941)     | (2,543)                            | (2,833)   |
| Maturities of and interest payments on institutional products  | (1)                                 | (1)       | (1,799)                            | (90)      |
| Contract charges                                               | (279)                               | (264)     | (830)                              | (794)     |
| Net transfers from separate accounts                           | 2                                   | 3         | 8                                  | 7         |
| Other adjustments (1)                                          | 10                                  | 14        | (25)                               | (44)      |
| Total benefits, withdrawals, maturities and other adjustments  | (1,467)                             | (1,530)   | (6,375)                            | (4,783)   |
| <b>Contractholder funds classified as held for sale</b>        | (11,283)                            | --        | (11,283)                           | --        |
| <b>Contractholder funds, ending balance</b>                    | \$ 24,476                           | \$ 40,110 | \$ 24,476                          | \$ 40,110 |

(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 to third parties is reflected as a component of the other adjustments line.

Contractholder funds decreased 32.7% and 37.8% in the third quarter and first nine months of 2013, respectively, compared to decreases of 1.8% and 5.2% in the same periods of 2012, respectively, reflecting the reclassification of contractholder funds held for sale relating to the LBL sale. Contractholder funds including those classified as held for sale decreased 1.6% and 9.1% in the third quarter and first nine months of 2013, respectively, reflecting a large institutional product maturity in second quarter 2013 and our continuing strategy to reduce our concentration in spread-based products. Average contractholder funds decreased 24.8% and 22.6% in the third quarter and first nine months of 2013, respectively, compared to the same periods of 2012.

Contractholder deposits decreased 7.9% in the third quarter of 2013 compared to the third quarter of 2012, primarily due to decreased fixed annuity deposits driven by elevated deposits in third quarter 2012 when new equity-indexed annuity products were launched. Contractholder deposits increased 14.4% in the first nine months of 2013 compared to the first nine months of 2012, primarily due to increased fixed annuity deposits driven by the new equity-indexed annuity products and higher deposits on immediate annuities.

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Maturities of and interest payments on institutional products in the first nine months of 2013 include a \$1.75 billion maturity. There are \$85 million of institutional products outstanding as of September 30, 2013.

Surrenders and partial withdrawals on deferred fixed annuities and interest-sensitive life insurance products decreased 14.2% to \$807 million in the third quarter of 2013 and 10.2% to \$2.54 billion in the first nine months of 2013 from \$941 million and \$2.83 billion in the third quarter and first nine months of 2012, respectively. 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 10.5% and 10.7% in the first nine months of 2013 and 2012, respectively.

*Net investment income* increased 0.2% or \$1 million to \$633 million in the third quarter of 2013 from \$632 million in the third quarter of 2012, primarily due to higher limited partnership income and prepayment fee income and litigation proceeds, partially offset by lower average investment balances. Net investment income decreased 4.1% or \$81 million to \$1.90 billion in the first nine months of 2013 from \$1.98 billion in the first nine months of 2012 primarily due to lower average investment balances and lower limited partnership income, partially offset by higher prepayment fee income and litigation proceeds. Net investment income in the third quarter of 2013 includes \$140 million relating to investments classified as held for sale.

*Net realized capital gains and losses* are presented in the following table.

| (\$ in millions)                                                     | Three months ended<br>September 30, |         | Nine months ended<br>September 30, |         |
|----------------------------------------------------------------------|-------------------------------------|---------|------------------------------------|---------|
|                                                                      | 2013                                | 2012    | 2013                               | 2012    |
| Impairment write-downs                                               | \$ (10)                             | \$ (12) | \$ (28)                            | \$ (38) |
| Change in intent write-downs                                         | (7)                                 | (1)     | (15)                               | (17)    |
| Net other-than-temporary impairment losses<br>recognized in earnings | (17)                                | (13)    | (43)                               | (55)    |
| Sales                                                                | 6                                   | (51)    | 89                                 | (49)    |
| Valuation of derivative instruments                                  | (5)                                 | (3)     | (3)                                | (6)     |
| Settlements of derivative instruments                                | --                                  | 11      | 17                                 | 41      |
| Realized capital gains and losses, pre-tax                           | (16)                                | (56)    | 60                                 | (69)    |
| Income tax benefit (expense)                                         | 4                                   | 20      | (23)                               | 24      |
| Realized capital gains and losses, after-tax                         | \$ (12)                             | \$ (36) | \$ 37                              | \$ (45) |

For further discussion of realized capital gains and losses, see the Investments section of the MD&A.

**Analysis of costs and expenses** Total costs and expenses increased 9.1% or \$87 million in the third quarter of 2013 and 0.3% or \$9 million in the first nine months of 2013 compared to the same periods of 2012, primarily due to higher interest credited to contractholder funds and life and annuity contract benefits, partially offset by lower amortization of DAC.

*Life and annuity contract benefits* increased 9.9% or \$45 million in the third quarter of 2013 compared to the same period of 2012, primarily due to an increase in reserves for secondary guarantees on interest-sensitive life insurance and worse mortality experience on annuities, partially offset by better mortality experience on life insurance. Life and annuity contract benefits increased 5.4% or \$73 million in the first nine months of 2013 compared to the same period of 2012, primarily due to an increase in reserves for secondary guarantees on interest-sensitive life insurance and worse mortality experience on life insurance.

Our annual review of assumptions in third quarter 2013 resulted in a \$37 million increase in reserves primarily for secondary guarantees on interest-sensitive life insurance due to higher concentration of and increased projected exposure to secondary guarantees. In the third quarter of 2012, the review resulted in a \$13 million decrease in the reserves for secondary guarantees on interest-sensitive life insurance due to favorable projected mortality.

We analyze our mortality and morbidity results using the difference between premiums and contract charges earned for the cost of insurance and life and annuity contract benefits excluding the portion related to the implied interest on immediate annuities with life contingencies ( benefit spread ). This implied interest totaled \$133 million and \$396 million in the third quarter and first nine months of 2013, respectively, compared to \$135 million and \$405 million in the third quarter and first nine months of 2012, respectively.

The benefit spread by product group is disclosed in the following table.

| (\$ in millions)              | Three months ended<br>September 30, |        | Nine months ended<br>September 30, |        |
|-------------------------------|-------------------------------------|--------|------------------------------------|--------|
|                               | 2013                                | 2012   | 2013                               | 2012   |
| Life insurance                | \$ 60                               | \$ 90  | \$ 221                             | \$ 268 |
| Accident and health insurance | 85                                  | 76     | 260                                | 221    |
| Annuities                     | (22)                                | (13)   | (55)                               | (46)   |
| Total benefit spread          | \$ 123                              | \$ 153 | \$ 426                             | \$ 443 |

Benefit spread decreased 19.6% or \$30 million in the third quarter of 2013 compared to the same period of 2012, primarily due to the increase in reserves for secondary guarantees on interest-sensitive life insurance and worse mortality experience on annuities, partially offset by better mortality experience on life insurance and premium growth in Allstate Benefits accident and health insurance. Benefit spread decreased 3.8% or \$17 million in the first nine months of 2013 compared to the same period of 2012, primarily due to the increase in reserves for secondary guarantees on interest-sensitive life insurance and worse mortality experience on life insurance and annuities, partially offset by premium growth in Allstate Benefits accident and health insurance.

*Interest credited to contractholder funds* increased 47.4% or \$102 million in the third quarter of 2013 and 1.5% or \$14 million in the first nine months of 2013 compared to the same periods of 2012, primarily due to the valuation change on derivatives embedded in equity-indexed annuity contracts that reduced interest credited expense in third quarter 2012, partially offset by lower average contractholder funds and lower interest crediting rates. Valuation changes on derivatives embedded in equity-indexed annuity contracts that are not hedged increased interest credited to contractholder funds by \$17 million and \$21 million in the third quarter and first nine months of 2013, respectively, compared to decreases of \$149 million and \$135 million in the third quarter and first nine months of 2012, respectively. During third quarter 2012, we reviewed the significant valuation inputs for these embedded derivatives and reduced the projected option cost to reflect management's current and anticipated crediting rate setting actions, which were informed by the existing and projected low interest rate environment and are consistent with our strategy to reduce exposure to spread-based business. The reduction in projected interest rates resulted in a reduction of contractholder funds and interest credited expense by \$169 million in third quarter 2012.

In order to analyze the impact of net investment income and interest credited to contractholders on net income, we monitor 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 life and annuity contract benefits on the Condensed Consolidated Statements of Operations ( investment spread ).

The investment spread by product group is shown in the following table.

| (\$ in millions)                                                                                  | Three months ended<br>September 30, |       | Nine months ended<br>September 30, |        |
|---------------------------------------------------------------------------------------------------|-------------------------------------|-------|------------------------------------|--------|
|                                                                                                   | 2013                                | 2012  | 2013                               | 2012   |
| Annuities and institutional products                                                              | \$ 100                              | \$ 39 | \$ 247                             | \$ 207 |
| Life insurance                                                                                    | 25                                  | 23    | 77                                 | 61     |
| Accident and health insurance                                                                     | 6                                   | 7     | 19                                 | 19     |
| Net investment income on investments supporting capital                                           | 69                                  | 64    | 210                                | 196    |
| Investment spread before valuation changes on embedded derivatives that are not hedged            | 200                                 | 133   | 553                                | 483    |
| Valuation changes on derivatives embedded in equity-indexed annuity contracts that are not hedged | (17)                                | 149   | (21)                               | 135    |

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|                         |    |     |    |     |    |     |    |     |
|-------------------------|----|-----|----|-----|----|-----|----|-----|
| Total investment spread | \$ | 183 | \$ | 282 | \$ | 532 | \$ | 618 |
|-------------------------|----|-----|----|-----|----|-----|----|-----|

Investment spread before valuation changes on embedded derivatives that are not hedged increased 50.4% or \$67 million in the third quarter of 2013 compared to the same period of 2012 primarily due to higher limited partnership income, lower crediting rates, and higher prepayment fee income and litigation proceeds, partially offset by the continued managed reduction in our spread-based business in force. Investment spread before valuation changes on embedded derivatives that are not hedged increased 14.5% or \$70 million in the first nine months of 2013 compared to the same period of 2012 primarily due to lower crediting rates and higher prepayment fee income

and litigation proceeds, partially offset by lower limited partnership income and the continued managed reduction in our spread-based business in force.

To further analyze investment spreads, the following table summarizes the weighted average investment yield on assets supporting product liabilities and capital, interest crediting rates and investment spreads. For purposes of these calculations, investments, reserves and contractholder funds classified as held for sale are included.

|                                                                     | Three months ended September 30,  |      |                                          |      |                                     |      |
|---------------------------------------------------------------------|-----------------------------------|------|------------------------------------------|------|-------------------------------------|------|
|                                                                     | Weighted average investment yield |      | Weighted average interest crediting rate |      | Weighted average investment spreads |      |
|                                                                     | 2013                              | 2012 | 2013                                     | 2012 | 2013                                | 2012 |
| Interest-sensitive life insurance                                   | 5.0%                              | 5.3% | 3.8%                                     | 4.0% | 1.2%                                | 1.3% |
| Deferred fixed annuities and institutional products                 | 4.8                               | 4.6  | 2.9                                      | 3.2  | 1.9                                 | 1.4  |
| Immediate fixed annuities with and without life contingencies       | 6.9                               | 6.1  | 6.0                                      | 6.1  | 0.9                                 | --   |
| Investments supporting capital, traditional life and other products | 4.0                               | 3.8  | n/a                                      | n/a  | n/a                                 | n/a  |

|                                                                     | Nine months ended September 30,   |      |                                          |      |                                     |      |
|---------------------------------------------------------------------|-----------------------------------|------|------------------------------------------|------|-------------------------------------|------|
|                                                                     | Weighted average investment yield |      | Weighted average interest crediting rate |      | Weighted average investment spreads |      |
|                                                                     | 2013                              | 2012 | 2013                                     | 2012 | 2013                                | 2012 |
| Interest-sensitive life insurance                                   | 5.1%                              | 5.2% | 3.8%                                     | 4.0% | 1.3%                                | 1.2% |
| Deferred fixed annuities and institutional products                 | 4.7                               | 4.6  | 3.0                                      | 3.2  | 1.7                                 | 1.4  |
| Immediate fixed annuities with and without life contingencies       | 6.6                               | 6.9  | 6.0                                      | 6.1  | 0.6                                 | 0.8  |
| Investments supporting capital, traditional life and other products | 3.9                               | 4.0  | n/a                                      | n/a  | n/a                                 | n/a  |

The following table summarizes our product liabilities and indicates the account value of those contracts and policies in which an investment spread is generated.

| (\$ in millions)                                     | September 30, |           |
|------------------------------------------------------|---------------|-----------|
|                                                      | 2013          | 2012      |
| Immediate fixed annuities with life contingencies    | \$ 8,910      | \$ 8,876  |
| Other life contingent contracts and other            | 3,680         | 6,024     |
| Reserve for life-contingent contract benefits        | \$ 12,590     | \$ 14,900 |
| Interest-sensitive life insurance                    | \$ 7,742      | \$ 10,964 |
| Deferred fixed annuities                             | 12,624        | 22,955    |
| Immediate fixed annuities without life contingencies | 3,715         | 3,833     |
| Institutional products                               | 85            | 1,874     |
| Other                                                | 310           | 484       |
| Contractholder funds                                 | \$ 24,476     | \$ 40,110 |
| Traditional life insurance                           | \$ 331        | \$ --     |
| Accident and health insurance                        | 1,298         | --        |

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|                                   |    |        |    |    |
|-----------------------------------|----|--------|----|----|
| Interest-sensitive life insurance |    | 3,579  |    | -- |
| Deferred fixed annuities          |    | 7,704  |    | -- |
| Liabilities held for sale         | \$ | 12,912 | \$ | -- |

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*Amortization of DAC* decreased 33.6% or \$49 million in the third quarter of 2013 and 25.0% or \$81 million in the first nine months of 2013 compared to the same periods of 2012. The components of amortization of DAC are summarized in the following table.

| (\$ in millions)                                                                                                                                                                                                                                                                                                             | Three months ended<br>September 30, |        | Nine months ended<br>September 30, |        |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------|--------|------------------------------------|--------|
|                                                                                                                                                                                                                                                                                                                              | 2013                                | 2012   | 2013                               | 2012   |
| 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 (Accretion) amortization relating to realized capital gains and losses (1) and valuation changes on embedded derivatives that are not hedged | \$ 77                               | \$ 77  | \$ 218                             | \$ 239 |
| Amortization acceleration for changes in assumptions ( DAC unlocking )                                                                                                                                                                                                                                                       | (3)                                 | 35     | 2                                  | 51     |
| Total amortization of DAC                                                                                                                                                                                                                                                                                                    | \$ 97                               | \$ 146 | \$ 243                             | \$ 324 |

(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.

The decrease in DAC amortization in the third quarter and first nine months of 2013 compared to the same periods of 2012 was primarily due to decreased amortization relating to valuation changes on embedded derivatives that are not hedged, decreased amortization on interest-sensitive life insurance resulting from decreased benefit spread, and decreased amortization acceleration for changes in assumptions. (Accretion) amortization relating to valuation changes on derivatives embedded in equity-indexed annuity contracts was \$(3) million in third quarter 2013, compared to \$26 million in third quarter 2012.

Our annual comprehensive review of the profitability of our products to determine DAC balances for our interest-sensitive life, fixed annuities and other investment contracts covers assumptions for persistency, mortality, expenses, investment returns, including capital gains and losses, interest crediting rates to policyholders, and the effect of any hedges in all product lines. In the third quarter of 2013, the review resulted in an acceleration of DAC amortization (charge to income) of \$23 million. Amortization acceleration of \$38 million related to interest-sensitive life insurance and was primarily due to an increase in projected mortality and expenses, partially offset by increased projected investment margins. Amortization deceleration of \$12 million related to fixed annuities and was primarily due to an increase in projected investment margins. Amortization deceleration of \$3 million related to variable life insurance.

In the third quarter of 2012, the review resulted in an acceleration of DAC amortization of \$34 million. Amortization acceleration of \$38 million related to variable life insurance and was primarily due to an increase in projected mortality. Amortization acceleration of \$4 million related to fixed annuities and was primarily due to lower projected investment returns. Amortization deceleration of \$8 million related to interest-sensitive life insurance and was primarily due to an increase in projected persistency.

The following table provides the effect on DAC amortization of changes in assumptions relating to the gross profit components of investment margin, benefit margin and expense margin for the nine months ended September 30.

| (\$ in millions) | 2013 | 2012 |
|------------------|------|------|
|------------------|------|------|

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|                   |    |      |    |     |
|-------------------|----|------|----|-----|
| Investment margin | \$ | (17) | \$ | 3   |
| Benefit margin    |    | 15   |    | 33  |
| Expense margin    |    | 25   |    | (2) |
| Net acceleration  | \$ | 23   | \$ | 34  |

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*Operating costs and expenses* decreased 10.2% or \$15 million in the third quarter of 2013 and 0.9% or \$4 million in the first nine months of 2013 compared to the same periods of 2012. The following table summarizes operating costs and expenses.

| (\$ in millions)                    | Three months ended<br>September 30, |        | Nine months ended<br>September 30, |        |
|-------------------------------------|-------------------------------------|--------|------------------------------------|--------|
|                                     | 2013                                | 2012   | 2013                               | 2012   |
| Non-deferrable commissions          | \$ 26                               | \$ 27  | \$ 77                              | \$ 78  |
| General and administrative expenses | 92                                  | 105    | 298                                | 302    |
| Taxes and licenses                  | 14                                  | 15     | 45                                 | 44     |
| Total operating costs and expenses  | \$ 132                              | \$ 147 | \$ 420                             | \$ 424 |
| Restructuring and related charges   | \$ 4                                | \$ --  | \$ 7                               | \$ --  |

General and administrative expenses decreased 12.4% or \$13 million in the third quarter of 2013 and 1.3% or \$4 million in the first nine months of 2013 compared to the same periods of 2012 primarily due to lower employee related expenses and proceeds received from a litigation settlement.

### INVESTMENTS HIGHLIGHTS

- Investments totaled \$80.48 billion as of September 30, 2013, decreasing from \$97.28 billion as of December 31, 2012. Investments classified as held for sale totaled \$12.24 billion as of September 30, 2013.
- Unrealized net capital gains totaled \$2.83 billion as of September 30, 2013, decreasing from \$5.55 billion as of December 31, 2012.
- Net investment income was \$950 million in the third quarter of 2013, an increase of 1.1% from \$940 million in the third quarter of 2012, and \$2.92 billion in the first nine months of 2013, a decrease of 2.0% from \$2.98 billion in the first nine months of 2012.
- Net realized capital losses were \$41 million in the third quarter of 2013 compared to \$72 million in the third quarter of 2012, and net realized capital gains were \$452 million in the first nine months of 2013 compared to \$123 million in the first nine months of 2012.

### INVESTMENTS

The composition of the investment portfolios as of September 30, 2013 is presented in the following table.

| (\$ in millions)            | Property-Liability (5) |                  | Allstate Financial (5) |                  | Corporate and Other (5) |                  | Total  |                  |
|-----------------------------|------------------------|------------------|------------------------|------------------|-------------------------|------------------|--------|------------------|
|                             |                        | Percent to total |                        | Percent to total |                         | Percent to total |        | Percent to total |
| Fixed income securities (1) | \$ 28,404              | 74.4%            | \$ 30,217              | 76.3%            | 1,674                   | 62.3%            | 60,295 | 74.9%            |
| Equity securities (2)       | 4,156                  | 10.9             | 656                    | 1.6              | --                      | --               | 4,812  | 6.0              |
| Mortgage loans              | 431                    | 1.1              | 4,386                  | 11.1             | --                      | --               | 4,817  | 6.0              |

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|                                   |           |        |           |        |       |        |           |        |
|-----------------------------------|-----------|--------|-----------|--------|-------|--------|-----------|--------|
| Limited partnership interests (3) | 3,043     | 8.0    | 2,044     | 5.2    | 4     | 0.1    | 5,091     | 6.3    |
| Short-term investments(4)         | 1,056     | 2.7    | 629       | 1.6    | 1,009 | 37.6   | 2,694     | 3.3    |
| Other                             | 1,102     | 2.9    | 1,672     | 4.2    | --    | --     | 2,774     | 3.5    |
| Total                             | \$ 38,192 | 100.0% | \$ 39,604 | 100.0% | 2,687 | 100.0% | \$ 80,483 | 100.0% |

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(1) Fixed income securities are carried at fair value. Amortized cost basis for these securities was \$27.83 billion, \$28.65 billion and \$1.65 billion for Property-Liability, Allstate Financial and Corporate and Other, respectively.

(2) Equity securities are carried at fair value. Cost basis for these securities was \$3.77 billion and \$601 million for Property-Liability and Allstate Financial, respectively.

(3) We have commitments to invest in additional limited partnership interests totaling \$1.27 billion and \$1.16 billion for Property-Liability and Allstate Financial, respectively.

(4) Short-term investments are carried at fair value. Amortized cost basis for these investments was \$1.06 billion, \$629 million and \$1.01 billion for Property-Liability, Allstate Financial and Corporate and Other, respectively.

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

Total investments decreased to \$80.48 billion as of September 30, 2013, from \$97.28 billion as of December 31, 2012, primarily due to the investments relating to the LBL sale being reclassified to held for sale. Total investments including those classified as held for sale were \$92.72 billion as of September 30, 2013, a decrease of \$4.56 billion from December 31, 2012, reflecting net reductions in Allstate Financial's contractholder funds and lower fixed

income valuations. The decline in valuation of fixed income securities for the nine months ended September 30, 2013 was primarily due to increasing risk-free interest rates.

The Property-Liability investment portfolio decreased to \$38.19 billion as of September 30, 2013, from \$38.22 billion as of December 31, 2012, primarily due to dividends paid by Allstate Insurance Company ( AIC ) to The Allstate Corporation (the Corporation ) and lower fixed income valuations, partially offset by positive operating cash flows.

The Allstate Financial investment portfolio decreased to \$39.60 billion as of September 30, 2013, from \$57.00 billion as of December 31, 2012, primarily due to the investments relating to the LBL sale being reclassified to held for sale and lower fixed income valuations.

The Corporate and Other investment portfolio increased to \$2.69 billion as of September 30, 2013, from \$2.06 billion as of December 31, 2012, primarily due to the proceeds from the issuance of debt and preferred stock, and dividends paid by AIC to the Corporation, partially offset by payments for the debt tender offer, common share repurchases and dividends paid to common shareholders.

**Fixed income securities** by type are listed in the following table.

| (\$ in millions)              |                                        |                                    |                                       |                                    |  |
|-------------------------------|----------------------------------------|------------------------------------|---------------------------------------|------------------------------------|--|
|                               | Fair value as of<br>September 30, 2013 | Percent to<br>total<br>investments | Fair value as of<br>December 31, 2012 | Percent to<br>total<br>investments |  |
| U.S. government and agencies  | \$ 2,881                               | 3.6%                               | \$ 4,713                              | 4.9%                               |  |
| Municipal                     | 9,611                                  | 11.9                               | 13,069                                | 13.5                               |  |
| Corporate                     | 39,697                                 | 49.3                               | 48,537                                | 49.9                               |  |
| Foreign government            | 1,939                                  | 2.4                                | 2,517                                 | 2.6                                |  |
| ABS                           | 3,421                                  | 4.3                                | 3,624                                 | 3.7                                |  |
| RMBS                          | 1,844                                  | 2.3                                | 3,032                                 | 3.1                                |  |
| CMBS                          | 875                                    | 1.1                                | 1,498                                 | 1.5                                |  |
| Redeemable preferred stock    | 27                                     | --                                 | 27                                    | --                                 |  |
| Total fixed income securities | \$ 60,295                              | 74.9%                              | \$ 77,017                             | 79.2%                              |  |

As of September 30, 2013, 90.2% 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 Standard & Poor's ( S&P ), Fitch, Dominion, Kroll or Realpoint, a rating of aaa, aa, a or bbb from A.M. Best, or a comparable internal rating if an externally provided rating is not available. All of our fixed income securities are rated by third party credit rating agencies, the National Association of Insurance Commissioners, and/or are internally rated. Our initial investment decisions and ongoing monitoring procedures for fixed income securities are based on a thorough due diligence process which includes, but is not limited to, an assessment of the credit quality, sector, structure, and liquidity risks of each issue.

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The following table summarizes the fair value and unrealized net capital gains and losses for fixed income securities by credit rating as of September 30, 2013.

| (\$ in millions)                                                      |            | Aaa                    |            | Aa                     |            | A                      |  |
|-----------------------------------------------------------------------|------------|------------------------|------------|------------------------|------------|------------------------|--|
|                                                                       | Fair value | Unrealized gain/(loss) | Fair value | Unrealized gain/(loss) | Fair value | Unrealized gain/(loss) |  |
| U.S. government and agencies                                          | \$ 2,881   | \$ 156                 | \$ --      | \$ --                  | \$ --      | \$ --                  |  |
| Municipal                                                             |            |                        |            |                        |            |                        |  |
| Tax exempt                                                            | 986        | 8                      | 2,825      | 57                     | 1,754      | 63                     |  |
| Taxable                                                               | 205        | 10                     | 1,967      | 168                    | 977        | 67                     |  |
| Auction rate securities ( ARS )                                       | 36         | --                     | 64         | --                     | --         | --                     |  |
| Corporate                                                             |            |                        |            |                        |            |                        |  |
| Public                                                                | 569        | 17                     | 2,618      | 79                     | 10,763     | 407                    |  |
| Privately placed                                                      | 742        | 17                     | 928        | 56                     | 3,245      | 198                    |  |
| Foreign government                                                    | 880        | 73                     | 409        | 12                     | 355        | 11                     |  |
| ABS                                                                   |            |                        |            |                        |            |                        |  |
| Collateralized debt obligations ( CDO )                               | 188        | 3                      | 349        | 2                      | 208        | (16)                   |  |
| Consumer and other asset-backed securities ( Consumer and other ABS ) | 1,808      | 25                     | 307        | 7                      | 190        | 8                      |  |
| RMBS                                                                  |            |                        |            |                        |            |                        |  |
| U.S. government sponsored entities ( U.S. Agency )                    | 748        | 25                     | --         | --                     | --         | --                     |  |
| Prime residential mortgage-backed securities ( Prime )                | 28         | 1                      | 9          | --                     | 37         | 1                      |  |
| Alt-A residential mortgage-backed securities ( Alt-A )                | 3          | --                     | --         | --                     | 5          | --                     |  |
| Subprime residential mortgage-backed securities ( Subprime )          | --         | --                     | --         | --                     | 6          | --                     |  |
| CMBS                                                                  | 333        | 14                     | 72         | 3                      | 97         | 4                      |  |
| Redeemable preferred stock                                            | --         | --                     | --         | --                     | --         | --                     |  |
| Total fixed income securities                                         | \$ 9,407   | \$ 349                 | \$ 9,548   | \$ 384                 | \$ 17,637  | \$ 743                 |  |

|                              | Baa        |                        | Ba or lower |                        | Total      |                        |
|------------------------------|------------|------------------------|-------------|------------------------|------------|------------------------|
|                              | Fair value | Unrealized gain/(loss) | Fair value  | Unrealized gain/(loss) | Fair value | Unrealized gain/(loss) |
| U.S. government and agencies | \$ --      | \$ --                  | \$ --       | \$ --                  | \$ 2,881   | \$ 156                 |
| Municipal                    |            |                        |             |                        |            |                        |
| Tax exempt                   | 364        | 11                     | 132         | (2)                    | 6,061      | 137                    |
| Taxable                      | 244        | (8)                    | 57          | (9)                    | 3,450      | 228                    |
| ARS                          | --         | --                     | --          | --                     | 100        | --                     |
| Corporate                    |            |                        |             |                        |            |                        |
| Public                       | 11,902     | 405                    | 3,236       | 54                     | 29,088     | 962                    |
| Privately placed             | 4,521      | 185                    | 1,173       | (6)                    | 10,609     | 450                    |
| Foreign government           | 295        | 12                     | --          | --                     | 1,939      | 108                    |
| ABS                          |            |                        |             |                        |            |                        |
| CDO                          | 36         | 6                      | 110         | (9)                    | 891        | (14)                   |

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|                               |           |        |          |       |           |          |
|-------------------------------|-----------|--------|----------|-------|-----------|----------|
| Consumer and other ABS        | 195       | 5      | 30       | 1     | 2,530     | 46       |
| RMBS                          |           |        |          |       |           |          |
| U.S. Agency                   | --        | --     | --       | --    | 748       | 25       |
| Prime                         | 69        | --     | 342      | 32    | 485       | 34       |
| Alt-A                         | 11        | --     | 341      | 12    | 360       | 12       |
| Subprime                      | 7         | --     | 238      | (14)  | 251       | (14)     |
| CMBS                          | 113       | 3      | 260      | 7     | 875       | 31       |
| Redeemable preferred stock    | 26        | 5      | 1        | --    | 27        | 5        |
| Total fixed income securities | \$ 17,783 | \$ 624 | \$ 5,920 | \$ 66 | \$ 60,295 | \$ 2,166 |

*Municipal bonds*, including tax exempt, taxable and ARS securities, totaled \$9.61 billion as of September 30, 2013 with an unrealized net capital gain of \$365 million. The municipal bond portfolio includes general obligations of state and local issuers and revenue bonds (including pre-refunded bonds, which are bonds for which an irrevocable trust has been established to fund the remaining payments of principal and interest).

*Corporate bonds*, including publicly traded and privately placed, totaled \$39.70 billion as of September 30, 2013, with an unrealized net capital gain of \$1.41 billion. Privately placed securities primarily consist of corporate issued senior debt securities that are directly negotiated with the borrower or are in unregistered form.

*ABS, RMBS and CMBS* are structured securities that are primarily collateralized by consumer or corporate borrowings and residential and commercial real estate loans. The cash flows from the underlying collateral paid to the securitization trust are generally applied in a pre-determined order and are designed so that each security issued by the trust, typically referred to as a *class*, qualifies for a specific original rating. For example, the *senior* portion or *top* of the capital structure, or rating class, which would originally qualify for a rating of Aaa typically has priority in receiving principal repayments on the underlying collateral and retains this priority until the class is paid in full. In a sequential structure, underlying collateral principal repayments are directed to the most senior rated Aaa class in the structure until paid in full, after which principal repayments are directed to the next most senior Aaa class in the structure until it is paid in full. Senior Aaa classes generally share any losses from the underlying collateral on a pro-rata basis after losses are absorbed by classes with lower original ratings. The payment priority and class subordination included in these securities serves as credit enhancement for holders of the senior or top portions of the structures. These securities continue to retain the payment priority features that existed at the origination of the securitization trust. Other forms of credit enhancement may include structural features embedded in the securitization trust, such as overcollateralization, excess spread and bond insurance. The underlying collateral can have fixed interest rates, variable interest rates (such as adjustable rate mortgages) or may contain features of both fixed and variable rate mortgages.

*ABS*, including CDO and Consumer and other ABS, totaled \$3.42 billion as of September 30, 2013, with 95.9% rated investment grade and an unrealized net capital gain of \$32 million. Credit risk is managed by monitoring the performance of the underlying collateral. Many of the securities in the ABS portfolio have credit enhancement with features such as overcollateralization, subordinated structures, reserve funds, guarantees and/or insurance.

CDO totaled \$891 million as of September 30, 2013, with 87.7% rated investment grade and an unrealized net capital loss of \$14 million. CDO consist of obligations collateralized by cash flow CDO, which are structures collateralized primarily by below investment grade senior secured corporate loans.

Consumer and other ABS totaled \$2.53 billion as of September 30, 2013, with 98.8% rated investment grade. Consumer and other ABS consists of \$908 million of consumer auto and \$1.62 billion of other ABS with unrealized net capital gains of \$5 million and \$41 million, respectively.

*RMBS*, including U.S. Agency, Prime, Alt-A and Subprime, totaled \$1.84 billion as of September 30, 2013, with 50.1% rated investment grade and an unrealized net capital gain of \$57 million. The RMBS portfolio is subject to interest rate risk, but unlike other fixed income securities, is additionally subject to significant prepayment risk from the underlying residential mortgage loans. The credit risk associated with the U.S. Agency portfolio is mitigated because they were issued by or have underlying collateral guaranteed by U.S. government agencies. Prime are collateralized by residential mortgage loans issued to prime borrowers. Alt-A includes securities collateralized by residential mortgage loans issued to borrowers who do not qualify for prime financing terms due to high loan-to-value ratios or limited supporting documentation, but have stronger credit profiles than subprime borrowers. Subprime includes securities collateralized by residential mortgage loans issued to borrowers that cannot qualify for Prime or Alt-A financing terms due in part to weak or limited credit history. It also includes securities that are collateralized by certain second lien mortgages regardless of the borrower's credit history. The Subprime portfolio consisted of \$92 million and \$159 million of first lien and second lien securities, respectively. The Subprime portfolio unrealized net capital loss of \$14 million as of September 30, 2013 was the result of wider credit spreads than at initial purchase. Wider spreads are largely due to the risk associated with the underlying collateral supporting certain Subprime securities.

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*CMBS* totaled \$875 million as of September 30, 2013, with 70.3% rated investment grade and an unrealized net capital gain of \$31 million. The *CMBS* portfolio is subject to credit risk and has a sequential paydown structure. Of the *CMBS* investments, 93.4% are traditional conduit transactions collateralized by commercial mortgage loans, broadly diversified across property types and geographical area. The remainder consists of non-traditional *CMBS* such as small balance transactions, large loan pools and single borrower transactions.

**Mortgage loans** Our mortgage loan portfolio, which is primarily held in the Allstate Financial portfolio, totaled \$4.82 billion as of September 30, 2013, and primarily comprises loans secured by first mortgages on developed commercial real estate. Key considerations used to manage our exposure include property type and

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

**Limited partnership interests** consist of investments in private equity/debt funds, real estate funds, tax credit funds and other funds. The limited partnership interests portfolio is well diversified across a number of characteristics including fund managers, vintage years, strategies, geography (including international), and company/property types. The following table presents information about our limited partnership interests as of September 30, 2013.

(\$ in millions)

|                                     | Private<br>equity/debt<br>funds (1) | Real estate<br>funds | Tax credit<br>funds | Other<br>funds | Total    |
|-------------------------------------|-------------------------------------|----------------------|---------------------|----------------|----------|
| Cost method of accounting ( Cost )  | \$ 921                              | \$ 503               | \$ --               | \$ 11          | \$ 1,435 |
| Equity method of accounting ( EMA ) | 1,564                               | 1,163                | 638                 | 291            | 3,656    |
| Total                               | \$ 2,485                            | \$ 1,666             | \$ 638              | \$ 302         | \$ 5,091 |
| Number of managers                  | 106                                 | 45                   | 11                  | 14             |          |
| Number of individual funds          | 181                                 | 97                   | 21                  | 22             |          |
| Largest exposure to single fund     | \$ 108                              | \$ 248               | \$ 53               | \$ 199         |          |

(1) Includes \$505 million of infrastructure and real asset funds.

The following tables show the earnings from our limited partnership interests by fund type and accounting classification.

| (\$ in millions)          | Three months ended<br>September 30, |       |              |                        |       |      |              |                        |
|---------------------------|-------------------------------------|-------|--------------|------------------------|-------|------|--------------|------------------------|
|                           | 2013                                |       |              |                        | 2012  |      |              |                        |
|                           | Cost                                | EMA   | Total income | Impairment write-downs | Cost  | EMA  | Total income | Impairment write-downs |
| Private equity/debt funds | \$ 39                               | \$ 29 | \$ 68        | \$ (1)                 | \$ 15 | \$ 3 | \$ 18        | \$ --                  |
| Real estate funds         | 9                                   | 40    | 49           | (1)                    | 3     | 14   | 17           | --                     |
| Tax credit funds          | --                                  | (9)   | (9)          | --                     | (1)   | (10) | (11)         | --                     |
| Other funds               | --                                  | (2)   | (2)          | --                     | --    | (2)  | (2)          | (2)                    |
| Total                     | \$ 48                               | \$ 58 | \$ 106       | \$ (2)                 | \$ 17 | \$ 5 | \$ 22        | \$ (2)                 |

|                           |        | Nine months ended<br>September 30, |                 |                           |       |        |                 |                           |  |
|---------------------------|--------|------------------------------------|-----------------|---------------------------|-------|--------|-----------------|---------------------------|--|
|                           |        | 2013                               |                 |                           |       | 2012   |                 |                           |  |
|                           | Cost   | EMA                                | Total<br>income | Impairment<br>write-downs | Cost  | EMA    | Total<br>income | Impairment<br>write-downs |  |
| Private equity/debt funds | \$ 94  | \$ 100                             | \$ 194          | \$ (8)                    | \$ 48 | \$ 115 | \$ 163          | \$ --                     |  |
| Real estate funds         | 25     | 135                                | 160             | (2)                       | 6     | 81     | 87              | (3)                       |  |
| Tax credit funds          | --     | (25)                               | (25)            | --                        | (1)   | (20)   | (21)            | --                        |  |
| Other funds               | --     | 10                                 | 10              | --                        | --    | 9      | 9               | (2)                       |  |
| Total                     | \$ 119 | \$ 220                             | \$ 339          | \$ (10)                   | \$ 53 | \$ 185 | \$ 238          | \$ (5)                    |  |

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Limited partnership interests produced income, excluding impairment write-downs, of \$106 million and \$339 million in the three months and nine months ended September 30, 2013, respectively, compared to \$22 million and \$238 million in the three months and nine months ended September 30, 2012, respectively. Income on EMA limited partnerships is recognized on a delay due to the availability of the related financial statements. The recognition of income on private equity/debt funds, real estate funds and tax credit funds are generally on a three month delay and the income recognition on other funds is primarily on a one month delay. Income on cost method limited partnerships is recognized only upon receipt of amounts distributed by the partnerships.

**Unrealized net capital gains** totaled \$2.83 billion as of September 30, 2013 compared to \$5.55 billion as of December 31, 2012. The decline from December 31, 2012 for fixed income securities was primarily due to increasing risk-free interest rates and the realization of unrealized net capital gains through sales. The decline from December 31, 2012 for equity securities was primarily due to the realization of unrealized net capital gains through sales, partially offset by positive equity market performance. The following table presents unrealized net capital gains and losses.

| (\$ in millions)                                 |    | September 30, 2013 |    | December 31, 2012 |
|--------------------------------------------------|----|--------------------|----|-------------------|
| U.S. government and agencies                     | \$ | 156                | \$ | 326               |
| Municipal                                        |    | 365                |    | 930               |
| Corporate                                        |    | 1,412              |    | 3,594             |
| Foreign government                               |    | 108                |    | 227               |
| ABS                                              |    | 32                 |    | 1                 |
| RMBS                                             |    | 57                 |    | 32                |
| CMBS                                             |    | 31                 |    | (12)              |
| Redeemable preferred stock                       |    | 5                  |    | 4                 |
| Fixed income securities                          |    | 2,166              |    | 5,102             |
| Equity securities                                |    | 442                |    | 460               |
| Derivatives                                      |    | (19)               |    | (22)              |
| EMA limited partnerships                         |    | (3)                |    | 7                 |
| Investments classified as held for sale          |    | 244                |    | --                |
| Unrealized net capital gains and losses, pre-tax | \$ | 2,830              | \$ | 5,547             |

The unrealized net capital gains for the fixed income portfolio totaled \$2.17 billion and comprised \$2.73 billion of gross unrealized gains and \$567 million of gross unrealized losses as of September 30, 2013. This is compared to unrealized net capital gains for the fixed income portfolio totaling \$5.10 billion, comprised of \$5.63 billion of gross unrealized gains and \$530 million of gross unrealized losses as of December 31, 2012.

Gross unrealized gains and losses on fixed income securities by type and sector as of September 30, 2013 are provided in the following table.

| (\$ in millions)                           | Amortized cost | Gross unrealized Gains | Gross unrealized Losses | Fair value |
|--------------------------------------------|----------------|------------------------|-------------------------|------------|
| Corporate:                                 |                |                        |                         |            |
| Consumer goods (cyclical and non-cyclical) | \$ 8,452       | \$ 332                 | \$ (56)                 | \$ 8,728   |
| Utilities                                  | 6,312          | 482                    | (51)                    | 6,743      |
| Banking                                    | 2,998          | 90                     | (47)                    | 3,041      |
| Capital goods                              | 4,260          | 203                    | (43)                    | 4,420      |
| Basic industry                             | 2,446          | 75                     | (42)                    | 2,479      |
| Communications                             | 2,957          | 116                    | (39)                    | 3,034      |
| Energy                                     | 3,546          | 146                    | (30)                    | 3,662      |
| Technology                                 | 2,060          | 61                     | (26)                    | 2,095      |
| Financial services                         | 3,129          | 123                    | (18)                    | 3,234      |
| Transportation                             | 1,437          | 98                     | (11)                    | 1,524      |
| Other                                      | 688            | 51                     | (2)                     | 737        |
| Total corporate fixed income portfolio     | 38,285         | 1,777                  | (365)                   | 39,697     |
| U.S. government and agencies               | 2,725          | 158                    | (2)                     | 2,881      |
| Municipal                                  | 9,246          | 451                    | (86)                    | 9,611      |
| Foreign government                         | 1,831          | 119                    | (11)                    | 1,939      |
| ABS                                        | 3,389          | 75                     | (43)                    | 3,421      |
| RMBS                                       | 1,787          | 100                    | (43)                    | 1,844      |
| CMBS                                       | 844            | 48                     | (17)                    | 875        |
| Redeemable preferred stock                 | 22             | 5                      | --                      | 27         |
| Total fixed income securities              | \$ 58,129      | \$ 2,733               | \$ (567)                | \$ 60,295  |



The consumer goods, utilities and banking sectors had the highest concentration of gross unrealized losses in our corporate fixed income securities portfolio as of September 30, 2013. In general, the gross unrealized losses are principally related to increasing risk-free interest rates or widening credit spreads since the time of initial purchase.

The unrealized net capital gain for the equity portfolio totaled \$442 million and comprised \$465 million of gross unrealized gains and \$23 million of gross unrealized losses as of September 30, 2013. This is compared to an unrealized net capital gain for the equity portfolio totaling \$460 million, comprised of \$494 million of gross unrealized gains and \$34 million of gross unrealized losses as of December 31, 2012.

**Net investment income** The following table presents net investment income.

| (\$ in millions)                  | Three months ended<br>September 30, |        | Nine months ended<br>September 30, |          |
|-----------------------------------|-------------------------------------|--------|------------------------------------|----------|
|                                   | 2013                                | 2012   | 2013                               | 2012     |
| Fixed income securities           | \$ 721                              | \$ 817 | \$ 2,223                           | \$ 2,441 |
| Equity securities                 | 30                                  | 29     | 94                                 | 74       |
| Mortgage loans                    | 99                                  | 92     | 290                                | 277      |
| Limited partnership interests     | 106                                 | 22     | 339                                | 238      |
| Short-term investments            | 1                                   | 2      | 4                                  | 4        |
| Other                             | 44                                  | 33     | 120                                | 97       |
| Investment income, before expense | 1,001                               | 995    | 3,070                              | 3,131    |
| Investment expense                | (51)                                | (55)   | (153)                              | (154)    |
| Net investment income             | \$ 950                              | \$ 940 | \$ 2,917                           | \$ 2,977 |

Net investment income increased 1.1% or \$10 million in the third quarter of 2013 compared to the same period of 2012, primarily due to higher limited partnership results and prepayment fee income and litigation proceeds, partially offset by lower average investment balances and lower fixed income yields. Net investment income decreased 2.0% or \$60 million in the first nine months of 2013 compared to the same period of 2012, primarily due to lower fixed income yields and lower average investment balances, partially offset by higher limited partnership results and equity dividends, as well as prepayment fee income and litigation proceeds which together increased 2013 income by a total of \$81 million in the first nine months of 2013. Net investment income in the third quarter of 2013 includes \$140 million relating to investments classified as held for sale.

**Realized capital gains and losses** The following table presents the components of realized capital gains and losses and the related tax effect.

| (\$ in millions)                                                  | Three months ended<br>September 30, |         | Nine months ended<br>September 30, |          |
|-------------------------------------------------------------------|-------------------------------------|---------|------------------------------------|----------|
|                                                                   | 2013                                | 2012    | 2013                               | 2012     |
| Impairment write-downs                                            | \$ (18)                             | \$ (43) | \$ (61)                            | \$ (131) |
| Change in intent write-downs                                      | (70)                                | (3)     | (124)                              | (48)     |
| Net other-than-temporary impairment losses recognized in earnings | (88)                                | (46)    | (185)                              | (179)    |
| Sales                                                             | 59                                  | (24)    | 639                                | 275      |
| Valuation of derivative instruments                               | --                                  | --      | (1)                                | 1        |
| Settlements of derivative instruments                             | (12)                                | (2)     | (1)                                | 26       |
| Realized capital gains and losses, pre-tax                        | (41)                                | (72)    | 452                                | 123      |
| Income tax benefit (expense)                                      | 13                                  | 25      | (161)                              | (43)     |

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|                                              |    |      |    |      |    |     |    |    |
|----------------------------------------------|----|------|----|------|----|-----|----|----|
| Realized capital gains and losses, after-tax | \$ | (28) | \$ | (47) | \$ | 291 | \$ | 80 |
|----------------------------------------------|----|------|----|------|----|-----|----|----|

*Impairment write-downs*, which includes changes in the mortgage loan valuation allowance, are presented in the following table.

| (\$ in millions)              | Three months ended<br>September 30, |         | Nine months ended<br>September 30, |          |
|-------------------------------|-------------------------------------|---------|------------------------------------|----------|
|                               | 2013                                | 2012    | 2013                               | 2012     |
| Fixed income securities       | \$ (8)                              | \$ (18) | \$ (49)                            | \$ (73)  |
| Equity securities             | --                                  | (19)    | (9)                                | (46)     |
| Mortgage loans                | (6)                                 | (1)     | 11                                 | 3        |
| Limited partnership interests | (2)                                 | (2)     | (10)                               | (5)      |
| Other investments             | (2)                                 | (3)     | (4)                                | (10)     |
| Impairment write-downs        | \$ (18)                             | \$ (43) | \$ (61)                            | \$ (131) |

Impairment write-downs on fixed income securities for the three months ended September 30, 2013 were primarily driven by municipal bonds. Impairment write-downs on fixed income securities for the nine months ended September 30, 2013 were primarily driven by CMBS that experienced deterioration in expected cash flows and municipal bonds. Equity securities were written down primarily due to the length of time and extent to which fair value was below cost, considering our assessment of the financial condition and near-term and long-term prospects of the issuer, including relevant industry conditions and trends. The valuation allowance on mortgage loans as of September 30, 2013 decreased compared to December 31, 2012 due to increases in the fair value of the collateral less costs to sell for certain previously impaired loans.

*Change in intent write-downs* totaling \$70 million and \$124 million in the three months and nine months ended September 30, 2013, respectively, primarily related to the repositioning and ongoing portfolio management of our equity securities.

*Sales* generated \$59 million and \$639 million of net realized capital gains in the three months and nine months ended September 30, 2013, respectively, primarily related to equity securities in connection with portfolio repositioning and municipal and corporate fixed income securities in conjunction with reducing our exposure to interest rate risk in the Property-Liability portfolio.

*Valuation and settlements of derivative instruments* generated net realized capital losses of \$12 million and \$2 million for the three months and nine months ended September 30, 2013, respectively, primarily composed of losses on equity futures used for risk management due to increases in equity indices and losses on credit default swaps due to the tightening of credit spreads on the underlying credit names.

## CAPITAL RESOURCES AND LIQUIDITY HIGHLIGHTS

- Shareholders' equity as of September 30, 2013 was \$20.78 billion, an increase of 1.0% from \$20.58 billion as of December 31, 2012.
- On April 1, 2013 and July 1, 2013, we paid common shareholder dividends of \$0.25 and \$0.25, respectively. On July 23, 2013, we declared a quarterly common shareholder dividend of \$0.25 to be payable on October 1, 2013.
- On July 23, 2013, we declared a dividend on our 5.625% preferred stock for the dividend period from June 12, 2013 through October 14, 2013 to be payable on October 15, 2013.
- On August 8, 2013, we issued \$800 million of 5.75% Fixed-to-Floating Rate Subordinated Debentures due 2053.

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- On September 30, 2013, we issued 15,400 shares of 6.75% Noncumulative Perpetual Preferred Stock for gross proceeds of \$385 million.
- During the first nine months of 2013, we repurchased 28.9 million common shares for \$1.40 billion. As of September 30, 2013, there is \$589 million remaining on our common share repurchase programs.

**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. The following table summarizes our capital resources.

| (\$ in millions)                                                                    | September 30,<br>2013 | December 31,<br>2012 |
|-------------------------------------------------------------------------------------|-----------------------|----------------------|
| Preferred stock, common stock, retained income and other shareholders' equity items | \$ 19,970             | \$ 19,405            |
| Accumulated other comprehensive income                                              | 810                   | 1,175                |
| Total shareholders' equity                                                          | 20,780                | 20,580               |
| Debt                                                                                | 6,217                 | 6,057                |
| Total capital resources                                                             | \$ 26,997             | \$ 26,637            |
| Ratio of debt to shareholders' equity                                               | 29.9%                 | 29.4%                |
| Ratio of debt to capital resources                                                  | 23.0%                 | 22.7%                |

*Shareholders' equity* increased in the first nine months of 2013, primarily due to net income, decreased unrecognized pension and other postretirement benefit cost from changes in plan benefits and the plan remeasurements, and the issuance of preferred stock, partially offset by common share repurchases, decreased unrealized net capital gains on investments and dividends paid to shareholders.

*Preferred stock* On June 12, 2013, we issued 11,500 shares of 5.625% Noncumulative Perpetual Preferred Stock for gross proceeds of \$287.5 million. The proceeds of this issuance were used to fund the repurchase of debt and for general corporate purposes.

On September 30, 2013, we issued 15,400 shares of 6.75% Noncumulative Perpetual Preferred Stock for gross proceeds of \$385 million. The proceeds of this issuance will be used for general corporate purposes, including to prefund the repayment of debt maturing in 2014.

*Debt* On January 10, 2013, we issued \$500 million of 5.10% Fixed-to-Floating Rate Subordinated Debentures due 2053. The proceeds of this issuance were used for general corporate purposes, including the repurchase of our common stock through open market purchases and through the accelerated repurchase program entered into on February 28, 2013. On June 7, 2013, we issued \$500 million of 3.15% Senior Notes due 2023 and \$500 million of 4.50% Senior Notes due 2043. The proceeds of this issuance were used to fund the repurchase of debt and for general corporate purposes. In June 2013, we issued \$500 million of commercial paper with the proceeds used to fund the repurchase of debt. On August 8, 2013, we issued \$800 million of 5.75% Fixed-to-Floating Rate Subordinated Debentures due 2053. The proceeds of this issuance were used for the repayment of the commercial paper borrowings, to fund the repurchase of debt, for the repurchase of our common stock in open market purchases, and for general corporate purposes.

On June 20, 2013, we repurchased principal amounts of \$1.83 billion of debt and recognized a loss on extinguishment of \$480 million, pre-tax, representing the excess of the repurchase price over the principal repaid, the write-off of the unamortized debt issuance costs and other costs related to the repurchase transaction. During third quarter 2013, we repurchased principal amounts of \$57 million of debt and recognized a loss on extinguishment of \$9 million, pre-tax, representing the excess of the repurchase price over the principal repaid and the write-off of the unamortized debt issuance costs.

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The next debt maturities are on May 16, 2014 when \$300 million of 6.20% Senior Notes are due and August 15, 2014 when \$650 million of 5.00% Senior Notes are due.

During the fourth quarter of 2013, we may execute additional issuances of perpetual preferred stock to pre-fund the debt maturing in 2014 and for general corporate purposes.

*Common share repurchases* During third quarter 2013, our \$1.00 billion common share repurchase program that commenced in December 2012 was completed. As of September 30, 2013, our \$1.00 billion common share repurchase program that was authorized in February 2013 had \$589 million remaining and is expected to be completed by March 31, 2014. On February 28, 2013, we entered into an accelerated share repurchase agreement with Barclays Bank PLC ( Barclays ) and Barclays Capital Inc., as Barclays agent, to purchase \$500 million of our

outstanding common stock. The accelerated share repurchase agreement settled on June 6, 2013. During the first nine months of 2013, we repurchased 28.9 million common shares for \$1.40 billion.

**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. In January 2013, A.M. Best affirmed The Allstate Corporation's debt and commercial paper ratings of a- and AMB-1, respectively, and our insurance entities financial strength ratings of A+ for AIC and Allstate Life Insurance Company (ALIC). The outlook for AIC and ALIC remained stable. In April 2013, Moody's affirmed The Allstate Corporation's debt and commercial paper ratings of A3 and P-2, respectively, AIC's financial strength ratings of Aa3 and ALIC's financial strength rating of A1. The outlook for all Moody's ratings was revised to stable from negative. In May 2013, S&P affirmed The Allstate Corporation's debt and commercial paper ratings of A- and A-2, respectively, AIC's financial strength ratings of AA- and ALIC's financial strength rating of A+. The outlook for all S&P ratings was revised to stable from negative. In the future, if our financial position is less than rating agency expectations including those related to capitalization at the parent company, AIC or ALIC, we could be exposed to a downgrade in our ratings which we do not view as being material to our business model or strategies.

The sale of LBL is expected to generate deployable capital of approximately \$1 billion, which will be returned to AIC as allowed by regulatory dividend limitations and approvals. The \$1 billion includes the estimated gain on the sale on a statutory-basis of accounting in the range of approximately \$350 million to \$400 million and the release of risk-based capital. Subsequent to the announcement of the planned sale of LBL, the rating agencies initiated reviews of LBL's ratings and outlook. Moody's downgraded LBL from A1 to Baa1 and revised the rating outlook from stable to negative. Both the rating and outlook will be finalized after the transaction closes. S&P downgraded LBL from A+ to BBB+ and placed LBL on CreditWatch negative. Both the rating and CreditWatch will be finalized after the transaction closes. A.M. Best placed LBL's rating under review with negative implications, pending a final determination on both the rating and outlook after the transaction closes. The Moody's, S&P and A.M. Best ratings and outlook of ALIC are unaffected by the sale of LBL.

ALIC, AIC and The Allstate Corporation are party to the Amended and Restated Intercompany Liquidity Agreement (Liquidity Agreement) which 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 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 provide capital to ALIC to maintain an adequate capital level. The maximum amount of potential funding under each of these agreements is \$1.00 billion. On March 22, 2013, the Corporation advanced \$500 million to AIC under the Liquidity Agreement to facilitate investing activity. This amount was repaid on June 7, 2013.

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.

**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.

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*Parent company capital capacity* At the parent holding company level, we have deployable assets totaling \$2.83 billion as of September 30, 2013. These assets include cash and investments that are generally saleable within one quarter totaling \$2.21 billion. This provides funds for the parent company's relatively low fixed charges and other corporate purposes.

In the first nine months of 2013, AIC paid dividends totaling \$1.75 billion to the Corporation.

The Corporation has access to additional borrowing to support liquidity as follows:

- A commercial paper facility with a borrowing limit of \$1.00 billion to cover short-term cash needs. As of September 30, 2013, there were no balances outstanding and therefore the remaining borrowing capacity was \$1.00 billion; however, the outstanding balance can fluctuate daily.
- Our \$1.00 billion unsecured revolving credit facility is available for short-term liquidity requirements and backs our commercial paper facility. We have the option to extend the expiration of its initial five year term by one year at the first and second anniversary of the facility, upon approval of existing or replacement lenders. In April 2013, we utilized the option on the first anniversary of the facility and we extended the facility by one year making its current expiration April 2018. The facility is fully subscribed among 12 lenders with the largest commitment being \$115 million. The commitments of the lenders are several and no lender is responsible for any other lender's commitment if such lender fails to make a loan under the facility. This facility contains an increase provision that would allow up to an additional \$500 million of borrowing. This facility has a financial covenant requiring that we not exceed a 37.5% debt to capitalization ratio as defined in the agreement. This ratio was 15.8% as of September 30, 2013. Although the right to borrow under the facility is not subject to a minimum rating requirement, the costs of maintaining the facility and borrowing under it are based on the ratings of our senior unsecured, unguaranteed long-term debt. There were no borrowings under the credit facility during the third quarter and first nine months of 2013. The total amount outstanding at any point in time under the combination of the commercial paper program and the credit facility cannot exceed the amount that can be borrowed under the credit facility.
- A universal shelf registration statement was filed with the Securities and Exchange Commission on April 30, 2012. We can use this shelf registration to issue an unspecified amount of debt securities, common stock (including 444 million shares of treasury stock as of September 30, 2013), 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.

*Dividend limitations* During 2013, ALIC will not be able to pay dividends to AIC without prior IL DOI approval. ALIC will be able to pay dividends without prior IL DOI approval when its unassigned surplus excluding unrealized appreciation from investments, which totaled a deficit position of \$675 million as of December 31, 2012, becomes positive. The sale of LBL is expected to reduce the deficit in the range of approximately \$425 million to \$475 million. ALIC also can repurchase its shares and return capital to AIC with the approval of the IL DOI.

*Liquidity exposure* Contractholder funds were \$24.48 billion as of September 30, 2013. The following table summarizes contractholder funds by their contractual withdrawal provisions as of September 30, 2013.

| (\$ in millions)                                            |           | Percent<br>to total |
|-------------------------------------------------------------|-----------|---------------------|
| Not subject to discretionary withdrawal                     | \$ 3,881  | 15.9%               |
| Subject to discretionary withdrawal with adjustments:       |           |                     |
| Specified surrender charges (1)                             | 7,008     | 28.6                |
| Market value adjustments (2)                                | 3,354     | 13.7                |
| Subject to discretionary withdrawal without adjustments (3) | 10,233    | 41.8                |
| Total contractholder funds (4)                              | \$ 24,476 | 100.0%              |

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(1) Includes \$3.52 billion of liabilities with a contractual surrender charge of less than 5% of the account balance.

(2) \$2.53 billion 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 5 or 6 years) during which there is no surrender charge or market value adjustment.

(3) 78% of these contracts have a minimum interest crediting rate guarantee of 3% or higher.

(4) Includes \$991 million of contractholder funds on variable annuities reinsured to The Prudential Insurance Company of America, a subsidiary of Prudential Financial Inc., in 2006.

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

conditions and potential tax implications. In addition, the propensity for retail life insurance policies to lapse is lower than it is for fixed annuities because of the need for the insured to be re-underwritten upon policy replacement. Surrenders and partial withdrawals for our retail annuities decreased 15.6% and 10.9% in the third quarter and first nine months of 2013, respectively, compared to the same periods of 2012. 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 10.5% and 10.7% in the first nine months of 2013 and 2012, respectively. Allstate Financial strives 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.

The following table summarizes consolidated cash flow activities by segment for the first nine months ended September 30.

| (\$ in millions)                             | Property-Liability (1) |          | Allstate Financial (1) |         | Corporate and Other (1) |       | Consolidated |          |
|----------------------------------------------|------------------------|----------|------------------------|---------|-------------------------|-------|--------------|----------|
|                                              | 2013                   | 2012     | 2013                   | 2012    | 2013                    | 2012  | 2013         | 2012     |
| Net cash provided by (used in):              |                        |          |                        |         |                         |       |              |          |
| Operating activities                         | \$ 2,014               | \$ 1,782 | \$ 811                 | \$ 817  | \$ 246                  | \$ 19 | \$ 3,071     | \$ 2,618 |
| Investing activities                         | (415)                  | (813)    | 3,293                  | 1,470   | (645)                   | (160) | 2,233        | 497      |
| Financing activities                         | 33                     | (21)     | (3,859)                | (2,376) | (1,202)                 | (852) | (5,028)      | (3,249)  |
| Transfer of cash to held for sale            | --                     | --       | (13)                   | --      | --                      | --    | (13)         | --       |
| Net increase (decrease) in consolidated cash |                        |          |                        |         |                         |       | \$ 263       | \$ (134) |

(1) Business unit cash flows reflect the elimination of intersegment dividends, contributions and borrowings.

*Property-Liability* Higher cash provided by operating activities in the first nine months of 2013 compared to the first nine months of 2012 was primarily due to increased premiums, lower claim payments and the surrender of company owned life insurance, partially offset by higher expenses and tax payments in the first nine months of 2013 compared to the first nine months of 2012.

Cash used by investing activities in the first nine months of 2013 decreased compared to cash used in investing activities in the first nine months of 2012. Cash used in 2013 primarily related to equity portfolio repositioning and other net transactional activity.

*Allstate Financial* Lower cash provided by operating cash flows in the first nine months of 2013 compared to the first nine months of 2012 was primarily due to lower net investment income, partially offset by higher premiums and lower contract benefits paid.

Higher cash provided by investing activities in the first nine months of 2013 compared to the first nine months of 2012 was due to higher investment collections and net transactional activity.

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Higher cash used in financing activities in the first nine months of 2013 compared to the first nine months of 2012 was primarily due to a \$1.75 billion institutional product maturity.

*Corporate and Other* Fluctuations in the Corporate and Other operating cash flows were primarily due to the timing of intercompany settlements. Investing activities primarily relate to investments in the parent company portfolio. Financing cash flows of the Corporate and Other segment reflect actions such as fluctuations in short-term debt, repayment of debt (including payment for the debt tender offer), proceeds from the issuance of debt and preferred stock, dividends to common shareholders of The Allstate Corporation and common share repurchases; therefore, financing cash flows are affected when we increase or decrease the level of these activities.

**Item 4. Controls and Procedures**

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

*Changes in Internal Control over Financial Reporting.* During the fiscal quarter ended September 30, 2013, 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**

This document 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. We assume no obligation to update any forward-looking statements as a result of new information or future events or developments.

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. These statements address, among other things, our strategy for growth, catastrophe exposure management, product development, investment results, regulatory approvals, market position, expenses, financial results, litigation and reserves. We believe that these statements are based on reasonable estimates, assumptions and plans. However, if the estimates, assumptions or plans underlying the forward-looking statements prove inaccurate or if other risks or uncertainties arise, actual results could differ materially from those communicated in these forward-looking statements. Risk factors which could cause actual results to differ materially from those suggested by such forward-looking statements include but are not limited to those discussed or identified in this document (including the risks described below), in our public filings with the Securities and Exchange Commission, and those incorporated by reference in Part I, Item 1A of The Allstate Corporation Annual Report on Form 10-K for 2012.

### **Our ability to pay dividends or repurchase our stock is subject to limitations under terms of certain of our securities**

Subject to certain limited exceptions, during any dividend period while our preferred stock is outstanding, unless the full preferred stock dividends for the preceding dividend period have been declared and paid or declared and a sum sufficient for the payment thereof has been set aside and any declared but unpaid preferred stock dividends for any prior period have been paid, we may not repurchase or pay dividends on our common stock.

We are prohibited from declaring or paying dividends on our preferred stock in excess of the amount of net proceeds from an issuance of common stock taking place within 90 days before a dividend declaration date if, on that dividend declaration date, either: (1) the risk-based capital ratios of our largest U.S. property-casualty insurance subsidiaries that collectively account for 80% or more of the net written premiums of our U.S. property-casualty insurance business on a weighted average basis were less than 175% of their company action level risk-based capital as of the end of the most recent year; or (2) our consolidated net income for the four-quarter period ending on the preliminary quarter end test date (the quarter that is two quarters prior to the most recently completed quarter) is zero or negative and our consolidated shareholders equity (excluding accumulated other comprehensive income, and subject to certain other adjustments relating to changes in U.S. GAAP) as of each of the preliminary quarter test date and the most recently completed quarter has declined by 20% or more from its level as measured at the

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end of the benchmark quarter (the date that is ten quarters prior to the most recently completed quarter). If we fail to satisfy either of these tests on any dividend declaration date, the restrictions on dividends will continue until we are able again to satisfy the test on a dividend declaration date. In addition, in the case of a restriction arising under (2) above, the restrictions on dividends will continue until our consolidated shareholders' equity (excluding accumulated other comprehensive income, and subject to certain other adjustments relating to changes in U.S. GAAP) has increased, or has declined by less than 20%, in either case as compared to its level at the end of the benchmark quarter for each dividend payment date as to which dividend restrictions were imposed. Examples of situations where we may fail the above tests include: a financial crisis or other negative trends in the global economy and capital markets, or a significant catastrophe loss event.

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.

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

## Issuer Purchases of Equity Securities

| <b>Period</b>      | <b>Total number<br/>of shares<br/>(or units)<br/>purchased (1)</b> | <b>Average price<br/>paid per share<br/>(or unit)</b> | <b>Total number<br/>of shares (or units)<br/>purchased<br/>as part of publicly<br/>announced plans or<br/>programs (2)</b> | <b>Maximum number<br/>(or approximate dollar<br/>value) of shares<br/>(or units) that may yet be<br/>purchased under the<br/>plans or programs (3)</b> |
|--------------------|--------------------------------------------------------------------|-------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------|
| July 1, 2013 -     |                                                                    |                                                       |                                                                                                                            |                                                                                                                                                        |
| July 31, 2013      | 2,976,776                                                          | \$ 50.7165                                            | 2,976,376                                                                                                                  | \$ 927.4 million                                                                                                                                       |
| August 1, 2013 -   |                                                                    |                                                       |                                                                                                                            |                                                                                                                                                        |
| August 31, 2013    | 3,631,108                                                          | \$ 49.6320                                            | 3,623,237                                                                                                                  | \$ 747.6 million                                                                                                                                       |
| September 1, 2013- |                                                                    |                                                       |                                                                                                                            |                                                                                                                                                        |
| September 30, 2013 | 3,160,144                                                          | \$ 50.3669                                            | 3,158,040                                                                                                                  | \$ 588.5 million                                                                                                                                       |
| Total              | 9,768,028                                                          | \$ 50.2003                                            | 9,757,653                                                                                                                  |                                                                                                                                                        |

(1) In accordance with the terms of its equity compensation plans, Allstate acquired the following shares in connection with stock option exercises by employees and/or directors. The stock was received in payment of the exercise price of the options and in satisfaction of withholding taxes due upon exercise or vesting.

July: 400  
August: 7,871  
September: 2,104

The Allstate 401(k) Savings Plan acquired the following shares in connection with Allstate's contributions to the plan based on its matching obligation and certain performance measures.

July: none  
August: none  
September: none

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

(3) On December 17, 2012, we announced the approval of a share repurchase program for \$1.00 billion. This program was completed on July 17, 2013. On February 6, 2013, we announced the approval of an additional share repurchase program for \$1.00 billion, to be completed by March 31, 2014.

**Item 6. Exhibits**

(a) Exhibits

An Exhibit Index has been filed as part of this report on page E-1.

**SIGNATURE**

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

The Allstate Corporation  
(Registrant)

October 30, 2013

By

/s/ Samuel H. Pilch  
Samuel H. Pilch  
(chief accounting officer and duly  
authorized officer of Registrant)

| Exhibit Number | Exhibit Description                                                                                                                                                                                       | Incorporated by Reference |             |         |                    | Filed or<br>Furnished<br>Herewith |
|----------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------|-------------|---------|--------------------|-----------------------------------|
|                |                                                                                                                                                                                                           | Form                      | File Number | Exhibit | Filing Date        |                                   |
| 3.1            | Certificate of Designations with respect to the Preferred Stock of the Registrant, dated September 26, 2013                                                                                               | 8-K                       | 1-11840     | 3.1     | September 30, 2013 |                                   |
| 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 |                           |             |         |                    |                                   |
| 4.1            | Deposit Agreement, dated September 30, 2013, among the Registrant, Wells Fargo Bank, N.A., as depositary, and the holders from time to time of the depositary receipts described therein                  | 8-K                       | 1-11840     | 4.1     | September 30, 2013 |                                   |
| 4.2            | Form of Preferred Stock Certificate (included as Exhibit A to Exhibit 3.1 above)                                                                                                                          | 8-K                       | 1-11840     | 4.2     | September 30, 2013 |                                   |
| 4.3            | Form of Depositary Receipt (included as Exhibit A to Exhibit 4.1 above)                                                                                                                                   | 8-K                       | 1-11840     | 4.3     | September 30, 2013 |                                   |
| 15             | Acknowledgment of awareness from Deloitte & Touche LLP, dated October 30, 2013, concerning unaudited interim financial information                                                                        |                           |             |         |                    | X                                 |
| 31(i)          | Rule 13a-14(a) Certification of Principal Executive Officer                                                                                                                                               |                           |             |         |                    | X                                 |
| 31(i)          | Rule 13a-14(a) Certification of Principal Financial Officer                                                                                                                                               |                           |             |         |                    | X                                 |
| 32             | Section 1350 Certifications                                                                                                                                                                               |                           |             |         |                    | X                                 |
| 101.INS        | XBRL Instance Document                                                                                                                                                                                    |                           |             |         |                    | X                                 |
| 101.SCH        | XBRL Taxonomy Extension Schema                                                                                                                                                                            |                           |             |         |                    | X                                 |
| 101.CAL        | XBRL Taxonomy Extension Calculation Linkbase                                                                                                                                                              |                           |             |         |                    | X                                 |
| 101.DEF        | XBRL Taxonomy Extension Definition Linkbase                                                                                                                                                               |                           |             |         |                    | X                                 |
| 101.LAB        | XBRL Taxonomy Extension Label Linkbase                                                                                                                                                                    |                           |             |         |                    | X                                 |
| 101.PRE        | XBRL Taxonomy Extension Presentation Linkbase                                                                                                                                                             |                           |             |         |                    | X                                 |