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

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

(847) 402-5000

(Registrant s telephone number, including area code)

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

Yes X No ___

Indicate by check mark whether the registrant has submitted electronically 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

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 September 30 2013**	**2012**	**Nine months ended September 30 2013**	**2012**
	(unaudited)		**(unaudited)**	
Revenues				
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
Costs and expenses				
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
Income from operations before income tax expense	509	1,048	2,153	2,762
Income tax expense	193	325	694	850
Net income	316	723	1,459	1,912
Preferred stock dividends	6	--	6	--
Net income available to common shareholders	$ 310	$ 723	$ 1,453	$ 1,912
Earnings per common share:				
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

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 September 30, 2013	Three months ended September 30, 2012	Nine months ended September 30, 2013	Nine months ended September 30, 2012
	(unaudited)		(unaudited)	
Net income	$ 316	$ 723	$ 1,459	$ 1,912
Other comprehensive income (loss), after-tax				
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
Other comprehensive income (loss), after-tax	760	842	(365)	1,558
Comprehensive income	$ 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, 2013 (unaudited)		December 31, 2012
Assets				
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		--
Total assets	$	122,285	$	126,947
Liabilities				
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		--
Total liabilities		101,505		106,367
Commitments and Contingent Liabilities (Note 12)				
Equity				
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
Total shareholders equity		20,780		20,580
Total liabilities and shareholders equity	$	122,285	$	126,947

See notes to condensed consolidated financial statements.

THE ALLSTATE CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

($ in millions)	Nine months ended September 30, 2013	2012
	(unaudited)	
Preferred stock par value		
Balance, beginning of period	$ --	$ --
Preferred stock issuance	--	--
Balance, end of period	--	--
Preferred stock additional capital paid-in		
Balance, beginning of period	--	--
Preferred stock issuance	650	--
Balance, end of period	650	--
Common stock	9	9
Additional capital paid-in		
Balance, beginning of period	3,162	3,189
Equity incentive plans activity	(35)	(35)
Balance, end of period	3,127	3,154
Retained income		
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
Deferred ESOP expense		
Balance, beginning of period	(41)	(43)
Payments	2	2
Balance, end of period	(39)	(41)
Treasury stock		
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)
Accumulated other comprehensive income		
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
Noncontrolling interest		
Balance, beginning of period	--	28
Change in noncontrolling interest ownership	--	(28)
Balance, end of period	--	--
Total shareholders equity	$ 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**	**2012**
Cash flows from operating activities	**(unaudited)**	
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
Cash flows from investing activities		
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
Cash flows from financing activities		
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)	--
Net increase (decrease) in cash	263	(134)
Cash at beginning of period	806	776

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 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 September 30,**		**Nine months ended 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 (non-participating)	1.8	1.3	1.7	1.0
Weighted average common and dilutive potential common 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.

8

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 September 30, 2013	2012
Net change in proceeds managed		
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)
Net change in liabilities		
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 cost	Gross unrealized Gains	Losses	Fair value
September 30, 2013				
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 (RMBS)	1,787	100	(43)	1,844
Commercial mortgage-backed securities (CMBS)	844	48	(17)	875
Redeemable preferred stock	22	5	--	27
Total fixed income securities	$ 58,129	$ 2,733	$ (567)	$ 60,295
December 31, 2012				
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

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 cost	Fair 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 September 30,		Nine months ended 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:

($ in millions)	Three months ended September 30, 2013	Three months ended September 30, 2012	Nine months ended September 30, 2013	Nine months ended September 30, 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

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

($ in millions)	Three months ended September 30, 2013	Three months ended September 30, 2012	Nine months ended September 30, 2013	Nine months ended September 30, 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	$ (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 September 30, 2013			Nine months ended September 30, 2013		
	Gross	Included in OCI	Net	Gross	Included 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 impairment losses	$ (96)	$ 8	$ (88)	$ (178)	$ (7)	$ (185)

($ in millions)	Three months ended September 30, 2012			Nine months ended September 30, 2012		
	Gross	Included in OCI	Net	Gross	Included 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)

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 impairment losses	$ (39)	$ (7)	$ (46)	$ (195)	$ 16	$ (179)

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, 2013	December 31, 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 September 30,		Nine months ended 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 issue 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 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	Gross unrealized		Unrealized net
September 30, 2013	**value**	**Gains**	**Losses**	**gains (losses)**
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	Gross unrealized		Unrealized net
December 31, 2012	**value**	**Gains**	**Losses**	**gains (losses)**
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.

13

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.

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.

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	Total unrealized losses
September 30, 2013							
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)
December 31, 2012							
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.

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 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,**		**Nine months ended September 30,**	
	2013	**2012**	**2013**	**2012**
Beginning balance	$ 21	$ 48	$ 42	$ 63

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, 2013**	**December 31, 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 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 in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Counterparty and cash collateral netting	Balance as of September 30, 2013
Assets					
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
Total recurring basis assets	12,958	69,983	2,232	(26)	85,147
Non-recurring basis (1)	--	--	56	--	56
Total assets at fair value	$ 12,958	$ 69,983	$ 2,288	$ (26)	$ 85,203
% of total assets at fair value	15.2 %	82.1 %	2.7 %	-- %	100.0 %
Liabilities					
Contractholder funds: Derivatives embedded in life and annuity contracts	$ --	$ --	$ (283)		$ (283)

Other liabilities: Free-standing derivatives	(1)	(152)	(16)	$ 14	(155)
Liabilities held for sale	--	--	(249)		(249)
Total recurring basis liabilities	(1)	(152)	(548)	14	(687)
Non-recurring basis (2)	--	--	(11,282)	--	(11,282)
Total liabilities at fair value	$ (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.

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 in active markets for identical assets (Level 1)**	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Counterparty and cash collateral netting**	**Balance as of December 31, 2012**
Assets					
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
Total recurring basis assets	13,116	74,008	3,072	(57)	90,139
Non-recurring basis (1)	--	--	9		9
Total assets at fair value	$ 13,116	$ 74,008	$ 3,081	$ (57)	$ 90,148
% of total assets at fair value	14.6 %	82.1 %	3.4 %	(0.1) %	100.0 %
Liabilities					
Contractholder funds: Derivatives embedded in life and annuity contracts	$ --	$ --	$ (553)		$ (553)
Other liabilities: Free-standing derivatives	--	(98)	(30)	$ 33	(95)
Total liabilities at fair value	$ --	$ (98)	$ (583)	$ 33	$ (648)
% 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.

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
September 30, 2013						
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%
December 31, 2012						
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.

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) included in:			
	Balance as of June 30, 2013	Net income (1)	OCI	Transfers into Level 3	Transfers out of Level 3
Assets					
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)
Total recurring Level 3 assets	$ 2,395	$ 1	$ 11	$ 24	$ (152)
Liabilities					
Contractholder funds: Derivatives embedded in life and annuity contracts	$ (533)	$ 8	$ --	$ --	$ --
Liabilities held for sale	--	16	--	--	--
Total recurring Level 3 liabilities	$ (533)	$ 24	$ --	$ --	$ --

	Transfer to held for sale	Purchases/ Issues (2)	Sales	Settlements	Balance as of September 30, 2013
Assets					
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
Total recurring Level 3 assets	$ --	$ 102	$ (103)	$ (62)	$ 2,216
Liabilities					
Contractholder funds: Derivatives embedded in life and annuity contracts	$ 265	$ (24)	$ --	$ 1	$ (283)
Liabilities held for sale	(265)	(2)	--	2	(249)
Total recurring Level 3 liabilities	$ --	$ (26)	$ --	$ 3	$ (532)

---

(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.

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

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

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)	Balance as of December 31, 2012	Total gains (losses) included in: Net income (1)	OCI	Transfers into Level 3	Transfers out of Level 3
Assets					
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)
Total recurring Level 3 assets	$ 3,042	$ 17	$ 39	$ 111	$ (449)
Liabilities					
Contractholder funds: Derivatives embedded in life and annuity contracts	$ (553)	$ 77	$ --	$ --	$ --
Liabilities held for sale	--	16	--	--	--
Total recurring Level 3 liabilities	$ (553)	$ 93	$ --	$ --	$ --

	Transfer to held for sale	Purchases/ Issues (2)	Sales	Settlements	Balance as of September 30, 2013
Assets					
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
Total recurring Level 3 assets	$ --	$ 647	$ (989)	$ (202)	$ 2,216
Liabilities					
Contractholder funds: Derivatives embedded in life and annuity contracts	$ 265	$ (74)	$ --	$ 2	$ (283)
Liabilities held for sale	(265)	(2)	--	2	(249)
Total recurring Level 3 liabilities	$ --	$ (76)	$ --	$ 4	$ (532)

____

(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.

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)	Balance as of June 30, 2012	Total gains (losses) included in: Net income (1)	Total gains (losses) included in: OCI	Transfers into Level 3	Transfers out of Level 3
Assets					
Fixed income securities:					
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	--	--	--	--
Total recurring Level 3 assets	$ 3,184	$ 4	$ 88	$ 170	$ (26)
Liabilities					
Contractholder funds: Derivatives embedded in life and annuity contracts	$ (707)	$ 160	$ --	$ --	$ --
Total recurring Level 3 liabilities	$ (707)	$ 160	$ --	$ --	$ --

	Purchases	Sales	Issues	Settlements	Balance as of September 30, 2012
Assets					
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
Total recurring Level 3 assets	$ 92	$ (328)	$ --	$ (41)	$ 3,143
Liabilities					
Contractholder funds: Derivatives embedded in life and annuity contracts	$ --	$ --	$ (24)	$ 20	$ (551)
Total recurring Level 3 liabilities	$ --	$ --	$ (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.

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 December 31, 2011	Total gains (losses) included in: Net income (1)	Total gains (losses) included in: OCI	Transfers into Level 3	Transfers out of Level 3
Assets					
Fixed income securities:					
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	--	--	--	--
Total recurring Level 3 assets	$ 3,095	$ 41	$ 154	$ 314	$ (193)
Liabilities					
Contractholder funds: Derivatives embedded in life and annuity contracts	$ (723)	$ 151	$ --	$ --	$ --
Total recurring Level 3 liabilities	$ (723)	$ 151	$ --	$ --	$ --

	Purchases	Sales	Issues	Settlements	Balance as of September 30, 2012
Assets					
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
Total recurring Level 3 assets	$ 510	$ (660)	$ --	$ (118)	$ 3,143
Liabilities					
Contractholder funds: Derivatives embedded in life and annuity contracts	$ --	$ --	$ (53)	$ 74	$ (551)
Total recurring Level 3 liabilities	$ --	$ --	$ (53)	$ 74	$ (551)

____

(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 September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
Assets				
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)	--
Total recurring Level 3 assets	$ (6)	$ (11)	$ (3)	$ (5)
Liabilities				
Contractholder funds: Derivatives embedded in life and annuity contracts	$ 8	$ 160	$ 77	$ 151
Liabilities held for sale	16	--	16	--
Total recurring Level 3 liabilities	$ 24	$ 160	$ 93	$ 151

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.

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 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**
Asset derivatives						
Derivatives designated as accounting hedging instruments						
Foreign currency swap agreements	Other investments	$ 16	n/a	$ 2	$ 2	$ --
Derivatives not designated as accounting hedging instruments						
Interest rate contracts						
Interest rate swap agreements	Other investments	700	n/a	3	4	(1)
Interest rate cap agreements	Other investments	122	n/a	2	2	--
Equity and index contracts						
Options and warrants (2)	Other investments	3	10,570	208	208	--
Foreign currency contracts						
Foreign currency forwards	Other investments	355	n/a	11	12	(1)
Embedded derivative financial instruments						
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	--	--	--
Credit default contracts						
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	--
Other contracts						
Other contracts	Other assets	3	n/a	1	1	--
Subtotal		2,456	10,570	214	230	(16)
Total asset derivatives		$ 2,472	10,570	$ 216	$ 232	$ (16)
Liability derivatives						
Derivatives designated as accounting hedging instruments						
Foreign currency swap agreements	Other liabilities & accrued expenses	$ 132	n/a	$ (16)	$ --	$ (16)
Derivatives not designated as accounting hedging instruments						
Interest rate contracts						
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	--	--	--
Equity and index contracts						
Options and futures		81	11,723	(126)	1	(127)

	Other liabilities & accrued expenses					
Embedded derivative financial instruments						
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)
Credit default contracts						
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)
Total liability derivatives		$ 6,907	12,123	$ (685)	$ 12	$ (697)
Total derivatives		$ 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.

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)	**Balance sheet location**	**Volume (1) Notional amount**	**Volume (1) Number of contracts**	**Fair value, net**	**Gross asset**	**Gross liability**
Asset derivatives						
Derivatives designated as accounting hedging instruments						
Foreign currency swap agreements	Other investments	$ 16	n/a	$ 2	$ 2	$ --
Derivatives not designated as accounting hedging instruments						
Interest rate contracts						
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	--	--	--
Equity and index contracts						
Options and warrants (2)	Other investments	146	12,400	125	125	--
Financial futures contracts	Other assets	n/a	1,087	5	5	--
Foreign currency contracts						
Foreign currency forwards and options	Other investments	258	n/a	6	6	--
Embedded derivative financial instruments						
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	--	--	--
Credit default contracts						
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)
Other contracts						
Other contracts	Other assets	4	n/a	1	1	--
Subtotal		7,945	13,489	156	180	(24)
Total asset derivatives		$ 7,961	13,489	$ 158	$ 182	$ (24)
Liability derivatives						
Derivatives designated as accounting hedging instruments						
Foreign currency swap agreements	Other liabilities & accrued expenses	$ 135	n/a	$ (19)	$ --	$ (19)
Derivatives not designated as accounting hedging instruments						
Interest rate contracts						
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	--	--	--
Equity and index contracts						
Options and futures	Other liabilities & accrued expenses	--	12,262	(58)	--	(58)
Foreign currency contracts						
Foreign currency forwards and options	Other liabilities & accrued expenses	139	n/a	(1)	1	(2)

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)
Total liability derivatives		$ 8,218	12,619	$ (646)	$ 23	$ (669)
Total derivatives		$ 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)		Offsets				
	Gross amount	Counter-party netting	Cash collateral (received) pledged	Net amount on balance sheet	Securities collateral (received) pledged	Net amount
September 30, 2013						
Asset derivatives	$ 34	$ (16)	$ (10)	$ 8	$ (2)	$ 6
Liability derivatives	(40)	16	(2)	(26)	24	(2)
December 31, 2012						
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 September 30,		Nine months ended 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
Three months ended September 30, 2013					
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

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

($ in millions)	Net investment income	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
Three months ended September 30, 2012						
Derivatives in fair value accounting hedging relationships						
Interest rate contracts	$ --	$ --	$ --	$ --	$ --	$ --
Derivatives not designated as accounting hedging instruments						
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
Nine months ended September 30, 2012						
Derivatives in fair value accounting hedging relationships						
Interest rate contracts	$ (1)	$ --	$ --	$ --	$ --	$ (1)
Derivatives not designated as accounting hedging instruments						
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 net income on derivatives**	**Gain (loss) on derivatives** **Interest rate contracts**	**Gain (loss) on hedged risk** **Investments**
Three months ended September 30, 2012		
Net investment income	$ 1	$ (1)
Nine months ended September 30, 2012		
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 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) 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)

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.

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

($ in millions)	Notional amount						
	AAA	AA	A	BBB	BB and lower	Total	Fair value
September 30, 2013							
Single name							
Investment grade corporate debt (1)	$ --	$ 20	$ 30	$ 65	$ --	$ 115	$ 2
Baskets							
First-to-default							
Municipal	--	--	100	--	--	100	(16)
Index							
Investment grade corporate debt (1)	--	1	20	55	4	80	1
Total	$ --	$ 21	$ 150	$ 120	$ 4	$ 295	$ (13)
December 31, 2012							
Single name							
Investment grade corporate debt (1)	$ 5	$ 20	$ 53	$ 80	$ 10	$ 168	$ --
Municipal	--	25	--	--	--	25	(3)
Subtotal	5	45	53	80	10	193	(3)
Baskets							
First-to-default							
Municipal	--	--	100	--	--	100	(26)
Index							
Investment grade corporate debt (1)	--	3	79	204	14	300	2
Total	$ 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 September 30,**		**Nine months ended 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 September 30, 2013	Three months ended September 30, 2012	Nine months ended September 30, 2013	Nine months ended September 30, 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, 2013**	**December 31, 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.

($ in millions)	Employee costs	Exit costs	Total 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 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

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.

44

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 September 30, 2013	Three months ended September 30, 2012	Nine months ended September 30, 2013	Nine months ended September 30, 2012
Pension benefits				
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
Postretirement benefits				
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)
Curtailment 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 September 30, 2013	2012	Nine months ended September 30, 2013	2012
Revenues				
Property-Liability				
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
Allstate Financial				
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
Corporate and Other				
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.

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

($ in millions)	Three months ended September 30, 2013	Three months ended September 30, 2012	Nine months ended September 30, 2013	Nine months ended September 30, 2012
Net income				
Property-Liability				
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
Allstate Financial				
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
Corporate and Other				
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)

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

(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,					
	2013			2012		
	Pre-tax	Tax	After-tax	Pre-tax	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,					
	2013			2012		
	Pre-tax	Tax	After-tax	Pre-tax	Tax	After-tax
Unrealized net holding gains and losses arising during the period, net of related offsets	$ (1,285)	$ 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 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 September 30,**		**Nine months ended September 30,**	
	2013	**2012**	**2013**	**2012**
Revenues				
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
Costs and expenses				
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)
Net income	316	723	1,459	1,912
Preferred stock dividends	(6)	--	(6)	--
Net income available to common shareholders	$ 310	$ 723	$ 1,453	$ 1,912

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 average guaranteed crediting rates**	**Weighted average current crediting rates**	**Contractholder 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.

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.

- 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.

- 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.

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 September 30, 2013	Three months ended September 30, 2012	Nine months ended September 30, 2013	Nine months ended September 30, 2012
Premiums written	$ 7,438	$ 7,063	$ 21,214	$ 20,390
Revenues				
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
Costs and expenses				
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)
Net income available to common shareholders	$ 656	$ 639	$ 1,889	$ 1,688
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)	--
Net income available to common shareholders	$ 656	$ 639	$ 1,889	$ 1,688
Catastrophe losses (1)	$ 128	$ 206	$ 1,134	$ 1,284
GAAP operating ratios				
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 September 30,**		**Nine months ended September 30,**	
	2013	**2012**	**2013**	**2012**
Premiums written:				
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
Premiums earned:				
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

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

(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
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
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.

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.

	Allstate brand		Encompass brand		Esurance brand	
Standard auto	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**
Three months ended September 30,						
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
Nine months ended September 30,						
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.

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.

Allstate brand	**Three months ended September 30,**		**Nine months ended September 30,**	
Non-standard auto	**2013**	**2012**	**2013**	**2012**
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.

	Allstate brand		**Encompass brand**	
Homeowners	**2013**	**2012**	**2013**	**2012**
Three months ended September 30,				
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
Nine months ended September 30,				
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.

(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.

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 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 September 30, 2013**	**2012**	**Nine months ended September 30, 2013**	**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
Underwriting income (loss) by line of business				
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
Underwriting income (loss) by brand				
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.

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, 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
Size of catastrophe loss									
$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
Size of catastrophe loss									
$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 September 30,	Nine months ended September 30,

	2013	Number of events	2012	Number of events	2013	Number of events	2012	Number 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						