

ALLSTATE CORP  
Form 10-Q  
July 30, 2014

**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 June 30, 2014**

**OR**

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

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

**Commission file number 1-11840**

**THE ALLSTATE CORPORATION**

(Exact name of registrant as specified in its charter)

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

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

# Edgar Filing: ALLSTATE CORP - Form 10-Q

**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 July 16, 2014, the registrant had 433,400,209 common shares, \$.01 par value, outstanding.

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**THE ALLSTATE CORPORATION**

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

**June 30, 2014**

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

(\$ in millions, except per share data)

|                                                                      | Three months ended<br>June 30, |          | Six months ended<br>June 30, |           |
|----------------------------------------------------------------------|--------------------------------|----------|------------------------------|-----------|
|                                                                      | 2014                           | 2013     | 2014                         | 2013      |
|                                                                      | (unaudited)                    |          | (unaudited)                  |           |
| <b>Revenues</b>                                                      |                                |          |                              |           |
| Property-liability insurance premiums                                | \$ 7,204                       | \$ 6,862 | \$ 14,268                    | \$ 13,632 |
| Life and annuity premiums and contract charges                       | 518                            | 579      | 1,125                        | 1,158     |
| Net investment income                                                | 898                            | 984      | 1,857                        | 1,967     |
| Realized capital gains and losses:                                   |                                |          |                              |           |
| Total other-than-temporary impairment losses                         | (44)                           | (55)     | (124)                        | (82)      |
| Portion of loss recognized in other comprehensive income             | (1)                            | (5)      | (2)                          | (15)      |
| Net other-than-temporary impairment losses recognized in earnings    | (45)                           | (60)     | (126)                        | (97)      |
| Sales and other realized capital gains and losses                    | 285                            | 422      | 420                          | 590       |
| Total realized capital gains and losses                              | 240                            | 362      | 294                          | 493       |
|                                                                      | 8,860                          | 8,787    | 17,544                       | 17,250    |
| <b>Costs and expenses</b>                                            |                                |          |                              |           |
| Property-liability insurance claims and claims expense               | 5,142                          | 4,741    | 9,901                        | 9,201     |
| Life and annuity contract benefits                                   | 413                            | 471      | 901                          | 929       |
| Interest credited to contractholder funds                            | 212                            | 311      | 519                          | 656       |
| Amortization of deferred policy acquisition costs                    | 1,035                          | 961      | 2,070                        | 1,907     |
| Operating costs and expenses                                         | 1,023                          | 1,090    | 2,117                        | 2,192     |
| Restructuring and related charges                                    | 4                              | 20       | 10                           | 46        |
| Loss on extinguishment of debt                                       | 1                              | 480      | 1                            | 480       |
| Interest expense                                                     | 84                             | 99       | 171                          | 197       |
|                                                                      | 7,914                          | 8,173    | 15,690                       | 15,608    |
| Gain (loss) on disposition of operations                             | 9                              | --       | (50)                         | 2         |
| <b>Income from operations before income tax expense</b>              | 955                            | 614      | 1,804                        | 1,644     |
| Income tax expense                                                   | 310                            | 180      | 559                          | 501       |
| <b>Net income</b>                                                    | 645                            | 434      | 1,245                        | 1,143     |
| Preferred stock dividends                                            | 31                             | --       | 44                           | --        |
| <b>Net income available to common shareholders</b>                   | \$ 614                         | \$ 434   | \$ 1,201                     | \$ 1,143  |
| <b>Earnings per common share:</b>                                    |                                |          |                              |           |
| Net income available to common shareholders per common share - Basic | \$ 1.41                        | \$ 0.93  | \$ 2.73                      | \$ 2.42   |
| Weighted average common shares - Basic                               | 434.3                          | 468.3    | 440.4                        | 471.9     |

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|                                                                        |    |       |    |       |    |       |    |       |
|------------------------------------------------------------------------|----|-------|----|-------|----|-------|----|-------|
| Net income available to common shareholders per common share - Diluted | \$ | 1.39  | \$ | 0.92  | \$ | 2.69  | \$ | 2.39  |
| Weighted average common shares - Diluted                               |    | 440.7 |    | 473.8 |    | 446.8 |    | 477.3 |
| Cash dividends declared per common share                               | \$ | 0.28  | \$ | 0.25  | \$ | 0.56  | \$ | 0.50  |

See notes to condensed consolidated financial statements.

THE ALLSTATE CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

| (\$ in millions)                                           | Three months ended<br>June 30, |          | Six months ended<br>June 30, |          |
|------------------------------------------------------------|--------------------------------|----------|------------------------------|----------|
|                                                            | 2014                           | 2013     | 2014                         | 2013     |
|                                                            | (unaudited)                    |          | (unaudited)                  |          |
| <b>Net income</b>                                          | \$ 645                         | \$ 434   | \$ 1,245                     | \$ 1,143 |
| <b>Other comprehensive income (loss), after-tax</b>        |                                |          |                              |          |
| Changes in:                                                |                                |          |                              |          |
| Unrealized net capital gains and losses                    | 59                             | (1,254)  | 504                          | (1,183)  |
| Unrealized foreign currency translation adjustments        | 13                             | (21)     | (3)                          | (33)     |
| Unrecognized pension and other postretirement benefit cost | 8                              | 46       | 19                           | 91       |
| <b>Other comprehensive income (loss), after-tax</b>        | 80                             | (1,229)  | 520                          | (1,125)  |
| <b>Comprehensive income (loss)</b>                         | \$ 725                         | \$ (795) | \$ 1,765                     | \$ 18    |

See notes to condensed consolidated financial statements.

## THE ALLSTATE CORPORATION AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(\$ in millions, except par value data)

|                                                                                                                                                                                                                  | June 30,<br>2014 | December 31,<br>2013 |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|----------------------|
|                                                                                                                                                                                                                  | (unaudited)      |                      |
| <b>Assets</b>                                                                                                                                                                                                    |                  |                      |
| Investments                                                                                                                                                                                                      |                  |                      |
| Fixed income securities, at fair value (amortized cost \$59,447 and \$59,008)                                                                                                                                    | \$ 62,634        | \$ 60,910            |
| Equity securities, at fair value (cost \$4,658 and \$4,473)                                                                                                                                                      | 5,394            | 5,097                |
| Mortgage loans                                                                                                                                                                                                   | 4,174            | 4,721                |
| Limited partnership interests                                                                                                                                                                                    | 4,309            | 4,967                |
| Short-term, at fair value (amortized cost \$2,914 and \$2,393)                                                                                                                                                   | 2,914            | 2,393                |
| Other                                                                                                                                                                                                            | 3,138            | 3,067                |
| Total investments                                                                                                                                                                                                | 82,563           | 81,155               |
| Cash                                                                                                                                                                                                             | 889              | 675                  |
| Premium installment receivables, net                                                                                                                                                                             | 5,384            | 5,237                |
| Deferred policy acquisition costs                                                                                                                                                                                | 3,377            | 3,372                |
| Reinsurance recoverables, net                                                                                                                                                                                    | 7,500            | 7,621                |
| Accrued investment income                                                                                                                                                                                        | 611              | 624                  |
| Property and equipment, net                                                                                                                                                                                      | 990              | 1,024                |
| Goodwill                                                                                                                                                                                                         | 1,219            | 1,243                |
| Other assets                                                                                                                                                                                                     | 2,920            | 1,937                |
| Separate Accounts                                                                                                                                                                                                | 4,780            | 5,039                |
| Assets held for sale                                                                                                                                                                                             | --               | 15,593               |
| <b>Total assets</b>                                                                                                                                                                                              | \$ 110,233       | \$ 123,520           |
| <b>Liabilities</b>                                                                                                                                                                                               |                  |                      |
| Reserve for property-liability insurance claims and claims expense                                                                                                                                               | \$ 22,317        | \$ 21,857            |
| Reserve for life-contingent contract benefits                                                                                                                                                                    | 12,688           | 12,386               |
| Contractholder funds                                                                                                                                                                                             | 23,472           | 24,304               |
| Unearned premiums                                                                                                                                                                                                | 11,217           | 10,932               |
| Claim payments outstanding                                                                                                                                                                                       | 851              | 631                  |
| Deferred income taxes                                                                                                                                                                                            | 1,146            | 635                  |
| Other liabilities and accrued expenses                                                                                                                                                                           | 5,044            | 5,156                |
| Long-term debt                                                                                                                                                                                                   | 5,846            | 6,201                |
| Separate Accounts                                                                                                                                                                                                | 4,780            | 5,039                |
| Liabilities held for sale                                                                                                                                                                                        | --               | 14,899               |
| <b>Total liabilities</b>                                                                                                                                                                                         | 87,361           | 102,040              |
| <b>Commitments and Contingent Liabilities (Note 12)</b>                                                                                                                                                          |                  |                      |
| <b>Equity</b>                                                                                                                                                                                                    |                  |                      |
| Preferred stock and additional capital paid-in, \$1 par value, 25 million shares authorized, 72.2 thousand and 32.3 thousand shares issued and outstanding, \$1,805 and \$807.5 aggregate liquidation preference | 1,746            | 780                  |
| Common stock, \$.01 par value, 2.0 billion shares authorized and 900 million issued, 434 million and 449 million shares outstanding                                                                              | 9                | 9                    |
| Additional capital paid-in                                                                                                                                                                                       | 3,035            | 3,143                |
| Retained income                                                                                                                                                                                                  | 36,532           | 35,580               |
| Deferred ESOP expense                                                                                                                                                                                            | (31)             | (31)                 |
| Treasury stock, at cost (466 million and 451 million shares)                                                                                                                                                     | (19,985)         | (19,047)             |
| Accumulated other comprehensive income:                                                                                                                                                                          |                  |                      |
| Unrealized net capital gains and losses:                                                                                                                                                                         |                  |                      |
| Unrealized net capital gains and losses on fixed income securities with OTTI                                                                                                                                     | 72               | 50                   |
| Other unrealized net capital gains and losses                                                                                                                                                                    | 2,461            | 1,698                |
| Unrealized adjustment to DAC, DSI and insurance reserves                                                                                                                                                         | (383)            | (102)                |
| Total unrealized net capital gains and losses                                                                                                                                                                    | 2,150            | 1,646                |
| Unrealized foreign currency translation adjustments                                                                                                                                                              | 35               | 38                   |
| Unrecognized pension and other postretirement benefit cost                                                                                                                                                       | (619)            | (638)                |
| Total accumulated other comprehensive income                                                                                                                                                                     | 1,566            | 1,046                |
| <b>Total shareholders' equity</b>                                                                                                                                                                                | 22,872           | 21,480               |
| <b>Total liabilities and shareholders' equity</b>                                                                                                                                                                | \$ 110,233       | \$ 123,520           |

See notes to condensed consolidated financial statements.

**THE ALLSTATE CORPORATION AND SUBSIDIARIES**
**CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**

(\$ in millions)

|                                                                      | Six months ended |           |
|----------------------------------------------------------------------|------------------|-----------|
|                                                                      | June 30,         |           |
|                                                                      | 2014             | 2013      |
|                                                                      | (unaudited)      |           |
| <b>Preferred stock par value</b>                                     |                  |           |
| Balance, beginning of period                                         | \$ --            | \$ --     |
| Preferred stock issuance                                             | --               | --        |
| Balance, end of period                                               | --               | --        |
| <b>Preferred stock additional capital paid-in</b>                    |                  |           |
| Balance, beginning of period                                         | 780              | --        |
| Preferred stock issuance                                             | 966              | 278       |
| Balance, end of period                                               | 1,746            | 278       |
| <b>Common stock</b>                                                  | 9                | 9         |
| <b>Additional capital paid-in</b>                                    |                  |           |
| Balance, beginning of period                                         | 3,143            | 3,162     |
| Forward contract on accelerated share repurchase agreement           | (113)            | --        |
| Equity incentive plans activity                                      | 5                | (57)      |
| Balance, end of period                                               | 3,035            | 3,105     |
| <b>Retained income</b>                                               |                  |           |
| Balance, beginning of period                                         | 35,580           | 33,783    |
| Net income                                                           | 1,245            | 1,143     |
| Dividends on common stock                                            | (249)            | (235)     |
| Dividends on preferred stock                                         | (44)             | --        |
| Balance, end of period                                               | 36,532           | 34,691    |
| <b>Deferred ESOP expense</b>                                         |                  |           |
| Balance, beginning of period                                         | (31)             | (41)      |
| Payments                                                             | --               | 2         |
| Balance, end of period                                               | (31)             | (39)      |
| <b>Treasury stock</b>                                                |                  |           |
| Balance, beginning of period                                         | (19,047)         | (17,508)  |
| Shares acquired                                                      | (1,129)          | (905)     |
| Shares reissued under equity incentive plans, net                    | 191              | 188       |
| Balance, end of period                                               | (19,985)         | (18,225)  |
| <b>Accumulated other comprehensive income</b>                        |                  |           |
| Balance, beginning of period                                         | 1,046            | 1,175     |
| Change in unrealized net capital gains and losses                    | 504              | (1,183)   |
| Change in unrealized foreign currency translation adjustments        | (3)              | (33)      |
| Change in unrecognized pension and other postretirement benefit cost | 19               | 91        |
| Balance, end of period                                               | 1,566            | 50        |
| <b>Total shareholders' equity</b>                                    | \$ 22,872        | \$ 19,869 |

See notes to condensed consolidated financial statements.



## THE ALLSTATE CORPORATION AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(\$ in millions)

|                                                                                   | Six months ended |          |
|-----------------------------------------------------------------------------------|------------------|----------|
|                                                                                   | 2014             | 2013     |
|                                                                                   |                  |          |
|                                                                                   | June 30,         |          |
|                                                                                   | (unaudited)      |          |
| <b>Cash flows from operating activities</b>                                       |                  |          |
| Net income                                                                        | \$ 1,245         | \$ 1,143 |
| Adjustments to reconcile net income to net cash provided by operating activities: |                  |          |
| Depreciation, amortization and other non-cash items                               | 189              | 180      |
| Realized capital gains and losses                                                 | (294)            | (493)    |
| Loss on extinguishment of debt                                                    | 1                | 480      |
| Loss (gain) on disposition of operations                                          | 50               | (2)      |
| Interest credited to contractholder funds                                         | 519              | 656      |
| Changes in:                                                                       |                  |          |
| Policy benefits and other insurance reserves                                      | 103              | (607)    |
| Unearned premiums                                                                 | 287              | 165      |
| Deferred policy acquisition costs                                                 | (77)             | (107)    |
| Premium installment receivables, net                                              | (152)            | (81)     |
| Reinsurance recoverables, net                                                     | (39)             | 327      |
| Income taxes                                                                      | (195)            | 283      |
| Other operating assets and liabilities                                            | (436)            | (391)    |
| Net cash provided by operating activities                                         | 1,201            | 1,553    |
| <b>Cash flows from investing activities</b>                                       |                  |          |
| Proceeds from sales                                                               |                  |          |
| Fixed income securities                                                           | 14,205           | 10,461   |
| Equity securities                                                                 | 2,744            | 1,742    |
| Limited partnership interests                                                     | 802              | 438      |
| Mortgage loans                                                                    | 10               | 20       |
| Other investments                                                                 | 81               | 38       |
| Investment collections                                                            |                  |          |
| Fixed income securities                                                           | 1,730            | 3,658    |
| Mortgage loans                                                                    | 726              | 475      |
| Other investments                                                                 | 107              | 171      |
| Investment purchases                                                              |                  |          |
| Fixed income securities                                                           | (15,802)         | (10,637) |
| Equity securities                                                                 | (2,668)          | (2,010)  |
| Limited partnership interests                                                     | (653)            | (477)    |
| Mortgage loans                                                                    | (109)            | (314)    |
| Other investments                                                                 | (395)            | (538)    |
| Change in short-term investments, net                                             | (60)             | (423)    |
| Change in other investments, net                                                  | 49               | 91       |
| Purchases of property and equipment, net                                          | (124)            | (43)     |
| Disposition of operations                                                         | 378              | --       |
| Net cash provided by investing activities                                         | 1,021            | 2,652    |
| <b>Cash flows from financing activities</b>                                       |                  |          |
| Change in short-term debt                                                         | --               | 500      |
| Proceeds from issuance of long-term debt                                          | --               | 1,481    |
| Repayments of long-term debt                                                      | (355)            | (2,540)  |
| Proceeds from issuance of preferred stock                                         | 965              | 278      |
| Contractholder fund deposits                                                      | 666              | 1,119    |
| Contractholder fund withdrawals                                                   | (1,922)          | (4,273)  |
| Dividends paid on common stock                                                    | (238)            | (119)    |
| Dividends paid on preferred stock                                                 | (25)             | --       |
| Treasury stock purchases                                                          | (1,257)          | (897)    |
| Shares reissued under equity incentive plans, net                                 | 149              | 60       |
| Excess tax benefits on share-based payment arrangements                           | 18               | 29       |
| Other                                                                             | (9)              | (15)     |

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|                                        |         |         |
|----------------------------------------|---------|---------|
| Net cash used in financing activities  | (2,008) | (4,377) |
| <b>Net increase (decrease) in cash</b> | 214     | (172)   |
| <b>Cash at beginning of period</b>     | 675     | 806     |
| <b>Cash at end of period</b>           | \$ 889  | \$ 634  |

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 June 30, 2014 and for the three-month and six-month periods ended June 30, 2014 and 2013 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, 2013. 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.

**Pending accounting standards**

*Accounting for Investments in Qualified Affordable Housing Projects*

In January 2014, the Financial Accounting Standards Board ( FASB ) issued guidance which allows entities that invest in certain qualified affordable housing projects through limited liability entities the option to account for these investments using the proportional amortization method if certain conditions are met. Under the proportional amortization method, the entity amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits received and recognizes the net investment performance in the income statement as a component of income tax expense or benefit. The guidance is effective for reporting periods beginning after December 15, 2014 and is to be applied retrospectively. Early adoption is permitted. The impact of adoption is not expected to be material to the Company's results of operations and financial position.

*Revenue from Contracts with Customers*

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In May 2014, the FASB issued guidance which revises the criteria for revenue recognition. Insurance contracts are excluded from the scope of the new guidance. Under the guidance, the transaction price is attributed to underlying performance obligations in the contract and revenue is recognized as the entity satisfies the performance obligations and transfers control of a good or service to the customer. Incremental costs of obtaining a contract may be capitalized to the extent the entity expects to recover those costs. The guidance is effective for reporting periods beginning after December 15, 2016 and is to be applied retrospectively. The Company is in the process of evaluating the impact of adoption, which is not expected to be material to the Company's results of operations and financial position.

### *Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period*

In June 2014, the FASB issued guidance which clarifies that a performance target that affects vesting and could be achieved after the requisite service period should be treated as a performance condition and should not be reflected in estimating the grant-date fair value of the award. Compensation costs should reflect the amount attributable to the periods for which the requisite service has been rendered. Total compensation expense recognized during and after the requisite service period (which may differ from the vesting period) should reflect the number of awards that are expected to vest and should be adjusted to reflect the number of awards that ultimately vest. The guidance is effective for reporting periods beginning after December 15, 2015 and may be applied either prospectively or retrospectively. Early adoption is permitted. The Company's existing accounting policy for performance targets that affect the vesting of share-based payment awards is consistent with the proposed guidance and as such the impact of adoption is not expected to affect the Company's results of operations or financial position.

**2. Earnings per Common Share**

Basic earnings per common share is computed using the weighted average number of common shares outstanding, including unvested participating restricted stock units. Diluted earnings per common share is computed using the weighted average number of common and dilutive potential common shares outstanding. For the Company, dilutive potential common shares consist of outstanding stock options and unvested non-participating restricted stock units and contingently issuable performance stock awards.

The computation of basic and diluted earnings per common share is presented in the following table.

| (\$ in millions, except per share data)                                  | Three months ended<br>June 30, |         | Six months ended<br>June 30, |          |
|--------------------------------------------------------------------------|--------------------------------|---------|------------------------------|----------|
|                                                                          | 2014                           | 2013    | 2014                         | 2013     |
| Numerator:                                                               |                                |         |                              |          |
| Net income                                                               | \$ 645                         | \$ 434  | \$ 1,245                     | \$ 1,143 |
| Less: Preferred stock dividends                                          | 31                             | --      | 44                           | --       |
| Net income available to common shareholders                              | 614                            | 434     | 1,201                        | 1,143    |
| Denominator:                                                             |                                |         |                              |          |
| Weighted average common shares outstanding                               | 434.3                          | 468.3   | 440.4                        | 471.9    |
| Effect of dilutive potential common shares:                              |                                |         |                              |          |
| Stock options                                                            | 4.8                            | 3.9     | 4.6                          | 3.8      |
| Restricted stock units (non-participating) and performance stock awards  | 1.6                            | 1.6     | 1.8                          | 1.6      |
| Weighted average common and dilutive potential common shares outstanding | 440.7                          | 473.8   | 446.8                        | 477.3    |
| Earnings per common share - Basic                                        | \$ 1.41                        | \$ 0.93 | \$ 2.73                      | \$ 2.42  |
| Earnings per common share - Diluted                                      | \$ 1.39                        | \$ 0.92 | \$ 2.69                      | \$ 2.39  |

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 4.5 million and 13.5 million Allstate common shares, with exercise prices ranging from \$48.46 to \$62.42 and \$39.95 to \$62.42, were outstanding for the three-month periods ended June 30, 2014 and 2013, respectively, but were not included in the computation of diluted earnings per common share in those periods. Options to purchase 4.6 million and 13.7 million Allstate common shares, with exercise prices ranging from \$45.61 to \$62.42 and \$39.05 to \$62.42, were outstanding for the six-month periods ended June 30, 2014 and 2013, respectively, but were not included in the computation of diluted earnings per common share in those periods.

### 3. Disposition

On April 1, 2014, the Company completed the sale of 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 to Resolution Life Holdings, Inc. The gross sale price was \$797 million, representing \$596 million of cash and the retention of tax benefits. The loss on disposition increased by \$11 million, pre-tax, (\$13 million, after-tax) and \$72 million, pre-tax, (\$31 million, after-tax) in the three months and six months ended June 30, 2014, respectively. The loss on disposition in the three months ended June 30, 2014 included a \$22 million, pre-tax, reduction in goodwill.

In conjunction with the sale, the Company was required to establish a trust relating to the business that LBL continues to cede to ALIC. This trust is required to have assets greater than or equal to the statutory reserves ceded by LBL to ALIC, measured on a monthly basis. As of June 30, 2014, the trust holds \$5.36 billion of investments.

The following table summarizes the assets and liabilities classified as held for sale as of December 31, 2013.

(\$ in millions)

#### Assets

|                                   |    |        |
|-----------------------------------|----|--------|
| Investments                       |    |        |
| Fixed income securities           | \$ | 10,167 |
| Mortgage loans                    |    | 1,367  |
| Short-term investments            |    | 160    |
| Other investments                 |    | 289    |
| Total investments                 |    | 11,983 |
| Cash                              |    | --     |
| Deferred policy acquisition costs |    | 743    |
| Reinsurance recoverables, net     |    | 1,660  |
| Accrued investment income         |    | 109    |
| Other assets                      |    | 79     |
| Separate Accounts                 |    | 1,701  |
| Assets held for sale              |    | 16,275 |
| Less: Loss accrual                |    | (682)  |
| Total assets held for sale        | \$ | 15,593 |

#### Liabilities

|                                               |    |        |
|-----------------------------------------------|----|--------|
| Reserve for life-contingent contract benefits | \$ | 1,894  |
| Contractholder funds                          |    | 10,945 |
| Unearned premiums                             |    | 12     |
| Deferred income taxes                         |    | 151    |
| Other liabilities and accrued expenses        |    | 196    |
| Separate Accounts                             |    | 1,701  |
| Total liabilities held for sale               | \$ | 14,899 |

Included in shareholders' equity was \$85 million of accumulated other comprehensive income related to assets held for sale as of December 31, 2013.

**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 \$86 million and \$203 million for the six months ended June 30, 2014 and 2013, respectively. Non-cash financing activities include \$45 million and \$92 million related to the issuance of Allstate common shares for vested restricted stock units for the six months ended June 30, 2014 and 2013, respectively.

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

(\$ in millions)

|                                                 | Six months ended |          |
|-------------------------------------------------|------------------|----------|
|                                                 | June 30,         |          |
|                                                 | 2014             | 2013     |
| <b>Net change in proceeds managed</b>           |                  |          |
| Net change in short-term investments            | \$ (284)         | \$ 113   |
| Operating cash flow (used) provided             | (284)            | 113      |
| Net change in cash                              | 1                | 3        |
| Net change in proceeds managed                  | \$ (283)         | \$ 116   |
| <b>Net change in liabilities</b>                |                  |          |
| Liabilities for collateral, beginning of period | \$ (624)         | \$ (808) |
| Liabilities for collateral, end of period       | (907)            | (692)    |
| Operating cash flow provided (used)             | \$ 283           | \$ (116) |

## 5. Investments

### Fair values

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

(\$ in millions)

|                                                 | Amortized<br>cost | Gross unrealized<br>Gains | Gross unrealized<br>Losses | Fair<br>value |
|-------------------------------------------------|-------------------|---------------------------|----------------------------|---------------|
| <b>June 30, 2014</b>                            |                   |                           |                            |               |
| U.S. government and agencies                    | \$ 4,707          | \$ 147                    | \$ (1)                     | \$ 4,853      |
| Municipal                                       | 8,009             | 572                       | (20)                       | 8,561         |
| Corporate                                       | 39,282            | 2,283                     | (98)                       | 41,467        |
| Foreign government                              | 1,569             | 108                       | (1)                        | 1,676         |
| Asset-backed securities ( ABS )                 | 3,903             | 68                        | (28)                       | 3,943         |
| Residential mortgage-backed securities ( RMBS ) | 1,263             | 117                       | (18)                       | 1,362         |
| Commercial mortgage-backed securities ( CMBS )  | 692               | 57                        | (3)                        | 746           |
| Redeemable preferred stock                      | 22                | 4                         | --                         | 26            |
| Total fixed income securities                   | \$ 59,447         | \$ 3,356                  | \$ (169)                   | \$ 62,634     |
| <b>December 31, 2013</b>                        |                   |                           |                            |               |
| U.S. government and agencies                    | \$ 2,791          | \$ 129                    | \$ (7)                     | \$ 2,913      |
| Municipal                                       | 8,446             | 364                       | (87)                       | 8,723         |
| Corporate                                       | 39,331            | 1,659                     | (387)                      | 40,603        |
| Foreign government                              | 1,736             | 99                        | (11)                       | 1,824         |
| ABS                                             | 4,491             | 71                        | (44)                       | 4,518         |
| RMBS                                            | 1,403             | 101                       | (30)                       | 1,474         |
| CMBS                                            | 788               | 48                        | (7)                        | 829           |
| Redeemable preferred stock                      | 22                | 4                         | --                         | 26            |
| Total fixed income securities                   | \$ 59,008         | \$ 2,475                  | \$ (573)                   | \$ 60,910     |



## Scheduled maturities

The scheduled maturities for fixed income securities are as follows as of June 30, 2014:

| (\$ in millions)                       | Amortized<br>cost | Fair<br>value |
|----------------------------------------|-------------------|---------------|
| Due in one year or less                | \$ 3,272          | \$ 3,316      |
| Due after one year through five years  | 25,728            | 26,606        |
| Due after five years through ten years | 16,257            | 17,225        |
| Due after ten years                    | 8,332             | 9,436         |
|                                        | 53,589            | 56,583        |
| ABS, RMBS and CMBS                     | 5,858             | 6,051         |
| Total                                  | \$ 59,447         | \$ 62,634     |

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

## Net investment income

Net investment income is as follows:

| (\$ in millions)                  | Three months ended<br>June 30, |        | Six months ended<br>June 30, |          |
|-----------------------------------|--------------------------------|--------|------------------------------|----------|
|                                   | 2014                           | 2013   | 2014                         | 2013     |
| Fixed income securities           | \$ 584                         | \$ 740 | \$ 1,289                     | \$ 1,502 |
| Equity securities                 | 35                             | 39     | 63                           | 64       |
| Mortgage loans                    | 71                             | 93     | 152                          | 191      |
| Limited partnership interests     | 195                            | 126    | 337                          | 233      |
| Short-term investments            | 3                              | 1      | 4                            | 3        |
| Other                             | 44                             | 39     | 86                           | 76       |
| Investment income, before expense | 932                            | 1,038  | 1,931                        | 2,069    |
| Investment expense                | (34)                           | (54)   | (74)                         | (102)    |
| Net investment income             | \$ 898                         | \$ 984 | \$ 1,857                     | \$ 1,967 |

## Realized capital gains and losses

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

(\$ in millions)

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|                                   | Three months ended |        | Six months ended |        |
|-----------------------------------|--------------------|--------|------------------|--------|
|                                   | June 30,           |        | June 30,         |        |
|                                   | 2014               | 2013   | 2014             | 2013   |
| Fixed income securities           | \$ 62              | \$ 79  | \$ 98            | \$ 151 |
| Equity securities                 | 239                | 283    | 261              | 312    |
| Mortgage loans                    | (2)                | (6)    | 1                | 25     |
| Limited partnership interests     | (51)               | (8)    | (49)             | (3)    |
| Derivatives                       | (7)                | 14     | (19)             | 10     |
| Other                             | (1)                | --     | 2                | (2)    |
| Realized capital gains and losses | \$ 240             | \$ 362 | \$ 294           | \$ 493 |

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

| (\$ in millions)                                                  | Three months ended |         | Six months ended |         |
|-------------------------------------------------------------------|--------------------|---------|------------------|---------|
|                                                                   | June 30,           |         | June 30,         |         |
|                                                                   | 2014               | 2013    | 2014             | 2013    |
| Impairment write-downs                                            | \$ (6)             | \$ (33) | \$ (22)          | \$ (43) |
| Change in intent write-downs                                      | (39)               | (27)    | (104)            | (54)    |
| Net other-than-temporary impairment losses recognized in earnings | (45)               | (60)    | (126)            | (97)    |
| Sales                                                             | 290                | 408     | 437              | 580     |
| Valuation and settlements of derivative instruments               | (5)                | 14      | (17)             | 10      |
| Realized capital gains and losses                                 | \$ 240             | \$ 362  | \$ 294           | \$ 493  |

Gross gains of \$347 million and \$468 million and gross losses of \$27 million and \$63 million were realized on sales of fixed income and equity securities during the three months ended June 30, 2014 and 2013, respectively. Gross gains of \$513 million and \$651 million and gross losses of \$63 million and \$84 million were realized on sales of fixed income and equity securities during the six months ended June 30, 2014 and 2013, respectively.

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

| (\$ in millions)                       | Three months ended |                 |         | Six months ended |                 |          |
|----------------------------------------|--------------------|-----------------|---------|------------------|-----------------|----------|
|                                        | June 30, 2014      |                 |         | June 30, 2014    |                 |          |
|                                        | Gross              | Included in OCI | Net     | Gross            | Included in OCI | Net      |
| Fixed income securities:               |                    |                 |         |                  |                 |          |
| Municipal                              | \$ (1)             | \$ --           | \$ (1)  | \$ (6)           | \$ --           | \$ (6)   |
| ABS                                    | (2)                | --              | (2)     | (3)              | --              | (3)      |
| RMBS                                   | 6                  | (1)             | 5       | 6                | (2)             | 4        |
| Total fixed income securities          | 3                  | (1)             | 2       | (3)              | (2)             | (5)      |
| Equity securities                      | (21)               | --              | (21)    | (86)             | --              | (86)     |
| Mortgage loans                         | --                 | --              | --      | 4                | --              | 4        |
| Limited partnership interests          | (26)               | --              | (26)    | (39)             | --              | (39)     |
| Other-than-temporary impairment losses | \$ (44)            | \$ (1)          | \$ (45) | \$ (124)         | \$ (2)          | \$ (126) |

|                               | Three months ended |                 |        | Six months ended |                 |         |
|-------------------------------|--------------------|-----------------|--------|------------------|-----------------|---------|
|                               | June 30, 2013      |                 |        | June 30, 2013    |                 |         |
|                               | Gross              | Included in OCI | Net    | Gross            | Included in OCI | Net     |
| Fixed income securities:      |                    |                 |        |                  |                 |         |
| Municipal                     | \$ (4)             | \$ (3)          | \$ (7) | \$ (17)          | \$ (5)          | \$ (22) |
| ABS                           | --                 | (1)             | (1)    | --               | (1)             | (1)     |
| RMBS                          | (1)                | (1)             | (2)    | (1)              | (2)             | (3)     |
| CMBS                          | (1)                | --              | (1)    | (20)             | (7)             | (27)    |
| Total fixed income securities | (6)                | (5)             | (11)   | (38)             | (15)            | (53)    |
| Equity securities             | (32)               | --              | (32)   | (51)             | --              | (51)    |
| Mortgage loans                | (9)                | --              | (9)    | 17               | --              | 17      |
| Limited partnership interests | (8)                | --              | (8)    | (8)              | --              | (8)     |

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|                      |    |      |    |     |    |      |    |      |    |      |    |      |
|----------------------|----|------|----|-----|----|------|----|------|----|------|----|------|
| Other                |    | --   |    | --  |    | --   |    | (2)  |    | --   |    | (2)  |
| Other-than-temporary |    |      |    |     |    |      |    |      |    |      |    |      |
| impairment losses    | \$ | (55) | \$ | (5) | \$ | (60) | \$ | (82) | \$ | (15) | \$ | (97) |

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 amounts exclude \$248 million and \$260 million as of June 30, 2014 and December 31, 2013, respectively, of net unrealized gains related to changes in valuation of the fixed income securities subsequent to the impairment measurement date.

| (\$ in millions) |    | June 30,<br>2014 | December 31,<br>2013 |
|------------------|----|------------------|----------------------|
| Municipal        | \$ | (9)              | \$ (9)               |
| ABS              |    | (10)             | (10)                 |
| RMBS             |    | (114)            | (152)                |
| CMBS             |    | (5)              | (12)                 |
| Total            | \$ | (138)            | \$ (183)             |

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

| (\$ in millions)                                                                                                                   |    | Three months ended<br>June 30, |          | Six months ended<br>June 30, |          |
|------------------------------------------------------------------------------------------------------------------------------------|----|--------------------------------|----------|------------------------------|----------|
|                                                                                                                                    |    | 2014                           | 2013     | 2014                         | 2013     |
| Beginning balance                                                                                                                  | \$ | (493)                          | \$ (600) | \$ (513)                     | \$ (617) |
| Additional credit loss for securities previously other-than-temporarily impaired                                                   |    | 4                              | (10)     | (1)                          | (24)     |
| Additional credit loss for securities not previously other-than-temporarily impaired                                               |    | (2)                            | (1)      | (3)                          | (17)     |
| Reduction in credit loss for securities disposed or collected                                                                      |    | 7                              | 46       | 33                           | 93       |
| Reduction in credit loss for securities the Company has made the decision to sell or more likely than not will be required to sell |    | --                             | --       | --                           | --       |
| Change in credit loss due to accretion of increase in cash flows                                                                   |    | 1                              | 1        | 1                            | 1        |
| Reduction in credit loss for securities sold in LBL disposition                                                                    |    | 59                             | --       | 59                           | --       |
| Ending balance                                                                                                                     | \$ | (424)                          | \$ (564) | \$ (424)                     | \$ (564) |

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



# Unrealized net capital gains and losses

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

| (\$ in millions)                                   | Fair value | Gross unrealized |          | Unrealized net |
|----------------------------------------------------|------------|------------------|----------|----------------|
| June 30, 2014                                      |            | Gains            | Losses   | gains (losses) |
| Fixed income securities                            | \$ 62,634  | \$ 3,356         | \$ (169) | \$ 3,187       |
| Equity securities                                  | 5,394      | 745              | (9)      | 736            |
| Short-term investments                             | 2,914      | --               | --       | --             |
| Derivative instruments (1)                         | (15)       | 1                | (20)     | (19)           |
| Equity method ( EMA ) limited partnerships         |            |                  |          | (5)            |
| Unrealized net capital gains and losses, pre-tax   |            |                  |          | 3,899          |
| Amounts recognized for:                            |            |                  |          |                |
| Insurance reserves (3)                             |            |                  |          | (399)          |
| DAC and DSI (4)                                    |            |                  |          | (189)          |
| Amounts recognized                                 |            |                  |          | (588)          |
| Deferred income taxes                              |            |                  |          | (1,161)        |
| Unrealized net capital gains and losses, after-tax |            |                  |          | \$ 2,150       |

(1) Included in the fair value of derivative instruments are \$1 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 unrealized 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.

| (\$ in millions)                                   | Fair      | Gross unrealized |          | Unrealized net |
|----------------------------------------------------|-----------|------------------|----------|----------------|
| December 31, 2013                                  | value     | Gains            | Losses   | gains (losses) |
| Fixed income securities                            | \$ 60,910 | \$ 2,475         | \$ (573) | \$ 1,902       |
| Equity securities                                  | 5,097     | 658              | (34)     | 624            |
| Short-term investments                             | 2,393     | --               | --       | --             |
| Derivative instruments (1)                         | (13)      | 1                | (19)     | (18)           |
| EMA limited partnerships                           |           |                  |          | (3)            |
| Investments classified as held for sale            |           |                  |          | 190            |
| Unrealized net capital gains and losses, pre-tax   |           |                  |          | 2,695          |
| Amounts recognized for:                            |           |                  |          |                |
| Insurance reserves                                 |           |                  |          | --             |
| DAC and DSI                                        |           |                  |          | (158)          |
| Amounts recognized                                 |           |                  |          | (158)          |
| Deferred income taxes                              |           |                  |          | (891)          |
| Unrealized net capital gains and losses, after-tax |           |                  |          | \$ 1,646       |

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(1) Included in the fair value of derivative instruments are \$1 million classified as assets and \$14 million classified as liabilities.

## Change in unrealized net capital gains and losses

The change in unrealized net capital gains and losses for the six months ended June 30, 2014 is as follows:

|                                                                |    |       |
|----------------------------------------------------------------|----|-------|
| (\$ in millions)                                               |    |       |
| Fixed income securities                                        | \$ | 1,285 |
| Equity securities                                              |    | 112   |
| Derivative instruments                                         |    | (1)   |
| EMA limited partnerships                                       |    | (2)   |
| Investments classified as held for sale                        |    | (190) |
| Total                                                          |    | 1,204 |
| Amounts recognized for:                                        |    |       |
| Insurance reserves                                             |    | (399) |
| DAC and DSI                                                    |    | (31)  |
| Amounts recognized                                             |    | (430) |
| Deferred income taxes                                          |    | (270) |
| Increase in unrealized net capital gains and losses, after-tax | \$ | 504   |

## Portfolio monitoring

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

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

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

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

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

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

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

| (\$ in millions)                               | Less than 12 months |            |                   | 12 months or more |            |                   | Total             |
|------------------------------------------------|---------------------|------------|-------------------|-------------------|------------|-------------------|-------------------|
|                                                | Number of issues    | Fair value | Unrealized losses | Number of issues  | Fair value | Unrealized losses | unrealized losses |
| <b>June 30, 2014</b>                           |                     |            |                   |                   |            |                   |                   |
| Fixed income securities                        |                     |            |                   |                   |            |                   |                   |
| U.S. government and agencies                   | 24                  | \$ 200     | \$ (1)            | 3                 | \$ 22      | \$ --             | \$ (1)            |
| Municipal                                      | 87                  | 398        | (1)               | 53                | 303        | (19)              | (20)              |
| Corporate                                      | 120                 | 1,453      | (10)              | 190               | 2,121      | (88)              | (98)              |
| Foreign government                             | 2                   | 28         | --                | 2                 | 26         | (1)               | (1)               |
| ABS                                            | 30                  | 565        | (3)               | 31                | 393        | (25)              | (28)              |
| RMBS                                           | 89                  | 71         | (1)               | 194               | 239        | (17)              | (18)              |
| CMBS                                           | 6                   | 9          | --                | 5                 | 43         | (3)               | (3)               |
| Total fixed income securities                  | 358                 | 2,724      | (16)              | 478               | 3,147      | (153)             | (169)             |
| Equity securities                              | 22                  | 171        | (6)               | 1                 | 102        | (3)               | (9)               |
| Total fixed income and equity securities       | 380                 | \$ 2,895   | \$ (22)           | 479               | \$ 3,249   | \$ (156)          | \$ (178)          |
| Investment grade fixed income securities       | 287                 | \$ 2,238   | \$ (8)            | 386               | \$ 2,620   | \$ (97)           | \$ (105)          |
| Below investment grade fixed income securities | 71                  | 486        | (8)               | 92                | 527        | (56)              | (64)              |
| Total fixed income securities                  | 358                 | \$ 2,724   | \$ (16)           | 478               | \$ 3,147   | \$ (153)          | \$ (169)          |
| <b>December 31, 2013</b>                       |                     |            |                   |                   |            |                   |                   |
| Fixed income securities                        |                     |            |                   |                   |            |                   |                   |
| U.S. government and agencies                   | 22                  | \$ 700     | \$ (7)            | --                | \$ --      | \$ --             | \$ (7)            |
| Municipal                                      | 315                 | 2,065      | (41)              | 38                | 208        | (46)              | (87)              |
| Corporate                                      | 796                 | 10,375     | (308)             | 54                | 550        | (79)              | (387)             |
| Foreign government                             | 36                  | 262        | (9)               | 1                 | 18         | (2)               | (11)              |
| ABS                                            | 85                  | 1,715      | (10)              | 43                | 429        | (34)              | (44)              |
| RMBS                                           | 134                 | 149        | (4)               | 175               | 247        | (26)              | (30)              |
| CMBS                                           | 8                   | 22         | --                | 7                 | 52         | (7)               | (7)               |
| Total fixed income securities                  | 1,396               | 15,288     | (379)             | 318               | 1,504      | (194)             | (573)             |
| Equity securities                              | 158                 | 982        | (34)              | 1                 | --         | --                | (34)              |
| Total fixed income and equity securities       | 1,554               | \$ 16,270  | \$ (413)          | 319               | \$ 1,504   | \$ (194)          | \$ (607)          |
| Investment grade fixed income securities       | 1,217               | \$ 14,019  | \$ (340)          | 221               | \$ 975     | \$ (116)          | \$ (456)          |
| Below investment grade fixed income securities | 179                 | 1,269      | (39)              | 97                | 529        | (78)              | (117)             |
| Total fixed income securities                  | 1,396               | \$ 15,288  | \$ (379)          | 318               | \$ 1,504   | \$ (194)          | \$ (573)          |

As of June 30, 2014, \$136 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 \$136 million, \$80 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 Standards and 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 June 30, 2014, the remaining \$42 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 \$25 million of these unrealized losses were evaluated based

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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 \$42 million, \$17 million are related to below investment grade fixed income securities. Of these amounts, \$12 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 June 30, 2014.

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 assets. Unrealized losses on equity securities are primarily related to temporary equity market fluctuations of securities that are expected to recover.

As of June 30, 2014, 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 June 30, 2014, 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 June 30, 2014 and December 31, 2013, the carrying value of equity method limited partnerships totaled \$3.15 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 impairment write-downs related to equity method limited partnerships for the three or six months ended June 30, 2014 and 2013.

As of June 30, 2014 and December 31, 2013, the carrying value for cost method limited partnerships was \$1.16 billion and \$1.44 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 \$6 million and \$19 million of impairment write-downs related to cost method limited partnerships for the three months and six months ended June 30, 2014, respectively. The Company had \$8 million of impairment write-downs related to cost method limited partnerships for both the three months and six months ended June 30, 2013.

Tax credit funds were reclassified from limited partnership interests to other assets as of June 30, 2014 since the return on these funds is in the form of tax credits rather than investment income. These tax credit funds totaled \$592 million as of June 30, 2014.

### **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

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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 June 30, 2014.

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)                         | June 30, 2014             |                              |          | December 31, 2013         |                              |          |
|------------------------------------------|---------------------------|------------------------------|----------|---------------------------|------------------------------|----------|
| 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                                | \$ 172                    | \$ --                        | \$ 172   | \$ 153                    | \$ --                        | \$ 153   |
| 1.0 - 1.25                               | 489                       | --                           | 489      | 613                       | --                           | 613      |
| 1.26 - 1.50                              | 1,134                     | 2                            | 1,136    | 1,233                     | 2                            | 1,235    |
| Above 1.50                               | 2,304                     | 60                           | 2,364    | 2,562                     | 77                           | 2,639    |
| Total non-impaired mortgage loans        | \$ 4,099                  | \$ 62                        | \$ 4,161 | \$ 4,561                  | \$ 79                        | \$ 4,640 |

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)                                      | June 30, 2014 | December 31, 2013 |
|-------------------------------------------------------|---------------|-------------------|
| Impaired mortgage loans with a valuation allowance    | \$ 13         | \$ 81             |
| Impaired mortgage loans without a valuation allowance | --            | --                |
| Total impaired mortgage loans                         | \$ 13         | \$ 81             |
| Valuation allowance on impaired mortgage loans        | \$ 9          | \$ 21             |

The average balance of impaired loans was \$36 million and \$89 million for the six months ended June 30, 2014 and 2013, respectively.

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

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(\$ in millions)

|                                                | Three months ended |    |          |     | Six months ended |     |          |      |
|------------------------------------------------|--------------------|----|----------|-----|------------------|-----|----------|------|
|                                                | June 30,           |    | June 30, |     | June 30,         |     | June 30, |      |
|                                                | 2014               |    | 2013     |     | 2014             |     | 2013     |      |
| Beginning balance                              | \$                 | 9  | \$       | 15  | \$               | 21  | \$       | 42   |
| Net increase (decrease) in valuation allowance |                    | -- |          | 9   |                  | (4) |          | (17) |
| Charge offs                                    |                    | -- |          | (3) |                  | (8) |          | (4)  |
| Ending balance                                 | \$                 | 9  | \$       | 21  | \$               | 9   | \$       | 21   |

Payments on all mortgage loans were current as of June 30, 2014 and December 31, 2013.

## 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:

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*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

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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. Treasury fixed income securities. 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:

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*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:* Comprise 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 included are municipal bonds valued based on non-binding broker quotes where the inputs have not been corroborated to be market observable. Also includes auction rate securities ( ARS ) primarily backed by student loans that have become illiquid due to failures in the auction market and 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 included are 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.

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- 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 June 30, 2014.

| (\$ in millions)                                                         | Quoted prices<br>in active<br>markets for<br>identical assets<br>(Level 1) | Significant<br>other<br>observable<br>inputs<br>(Level 2) | Significant<br>unobservable<br>inputs<br>(Level 3) | Counterparty<br>and cash<br>collateral<br>netting | Balance<br>as of<br>June 30,<br>2014 |
|--------------------------------------------------------------------------|----------------------------------------------------------------------------|-----------------------------------------------------------|----------------------------------------------------|---------------------------------------------------|--------------------------------------|
| <b>Assets</b>                                                            |                                                                            |                                                           |                                                    |                                                   |                                      |
| Fixed income securities:                                                 |                                                                            |                                                           |                                                    |                                                   |                                      |
| U.S. government and agencies                                             | \$ 3,784                                                                   | \$ 1,063                                                  | \$ 6                                               |                                                   | \$ 4,853                             |
| Municipal                                                                | --                                                                         | 8,259                                                     | 302                                                |                                                   | 8,561                                |
| Corporate                                                                | --                                                                         | 40,502                                                    | 965                                                |                                                   | 41,467                               |
| Foreign government                                                       | --                                                                         | 1,676                                                     | --                                                 |                                                   | 1,676                                |
| ABS                                                                      | --                                                                         | 3,801                                                     | 142                                                |                                                   | 3,943                                |
| RMBS                                                                     | --                                                                         | 1,361                                                     | 1                                                  |                                                   | 1,362                                |
| CMBS                                                                     | --                                                                         | 691                                                       | 55                                                 |                                                   | 746                                  |
| Redeemable preferred stock                                               | --                                                                         | 26                                                        | --                                                 |                                                   | 26                                   |
| Total fixed income securities                                            | 3,784                                                                      | 57,379                                                    | 1,471                                              |                                                   | 62,634                               |
| Equity securities                                                        | 4,932                                                                      | 443                                                       | 19                                                 |                                                   | 5,394                                |
| Short-term investments                                                   | 662                                                                        | 2,252                                                     | --                                                 |                                                   | 2,914                                |
| Other investments: Free-standing derivatives                             | --                                                                         | 117                                                       | 3                                                  | \$ (17)                                           | 103                                  |
| Separate account assets                                                  | 4,780                                                                      | --                                                        | --                                                 |                                                   | 4,780                                |
| Other assets                                                             | --                                                                         | --                                                        | 1                                                  |                                                   | 1                                    |
| <b>Total recurring basis assets</b>                                      | <b>14,158</b>                                                              | <b>60,191</b>                                             | <b>1,494</b>                                       | <b>(17)</b>                                       | <b>75,826</b>                        |
| Non-recurring basis (1)                                                  | --                                                                         | --                                                        | 72                                                 |                                                   | 72                                   |
| <b>Total assets at fair value</b>                                        | <b>\$ 14,158</b>                                                           | <b>\$ 60,191</b>                                          | <b>\$ 1,566</b>                                    | <b>\$ (17)</b>                                    | <b>\$ 75,898</b>                     |
| % of total assets at fair value                                          | 18.6 %                                                                     | 79.3 %                                                    | 2.1 %                                              | -- %                                              | 100.0 %                              |
| <b>Liabilities</b>                                                       |                                                                            |                                                           |                                                    |                                                   |                                      |
| Contractholder funds: Derivatives embedded in life and annuity contracts | \$ --                                                                      | \$ --                                                     | \$ (331)                                           |                                                   | \$ (331)                             |
| Other liabilities: Free-standing derivatives                             | --                                                                         | (66)                                                      | (8)                                                | \$ 9                                              | (65)                                 |
| <b>Total liabilities at fair value</b>                                   | <b>\$ --</b>                                                               | <b>\$ (66)</b>                                            | <b>\$ (339)</b>                                    | <b>\$ 9</b>                                       | <b>\$ (396)</b>                      |
| % of total liabilities at fair value                                     | -- %                                                                       | 16.7 %                                                    | 85.6 %                                             | (2.3) %                                           | 100.0 %                              |

(1) Includes \$72 million of limited partnership interests written-down to fair value in connection with recognizing other-than-temporary impairments.

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The following table summarizes the Company's assets and liabilities measured at fair value on a recurring and non-recurring basis as of December 31, 2013.

| (\$ in millions)                                                            | Quoted prices<br>in active<br>markets for<br>identical assets<br>(Level 1) | Significant<br>other<br>observable<br>inputs<br>(Level 2) | Significant<br>unobservable<br>inputs<br>(Level 3) | Counterparty<br>and cash<br>collateral<br>netting | Balance<br>as of<br>December 31,<br>2013 |
|-----------------------------------------------------------------------------|----------------------------------------------------------------------------|-----------------------------------------------------------|----------------------------------------------------|---------------------------------------------------|------------------------------------------|
| <b>Assets</b>                                                               |                                                                            |                                                           |                                                    |                                                   |                                          |
| Fixed income securities:                                                    |                                                                            |                                                           |                                                    |                                                   |                                          |
| U.S. government and agencies                                                | \$ 1,801                                                                   | \$ 1,105                                                  | \$ 7                                               |                                                   | \$ 2,913                                 |
| Municipal                                                                   | --                                                                         | 8,380                                                     | 343                                                |                                                   | 8,723                                    |
| Corporate                                                                   | --                                                                         | 39,494                                                    | 1,109                                              |                                                   | 40,603                                   |
| Foreign government                                                          | --                                                                         | 1,824                                                     | --                                                 |                                                   | 1,824                                    |
| ABS                                                                         | --                                                                         | 4,326                                                     | 192                                                |                                                   | 4,518                                    |
| RMBS                                                                        | --                                                                         | 1,472                                                     | 2                                                  |                                                   | 1,474                                    |
| CMBS                                                                        | --                                                                         | 786                                                       | 43                                                 |                                                   | 829                                      |
| Redeemable preferred stock                                                  | --                                                                         | 25                                                        | 1                                                  |                                                   | 26                                       |
| Total fixed income securities                                               | 1,801                                                                      | 57,412                                                    | 1,697                                              |                                                   | 60,910                                   |
| Equity securities                                                           | 4,268                                                                      | 697                                                       | 132                                                |                                                   | 5,097                                    |
| Short-term investments                                                      | 752                                                                        | 1,626                                                     | 15                                                 |                                                   | 2,393                                    |
| Other investments: Free-standing derivatives                                | --                                                                         | 284                                                       | 9                                                  | \$ (24)                                           | 269                                      |
| Separate account assets                                                     | 5,039                                                                      | --                                                        | --                                                 |                                                   | 5,039                                    |
| Other assets                                                                | 1                                                                          | --                                                        | --                                                 |                                                   | 1                                        |
| Assets held for sale                                                        | 1,854                                                                      | 9,812                                                     | 362                                                |                                                   | 12,028                                   |
| <b>Total recurring basis assets</b>                                         | <b>13,715</b>                                                              | <b>69,831</b>                                             | <b>2,215</b>                                       | <b>(24)</b>                                       | <b>85,737</b>                            |
| Non-recurring basis (1)                                                     | --                                                                         | --                                                        | 24                                                 |                                                   | 24                                       |
| <b>Total assets at fair value</b>                                           | <b>\$ 13,715</b>                                                           | <b>\$ 69,831</b>                                          | <b>\$ 2,239</b>                                    | <b>\$ (24)</b>                                    | <b>\$ 85,761</b>                         |
| % of total assets at fair value                                             | 16.0 %                                                                     | 81.4 %                                                    | 2.6 %                                              | -- %                                              | 100.0 %                                  |
| <b>Liabilities</b>                                                          |                                                                            |                                                           |                                                    |                                                   |                                          |
| Contractholder funds: Derivatives embedded in<br>life and annuity contracts | \$ --                                                                      | \$ --                                                     | \$ (307)                                           | \$ --                                             | \$ (307)                                 |
| Other liabilities: Free-standing derivatives                                | --                                                                         | (194)                                                     | (14)                                               | 11                                                | (197)                                    |
| Liabilities held for sale                                                   | --                                                                         | --                                                        | (246)                                              |                                                   | (246)                                    |
| <b>Total recurring basis liabilities</b>                                    | <b>--</b>                                                                  | <b>(194)</b>                                              | <b>(567)</b>                                       | <b>11</b>                                         | <b>(750)</b>                             |
| Non-recurring basis (2)                                                     | --                                                                         | --                                                        | (11,088)                                           |                                                   | (11,088)                                 |
| <b>Total liabilities at fair value</b>                                      | <b>\$ --</b>                                                               | <b>\$ (194)</b>                                           | <b>\$ (11,655)</b>                                 | <b>\$ 11</b>                                      | <b>\$ (11,838)</b>                       |
| % of total liabilities at fair value                                        | -- %                                                                       | 1.6 %                                                     | 98.5 %                                             | (0.1) %                                           | 100.0 %                                  |

(1) Includes \$8 million of mortgage loans and \$16 million of limited partnership interests 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 \$15,593 million of assets held for sale and \$(14,899) million of liabilities held for sale, less \$12,028 million of assets and \$(246) million of liabilities measured at fair value on a recurring basis.

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

| (\$ in millions)                                                                               |    | Fair value | Valuation technique        | Unobservable input    | Range       | Weighted average |
|------------------------------------------------------------------------------------------------|----|------------|----------------------------|-----------------------|-------------|------------------|
| <b>June 30, 2014</b>                                                                           |    |            |                            |                       |             |                  |
| Derivatives embedded in life and annuity contracts Equity-indexed and forward starting options | \$ | (275)      | Stochastic cash flow model | Projected option cost | 1.0 - 2.0 % | 1.76%            |
| <b>December 31, 2013</b>                                                                       |    |            |                            |                       |             |                  |
| Derivatives embedded in life and annuity contracts Equity-indexed and forward starting options | \$ | (247)      | Stochastic cash flow model | Projected option cost | 1.0 - 2.0 % | 1.75%            |
| Liabilities held for sale Equity-indexed and forward starting options                          | \$ | (246)      | Stochastic cash flow model | Projected option cost | 1.0 - 2.0 % | 1.91%            |

If the projected option cost increased (decreased), it would result in a higher (lower) liability fair value.

As of June 30, 2014 and December 31, 2013, Level 3 fair value measurements include \$1.12 billion and \$1.27 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 \$193 million and \$208 million, respectively, of municipal fixed income securities that are not rated by third party credit rating agencies. As of December 31, 2013, Level 3 fair value measurements for assets held for sale include \$319 million of fixed income securities valued based on non-binding broker quotes where the inputs have not been corroborated to be market observable. The Company does not develop the unobservable inputs used in measuring fair value; therefore, these are not included in the table above. However, an increase (decrease) in credit spreads for fixed income securities valued based on non-binding broker quotes would result in a lower (higher) fair value, and an increase (decrease) in the credit rating of municipal bonds that are not rated by third party credit rating agencies would result in a higher (lower) fair value.

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The following table presents the rollforward of Level 3 assets and liabilities held at fair value on a recurring basis during the three months ended June 30, 2014.

| (\$ in millions)                                                            | Total gains (losses)<br>included in: |                          |                |                              |                                |
|-----------------------------------------------------------------------------|--------------------------------------|--------------------------|----------------|------------------------------|--------------------------------|
|                                                                             | Balance as of<br>March 31, 2014      | Net<br>income (1)        | OCI            | Transfers<br>into<br>Level 3 | Transfers<br>out of<br>Level 3 |
| <b>Assets</b>                                                               |                                      |                          |                |                              |                                |
| Fixed income securities:                                                    |                                      |                          |                |                              |                                |
| U.S. government and agencies                                                | \$ 6                                 | \$ --                    | \$ --          | \$ --                        | \$ --                          |
| Municipal                                                                   | 335                                  | --                       | 6              | --                           | (17)                           |
| Corporate                                                                   | 999                                  | 8                        | 9              | --                           | (12)                           |
| ABS                                                                         | 174                                  | --                       | 1              | --                           | (44)                           |
| RMBS                                                                        | 2                                    | --                       | --             | --                           | --                             |
| CMBS                                                                        | 54                                   | --                       | --             | --                           | --                             |
| Total fixed income securities                                               | 1,570                                | 8                        | 16             | --                           | (73)                           |
| Equity securities                                                           | 17                                   | 2                        | --             | --                           | --                             |
| Short-term investments                                                      | 30                                   | --                       | --             | --                           | --                             |
| Free-standing derivatives, net                                              | (7)                                  | 3                        | --             | --                           | --                             |
| Other assets                                                                | --                                   | 1                        | --             | --                           | --                             |
| Assets held for sale                                                        | 347                                  | --                       | --             | --                           | --                             |
| <b>Total recurring Level 3 assets</b>                                       | <b>\$ 1,957</b>                      | <b>\$ 14</b>             | <b>\$ 16</b>   | <b>\$ --</b>                 | <b>\$ (73)</b>                 |
| <b>Liabilities</b>                                                          |                                      |                          |                |                              |                                |
| Contractholder funds: Derivatives<br>embedded in life and annuity contracts | \$ (319)                             | \$ (12)                  | \$ --          | \$ --                        | \$ --                          |
| Liabilities held for sale                                                   | (230)                                | --                       | --             | --                           | --                             |
| <b>Total recurring Level 3 liabilities</b>                                  | <b>\$ (549)</b>                      | <b>\$ (12)</b>           | <b>\$ --</b>   | <b>\$ --</b>                 | <b>\$ --</b>                   |
|                                                                             | Sold in LBL<br>disposition           | Purchases/<br>Issues (2) | Sales          | Settlements                  | Balance as of<br>June 30, 2014 |
| <b>Assets</b>                                                               |                                      |                          |                |                              |                                |
| Fixed income securities:                                                    |                                      |                          |                |                              |                                |
| U.S. government and agencies                                                | \$ --                                | \$ --                    | \$ --          | \$ --                        | \$ 6                           |
| Municipal                                                                   | --                                   | --                       | (17)           | (5)                          | 302                            |
| Corporate                                                                   | --                                   | 16                       | (24)           | (31)                         | 965                            |
| ABS                                                                         | --                                   | 20                       | --             | (9)                          | 142                            |
| RMBS                                                                        | --                                   | --                       | --             | (1)                          | 1                              |
| CMBS                                                                        | --                                   | 1                        | --             | --                           | 55                             |
| Total fixed income securities                                               | --                                   | 37                       | (41)           | (46)                         | 1,471                          |
| Equity securities                                                           | --                                   | 2                        | (2)            | --                           | 19                             |
| Short-term investments                                                      | --                                   | 10                       | (40)           | --                           | --                             |
| Free-standing derivatives, net                                              | --                                   | --                       | --             | (1)                          | (5)(3)                         |
| Other assets                                                                | --                                   | --                       | --             | --                           | 1                              |
| Assets held for sale                                                        | (347)                                | --                       | --             | --                           | --                             |
| <b>Total recurring Level 3 assets</b>                                       | <b>\$ (347)</b>                      | <b>\$ 49</b>             | <b>\$ (83)</b> | <b>\$ (47)</b>               | <b>\$ 1,486</b>                |
| <b>Liabilities</b>                                                          |                                      |                          |                |                              |                                |
| Contractholder funds: Derivatives<br>embedded in life and annuity contracts | \$ --                                | \$ (2)                   | \$ --          | \$ 2                         | \$ (331)                       |
| Liabilities held for sale                                                   | 230                                  | --                       | --             | --                           | --                             |
| <b>Total recurring Level 3 liabilities</b>                                  | <b>\$ 230</b>                        | <b>\$ (2)</b>            | <b>\$ --</b>   | <b>\$ 2</b>                  | <b>\$ (331)</b>                |

(1) The effect to net income totals \$2 million and is reported in the Condensed Consolidated Statements of Operations as follows: \$9 million in realized capital gains and losses, \$4 million in net investment income, \$(10) million in interest credited to contractholder funds and \$(1) million in life and annuity contract benefits.

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

(3) Comprises \$3 million of assets and \$8 million of liabilities.

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The following table presents the rollforward of Level 3 assets and liabilities held at fair value on a recurring basis during the six months ended June 30, 2014.

| (\$ in millions)                                                            | Total gains (losses)<br>included in:   |                              |                 |                              |                                        |
|-----------------------------------------------------------------------------|----------------------------------------|------------------------------|-----------------|------------------------------|----------------------------------------|
|                                                                             | Balance as of<br>December 31,<br>2013  | Net<br>income (1)            | OCI             | Transfers<br>into<br>Level 3 | Transfers<br>out of<br>Level 3         |
| <b>Assets</b>                                                               |                                        |                              |                 |                              |                                        |
| Fixed income securities:                                                    |                                        |                              |                 |                              |                                        |
| U.S. government and agencies                                                | \$ 7                                   | \$ --                        | \$ --           | \$ --                        | \$ --                                  |
| Municipal                                                                   | 343                                    | (4)                          | 11              | --                           | (17)                                   |
| Corporate                                                                   | 1,109                                  | 13                           | 10              | --                           | (37)                                   |
| ABS                                                                         | 192                                    | --                           | --              | --                           | (101)                                  |
| RMBS                                                                        | 2                                      | --                           | --              | --                           | --                                     |
| CMBS                                                                        | 43                                     | --                           | --              | 5                            | --                                     |
| Redeemable preferred stock                                                  | 1                                      | --                           | --              | --                           | --                                     |
| Total fixed income securities                                               | 1,697                                  | 9                            | 21              | 5                            | (155)                                  |
| Equity securities                                                           | 132                                    | 22                           | (15)            | --                           | --                                     |
| Short-term investments                                                      | --                                     | --                           | --              | --                           | --                                     |
| Free-standing derivatives, net                                              | (5)                                    | 1                            | --              | --                           | --                                     |
| Other assets                                                                | --                                     | 1                            | --              | --                           | --                                     |
| Assets held for sale                                                        | 362                                    | (1)                          | 2               | 4                            | (2)                                    |
| <b>Total recurring Level 3 assets</b>                                       | <b>\$ 2,186</b>                        | <b>\$ 32</b>                 | <b>\$ 8</b>     | <b>\$ 9</b>                  | <b>\$ (157)</b>                        |
| <b>Liabilities</b>                                                          |                                        |                              |                 |                              |                                        |
| Contractholder funds: Derivatives<br>embedded in life and annuity contracts | \$ (307)                               | \$ (14)                      | \$ --           | \$ --                        | \$ --                                  |
| Liabilities held for sale                                                   | (246)                                  | 17                           | --              | --                           | --                                     |
| <b>Total recurring Level 3 liabilities</b>                                  | <b>\$ (553)</b>                        | <b>\$ 3</b>                  | <b>\$ --</b>    | <b>\$ --</b>                 | <b>\$ --</b>                           |
|                                                                             | <b>Sold in LBL<br/>disposition (3)</b> | <b>Purchases/<br/>Issues</b> | <b>Sales</b>    | <b>Settlements</b>           | <b>Balance as of<br/>June 30, 2014</b> |
| <b>Assets</b>                                                               |                                        |                              |                 |                              |                                        |
| Fixed income securities:                                                    |                                        |                              |                 |                              |                                        |
| U.S. government and agencies                                                | \$ --                                  | \$ --                        | \$ --           | \$ (1)                       | \$ 6                                   |
| Municipal                                                                   | --                                     | 1                            | (26)            | (6)                          | 302                                    |
| Corporate                                                                   | --                                     | 32                           | (111)           | (51)                         | 965                                    |
| ABS                                                                         | --                                     | 64                           | --              | (13)                         | 142                                    |
| RMBS                                                                        | --                                     | --                           | --              | (1)                          | 1                                      |
| CMBS                                                                        | 4                                      | 5                            | (1)             | (1)                          | 55                                     |
| Redeemable preferred stock                                                  | --                                     | --                           | (1)             | --                           | --                                     |
| Total fixed income securities                                               | 4                                      | 102                          | (139)           | (73)                         | 1,471                                  |
| Equity securities                                                           | --                                     | 3                            | (123)           | --                           | 19                                     |
| Short-term investments                                                      | --                                     | 40                           | (40)            | --                           | --                                     |
| Free-standing derivatives, net                                              | --                                     | 2                            | --              | (3)                          | (5)(2)                                 |
| Other assets                                                                | --                                     | --                           | --              | --                           | 1                                      |
| Assets held for sale                                                        | (351)                                  | --                           | (8)             | (6)                          | --                                     |
| <b>Total recurring Level 3 assets</b>                                       | <b>\$ (347)</b>                        | <b>\$ 147</b>                | <b>\$ (310)</b> | <b>\$ (82)</b>               | <b>\$ 1,486</b>                        |
| <b>Liabilities</b>                                                          |                                        |                              |                 |                              |                                        |
| Contractholder funds: Derivatives<br>embedded in life and annuity contracts | \$ --                                  | \$ (13)                      | \$ --           | \$ 3                         | \$ (331)                               |
| Liabilities held for sale                                                   | 230                                    | (4)                          | --              | 3                            | --                                     |
| <b>Total recurring Level 3 liabilities</b>                                  | <b>\$ 230</b>                          | <b>\$ (17)</b>               | <b>\$ --</b>    | <b>\$ 6</b>                  | <b>\$ (331)</b>                        |

(1) The effect to net income totals \$35 million and is reported in the Condensed Consolidated Statements of Operations as follows: \$29 million in realized capital gains and losses, \$6 million in net investment income, \$4 million in life and annuity contract benefits and \$(4) million in loss on disposition of operations.

(2) Comprises \$3 million of assets and \$8 million of liabilities.

(3) Includes transfers from held for sale that took place in first quarter 2014 of \$4 million for CMBS and \$(4) million for Assets held for sale.

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

| (\$ in millions)                                                            | Total gains (losses)<br>included in: |                   |                |                              |                                |
|-----------------------------------------------------------------------------|--------------------------------------|-------------------|----------------|------------------------------|--------------------------------|
|                                                                             | Balance as of<br>March 31,<br>2013   | Net<br>income (1) | OCI            | Transfers<br>into<br>Level 3 | Transfers<br>out of<br>Level 3 |
| <b>Assets</b>                                                               |                                      |                   |                |                              |                                |
| Fixed income securities:                                                    |                                      |                   |                |                              |                                |
| U.S. government and agencies                                                | \$ 7                                 | \$ --             | \$ --          | \$ --                        | \$ --                          |
| Municipal                                                                   | 660                                  | (4)               | (5)            | --                           | (6)                            |
| Corporate                                                                   | 1,576                                | 9                 | (38)           | 38                           | (150)                          |
| ABS                                                                         | 276                                  | (1)               | 8              | --                           | (16)                           |
| RMBS                                                                        | 3                                    | --                | --             | --                           | --                             |
| CMBS                                                                        | 37                                   | (1)               | --             | --                           | --                             |
| Redeemable preferred stock                                                  | 1                                    | --                | --             | --                           | --                             |
| Total fixed income securities                                               | 2,560                                | 3                 | (35)           | 38                           | (172)                          |
| Equity securities                                                           | 172                                  | 1                 | --             | --                           | --                             |
| Free-standing derivatives, net                                              | (20)                                 | 15                | --             | --                           | --                             |
| Other assets                                                                | 1                                    | --                | --             | --                           | --                             |
| <b>Total recurring Level 3 assets</b>                                       | <b>\$ 2,713</b>                      | <b>\$ 19</b>      | <b>\$ (35)</b> | <b>\$ 38</b>                 | <b>\$ (172)</b>                |
| <b>Liabilities</b>                                                          |                                      |                   |                |                              |                                |
| Contractholder funds: Derivatives<br>embedded in life and annuity contracts | \$ (567)                             | \$ 57             | \$ --          | \$ --                        | \$ --                          |
| <b>Total recurring Level 3 liabilities</b>                                  | <b>\$ (567)</b>                      | <b>\$ 57</b>      | <b>\$ --</b>   | <b>\$ --</b>                 | <b>\$ --</b>                   |
|                                                                             | Purchases                            | Sales             | Issues         | Settlements                  | Balance as of<br>June 30, 2013 |
| <b>Assets</b>                                                               |                                      |                   |                |                              |                                |
| Fixed income securities:                                                    |                                      |                   |                |                              |                                |
| U.S. government and agencies                                                | \$ --                                | \$ --             | \$ --          | \$ --                        | \$ 7                           |
| Municipal                                                                   | 52                                   | (124)             | --             | (20)                         | 553                            |
| Corporate                                                                   | 96                                   | (77)              | --             | (71)                         | 1,383                          |
| ABS                                                                         | 70                                   | (32)              | --             | (17)                         | 288                            |
| RMBS                                                                        | --                                   | --                | --             | --                           | 3                              |
| CMBS                                                                        | 5                                    | --                | --             | --                           | 41                             |
| Redeemable preferred stock                                                  | --                                   | --                | --             | --                           | 1                              |
| Total fixed income securities                                               | 223                                  | (233)             | --             | (108)                        | 2,276                          |
| Equity securities                                                           | --                                   | (48)              | --             | --                           | 125                            |
| Free-standing derivatives, net                                              | --                                   | --                | --             | (2)                          | (7)(2)                         |
| Other assets                                                                | --                                   | --                | --             | --                           | 1                              |
| <b>Total recurring Level 3 assets</b>                                       | <b>\$ 223</b>                        | <b>\$ (281)</b>   | <b>\$ --</b>   | <b>\$ (110)</b>              | <b>\$ 2,395</b>                |
| <b>Liabilities</b>                                                          |                                      |                   |                |                              |                                |
| Contractholder funds: Derivatives<br>embedded in life and annuity contracts | \$ --                                | \$ --             | \$ (26)        | \$ 3                         | \$ (533)                       |
| <b>Total recurring Level 3 liabilities</b>                                  | <b>\$ --</b>                         | <b>\$ --</b>      | <b>\$ (26)</b> | <b>\$ 3</b>                  | <b>\$ (533)</b>                |

(1) The effect to net income totals \$76 million and is reported in the Condensed Consolidated Statements of Operations as follows: \$12 million in realized capital gains and losses, \$5 million in net investment income, \$39 million in interest credited to contractholder funds and \$20 million in life and annuity contract benefits.

(2) Comprises \$6 million of assets and \$13 million of liabilities.



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

| (\$ in millions)                                                            | Total gains (losses)<br>included in:  |                   |                |                              |                                |
|-----------------------------------------------------------------------------|---------------------------------------|-------------------|----------------|------------------------------|--------------------------------|
|                                                                             | Balance as of<br>December 31,<br>2012 | Net<br>income (1) | OCI            | Transfers<br>into<br>Level 3 | Transfers<br>out of<br>Level 3 |
| <b>Assets</b>                                                               |                                       |                   |                |                              |                                |
| Fixed income securities:                                                    |                                       |                   |                |                              |                                |
| U.S. government and agencies                                                | \$ 8                                  | \$ --             | \$ --          | \$ --                        | \$ --                          |
| Municipal                                                                   | 965                                   | (28)              | 49             | 6                            | (6)                            |
| Corporate                                                                   | 1,617                                 | 21                | (39)           | 63                           | (275)                          |
| ABS                                                                         | 251                                   | --                | 15             | 18                           | (16)                           |
| RMBS                                                                        | 3                                     | --                | --             | --                           | --                             |
| CMBS                                                                        | 52                                    | (1)               | 2              | --                           | --                             |
| Redeemable preferred stock                                                  | 1                                     | --                | --             | --                           | --                             |
| Total fixed income securities                                               | 2,897                                 | (8)               | 27             | 87                           | (297)                          |
| Equity securities                                                           | 171                                   | 2                 | 1              | --                           | --                             |
| Free-standing derivatives, net                                              | (27)                                  | 22                | --             | --                           | --                             |
| Other assets                                                                | 1                                     | --                | --             | --                           | --                             |
| <b>Total recurring Level 3 assets</b>                                       | <b>\$ 3,042</b>                       | <b>\$ 16</b>      | <b>\$ 28</b>   | <b>\$ 87</b>                 | <b>\$ (297)</b>                |
| <b>Liabilities</b>                                                          |                                       |                   |                |                              |                                |
| Contractholder funds: Derivatives<br>embedded in life and annuity contracts | \$ (553)                              | \$ 63             | \$ --          | \$ --                        | \$ --                          |
| <b>Total recurring Level 3 liabilities</b>                                  | <b>\$ (553)</b>                       | <b>\$ 63</b>      | <b>\$ --</b>   | <b>\$ --</b>                 | <b>\$ --</b>                   |
|                                                                             | Purchases                             | Sales             | Issues         | Settlements                  | Balance as of<br>June 30, 2013 |
| <b>Assets</b>                                                               |                                       |                   |                |                              |                                |
| Fixed income securities:                                                    |                                       |                   |                |                              |                                |
| U.S. government and agencies                                                | \$ --                                 | \$ --             | \$ --          | \$ (1)                       | \$ 7                           |
| Municipal                                                                   | 52                                    | (463)             | --             | (22)                         | 553                            |
| Corporate                                                                   | 360                                   | (276)             | --             | (88)                         | 1,383                          |
| ABS                                                                         | 126                                   | (81)              | --             | (25)                         | 288                            |
| RMBS                                                                        | --                                    | --                | --             | --                           | 3                              |
| CMBS                                                                        | 6                                     | (17)              | --             | (1)                          | 41                             |
| Redeemable preferred stock                                                  | --                                    | --                | --             | --                           | 1                              |
| Total fixed income securities                                               | 544                                   | (837)             | --             | (137)                        | 2,276                          |
| Equity securities                                                           | --                                    | (49)              | --             | --                           | 125                            |
| Free-standing derivatives, net                                              | 1                                     | --                | --             | (3)                          | (7)(2)                         |
| Other assets                                                                | --                                    | --                | --             | --                           | 1                              |
| <b>Total recurring Level 3 assets</b>                                       | <b>\$ 545</b>                         | <b>\$ (886)</b>   | <b>\$ --</b>   | <b>\$ (140)</b>              | <b>\$ 2,395</b>                |
| <b>Liabilities</b>                                                          |                                       |                   |                |                              |                                |
| Contractholder funds: Derivatives<br>embedded in life and annuity contracts | \$ --                                 | \$ --             | \$ (50)        | \$ 7                         | \$ (533)                       |
| <b>Total recurring Level 3 liabilities</b>                                  | <b>\$ --</b>                          | <b>\$ --</b>      | <b>\$ (50)</b> | <b>\$ 7</b>                  | <b>\$ (533)</b>                |

(1) The effect to net income totals \$79 million and is reported in the Condensed Consolidated Statements of Operations as follows: \$2 million in realized capital gains and losses, \$12 million in net investment income, \$19 million in interest credited to contractholder funds and \$46 million in life and annuity contract benefits.

(2) Comprises \$6 million of assets and \$13 million of liabilities.

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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 six months ended June 30, 2014 or 2013.

Transfers into Level 3 during the three months and six months ended June 30, 2014 and 2013 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 had 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 six months ended June 30, 2014 and 2013 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 June 30.

| (\$ in millions)                           | Three months ended |              | Six months ended |              |
|--------------------------------------------|--------------------|--------------|------------------|--------------|
|                                            | June 30,           |              | June 30,         |              |
|                                            | 2014               | 2013         | 2014             | 2013         |
| <b>Assets</b>                              |                    |              |                  |              |
| Fixed income securities:                   |                    |              |                  |              |
| Municipal                                  | \$ (1)             | \$ (6)       | \$ (5)           | \$ (16)      |
| Corporate                                  | 4                  | 4            | 7                | 8            |
| ABS                                        | --                 | (1)          | --               | (1)          |
| CMBS                                       | --                 | (1)          | (1)              | (2)          |
| Total fixed income securities              | 3                  | (4)          | 1                | (11)         |
| Free-standing derivatives, net             | 6                  | 9            | 6                | 16           |
| Other assets                               | 1                  | --           | 1                | --           |
| Assets held for sale                       | --                 | --           | (1)              | --           |
| <b>Total recurring Level 3 assets</b>      | <b>\$ 10</b>       | <b>\$ 5</b>  | <b>\$ 7</b>      | <b>\$ 5</b>  |
| <b>Liabilities</b>                         |                    |              |                  |              |
| Contractholder funds: Derivatives          |                    |              |                  |              |
| embedded in life and annuity contracts     | \$ (12)            | \$ 57        | \$ (14)          | \$ 63        |
| Liabilities held for sale                  | --                 | --           | 17               | --           |
| <b>Total recurring Level 3 liabilities</b> | <b>\$ (12)</b>     | <b>\$ 57</b> | <b>\$ 3</b>      | <b>\$ 63</b> |

The amounts in the table above represent the change in unrealized gains and losses included in net income for the period of time that the asset or liability was determined to be in Level 3. These gains and losses total \$(2) million for the three months ended June 30, 2014 and are reported as follows: \$3 million in realized capital gains and losses, \$4 million in net investment income, \$(10) million in interest credited to contractholder funds, \$(1) million in life and annuity contract benefits and \$2 million in gain on disposition of operations. These gains and losses total \$62 million for the three months ended June 30, 2013 and are reported as follows: \$1 million in realized capital gains and losses, \$4 million in net investment income, \$37 million in interest credited to contractholder funds and \$20 million in life and annuity contract benefits. These gains and losses total \$10 million for the six months ended June 30, 2014 and are reported as follows: \$6 million in net investment income and \$4 million in life and annuity contract benefits. These gains and losses total \$68 million for the six months ended June 30, 2013 and are reported as follows: \$(3) million in realized capital gains and losses, \$8 million in net investment income, \$17 million in interest credited to contractholder funds and \$46 million in life and annuity contract benefits.

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

## Financial assets

| (\$ in millions)                 | June 30, 2014  |            | December 31, 2013 |            |
|----------------------------------|----------------|------------|-------------------|------------|
|                                  | Carrying value | Fair value | Carrying value    | Fair value |
| Mortgage loans                   | \$ 4,174       | \$ 4,425   | \$ 4,721          | \$ 4,871   |
| Cost method limited partnerships | 1,157          | 1,577      | 1,443             | 1,835      |
| Bank loans                       | 1,494          | 1,493      | 1,242             | 1,244      |
| Agent loans                      | 355            | 351        | 341               | 325        |
| Assets held for sale             | --             | --         | 1,458             | 1,532      |

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)                             | June 30, 2014  |            | December 31, 2013 |            |
|----------------------------------------------|----------------|------------|-------------------|------------|
|                                              | Carrying value | Fair value | Carrying value    | Fair value |
| Contractholder funds on investment contracts | \$ 14,733      | \$ 15,440  | \$ 15,569         | \$ 16,225  |
| Long-term debt                               | 5,846          | 6,413      | 6,201             | 6,509      |
| Liability for collateral                     | 907            | 907        | 624               | 624        |
| Liabilities held for sale                    | --             | --         | 7,417             | 7,298      |

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 that 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 considers 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.

The Company may also use derivatives to manage the risk associated with corporate actions, including the sale of a business. During 2014 and December 2013, swaptions were utilized to hedge the expected proceeds from the disposition of LBL.

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 June 30, 2014, the Company pledged \$40 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.

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The following table provides a summary of the volume and fair value positions of derivative instruments as well as their reporting location in the Condensed Consolidated Statement of Financial Position as of June 30, 2014.

(\$ in millions, except number of contracts)

|                                                                                   |                                      | Volume (1)      |                     |                 |             |                 |
|-----------------------------------------------------------------------------------|--------------------------------------|-----------------|---------------------|-----------------|-------------|-----------------|
|                                                                                   | Balance sheet location               | Notional amount | Number of contracts | Fair value, net | Gross asset | Gross liability |
| <b>Asset derivatives</b>                                                          |                                      |                 |                     |                 |             |                 |
| <b>Derivatives designated as accounting hedging instruments</b>                   |                                      |                 |                     |                 |             |                 |
| Foreign currency swap agreements                                                  | Other investments                    | \$ 16           | n/a                 | \$ --           | \$ --       | --              |
| <b>Derivatives not designated as accounting hedging instruments</b>               |                                      |                 |                     |                 |             |                 |
| <b>Interest rate contracts</b>                                                    |                                      |                 |                     |                 |             |                 |
| Interest rate cap agreements                                                      | Other investments                    | 79              | n/a                 | 1               | 1           | --              |
| <b>Equity and index contracts</b>                                                 |                                      |                 |                     |                 |             |                 |
| Options and warrants (2)                                                          | Other investments                    | --              | 3,721               | 94              | 94          | --              |
| Financial futures contracts                                                       | Other assets                         | --              | 1,103               | --              | --          | --              |
| <b>Foreign currency contracts</b>                                                 |                                      |                 |                     |                 |             |                 |
| Foreign currency forwards                                                         | Other investments                    | 268             | n/a                 | 14              | 14          | --              |
| <b>Embedded derivative financial instruments</b>                                  |                                      |                 |                     |                 |             |                 |
| Other embedded derivative financial instruments                                   | Other investments                    | 1,000           | n/a                 | --              | --          | --              |
| <b>Credit default contracts</b>                                                   |                                      |                 |                     |                 |             |                 |
| Credit default swaps - buying protection                                          | Other investments                    | 31              | n/a                 | --              | --          | --              |
| Credit default swaps - selling protection                                         | Other investments                    | 120             | n/a                 | 2               | 2           | --              |
| <b>Other contracts</b>                                                            |                                      |                 |                     |                 |             |                 |
| Other contracts                                                                   | Other assets                         | 4               | n/a                 | 1               | 1           | --              |
| Subtotal                                                                          |                                      | 1,502           | 4,824               | 112             | 112         | --              |
| <b>Total asset derivatives</b>                                                    |                                      | \$ 1,518        | 4,824               | \$ 112          | \$ 112      | --              |
| <b>Liability derivatives</b>                                                      |                                      |                 |                     |                 |             |                 |
| <b>Derivatives designated as accounting hedging instruments</b>                   |                                      |                 |                     |                 |             |                 |
| Foreign currency swap agreements                                                  | Other liabilities & accrued expenses | \$ 119          | n/a                 | \$ (15)         | \$ --       | (15)            |
| <b>Derivatives not designated as accounting hedging instruments</b>               |                                      |                 |                     |                 |             |                 |
| <b>Interest rate contracts</b>                                                    |                                      |                 |                     |                 |             |                 |
| Interest rate swap agreements                                                     | Other liabilities & accrued expenses | 85              | n/a                 | 5               | 5           | --              |
| Interest rate cap agreements                                                      | Other liabilities & accrued expenses | 136             | n/a                 | 2               | 2           | --              |
| Financial futures contract                                                        | Other liabilities & accrued expenses | --              | 592                 | --              | --          | --              |
| <b>Equity and index contracts</b>                                                 |                                      |                 |                     |                 |             |                 |
| Options and futures                                                               | Other liabilities & accrued expenses | --              | 5,150               | (40)            | --          | (40)            |
| <b>Foreign currency contracts</b>                                                 |                                      |                 |                     |                 |             |                 |
| Foreign currency forwards                                                         | Other liabilities & accrued expenses | 46              | n/a                 | --              | --          | --              |
| <b>Embedded derivative financial instruments</b>                                  |                                      |                 |                     |                 |             |                 |
| Guaranteed accumulation benefits                                                  | Contractholder funds                 | 674             | n/a                 | (38)            | --          | (38)            |
| Guaranteed withdrawal benefits                                                    | Contractholder funds                 | 473             | n/a                 | (13)            | --          | (13)            |
| Equity-indexed and forward starting options in life and annuity product contracts | Contractholder funds                 | 1,770           | n/a                 | (275)           | --          | (275)           |

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|                                                 |                                      |          |           |          |      |       |
|-------------------------------------------------|--------------------------------------|----------|-----------|----------|------|-------|
| Other embedded derivative financial instruments | Contractholder funds                 | 85       | n/a       | (5)      | --   | (5)   |
| <b>Credit default contracts</b>                 |                                      |          |           |          |      |       |
| Credit default swaps buying protection          | Other liabilities & accrued expenses | 471      | n/a       | (11)     | --   | (11)  |
| Credit default swaps selling protection         | Other liabilities & accrued expenses | 165      | n/a       | (6)      | 2    | (8)   |
| Subtotal                                        |                                      | 3,905    | 5,742     | (381)    | 9    | (390) |
| <b>Total liability derivatives</b>              |                                      | 4,024    | 5,742     | (396) \$ | 9 \$ | (405) |
| <b>Total derivatives</b>                        |                                      | \$ 5,542 | 10,566 \$ | (284)    |      |       |

(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 428,125 stock rights and warrants. Stock rights and warrants can be converted to cash upon sale of those instruments or exercised for shares of common stock.

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The following table provides a summary of the volume and fair value positions of derivative instruments as well as their reporting location in the Consolidated Statement of Financial Position as of December 31, 2013.

(\$ in millions, except number of contracts)

|                                                                     |                                      |                 | Volume (1)          |                 |             |                 |
|---------------------------------------------------------------------|--------------------------------------|-----------------|---------------------|-----------------|-------------|-----------------|
|                                                                     | Balance sheet location               | Notional amount | Number of contracts | Fair value, net | Gross asset | Gross liability |
| <b>Asset derivatives</b>                                            |                                      |                 |                     |                 |             |                 |
| <b>Derivatives designated as accounting hedging instruments</b>     |                                      |                 |                     |                 |             |                 |
| Foreign currency swap agreements                                    | Other investments                    | \$ 16           | n/a                 | \$ 1            | \$ 1        | --              |
| <b>Derivatives not designated as accounting hedging instruments</b> |                                      |                 |                     |                 |             |                 |
| <b>Interest rate contracts</b>                                      |                                      |                 |                     |                 |             |                 |
| Interest rate swaption agreements                                   | Other investments                    | 1,420           | n/a                 | --              | --          | --              |
| Interest rate cap agreements                                        | Other investments                    | 61              | n/a                 | 2               | 2           | --              |
| Financial futures contracts                                         | Other assets                         | --              | 550                 | --              | --          | --              |
| <b>Equity and index contracts</b>                                   |                                      |                 |                     |                 |             |                 |
| Options and warrants (2)                                            | Other investments                    | 3               | 10,035              | 263             | 263         | --              |
| Financial futures contracts                                         | Other assets                         | --              | 1,432               | 1               | 1           | --              |
| <b>Foreign currency contracts</b>                                   |                                      |                 |                     |                 |             |                 |
| Foreign currency forwards                                           | Other investments                    | 161             | n/a                 | 10              | 10          | --              |
| <b>Embedded derivative financial instruments</b>                    |                                      |                 |                     |                 |             |                 |
| Credit default swaps                                                | Fixed income securities              | 12              | n/a                 | (12)            | --          | (12)            |
| Other embedded derivative financial instruments                     | Other investments                    | 1,000           | n/a                 | --              | --          | --              |
| <b>Credit default contracts</b>                                     |                                      |                 |                     |                 |             |                 |
| Credit default swaps - buying protection                            | Other investments                    | 2               | n/a                 | --              | --          | --              |
| Credit default swaps - selling protection                           | Other investments                    | 105             | n/a                 | 2               | 2           | --              |
| <b>Other contracts</b>                                              |                                      |                 |                     |                 |             |                 |
| Other contracts                                                     | Other assets                         | 4               | n/a                 | --              | --          | --              |
| Subtotal                                                            |                                      | 2,768           | 12,017              | 266             | 278         | (12)            |
| <b>Total asset derivatives</b>                                      |                                      | \$ 2,784        | 12,017              | \$ 267          | \$ 279      | (12)            |
| <b>Liability derivatives</b>                                        |                                      |                 |                     |                 |             |                 |
| <b>Derivatives designated as accounting hedging instruments</b>     |                                      |                 |                     |                 |             |                 |
| Foreign currency swap agreements                                    | Other liabilities & accrued expenses | \$ 132          | n/a                 | \$ (15)         | --          | (15)            |
| <b>Derivatives not designated as accounting hedging instruments</b> |                                      |                 |                     |                 |             |                 |
| <b>Interest rate contracts</b>                                      |                                      |                 |                     |                 |             |                 |
| Interest rate swap agreements                                       | Other liabilities & accrued expenses | 85              | n/a                 | 4               | 4           | --              |
| Interest rate swaption agreements                                   | Other liabilities & accrued expenses | 4,570           | n/a                 | 1               | 1           | --              |
| Interest rate cap agreements                                        | Other liabilities & accrued expenses | 262             | n/a                 | 4               | 4           | --              |
| <b>Equity and index contracts</b>                                   |                                      |                 |                     |                 |             |                 |
| Options                                                             | Other liabilities & accrued expenses | 55              | 10,035              | (165)           | 2           | (167)           |
| <b>Foreign currency contracts</b>                                   |                                      |                 |                     |                 |             |                 |
| Foreign currency forwards                                           | Other liabilities & accrued expenses | 148             | n/a                 | (3)             | 2           | (5)             |
| <b>Embedded derivative financial instruments</b>                    |                                      |                 |                     |                 |             |                 |
| Guaranteed accumulation benefits                                    | Contractholder funds                 | 738             | n/a                 | (43)            | --          | (43)            |
| Guaranteed withdrawal benefits                                      | Contractholder funds                 | 506             | n/a                 | (13)            | --          | (13)            |
|                                                                     | Contractholder funds                 | 1,693           | n/a                 | (247)           | --          | (247)           |

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Equity-indexed and forward starting  
options in life and annuity product  
contracts

|                                                    |                                         |           |           |          |       |       |
|----------------------------------------------------|-----------------------------------------|-----------|-----------|----------|-------|-------|
|                                                    | Liabilities held for sale               | 2,363     | n/a       | (246)    | --    | (246) |
| Other embedded derivative financial<br>instruments | Contractholder funds                    | 85        | n/a       | (4)      | --    | (4)   |
| <b>Credit default contracts</b>                    |                                         |           |           |          |       |       |
| Credit default swaps buying<br>protection          | Other liabilities &<br>accrued expenses | 397       | n/a       | (6)      | --    | (6)   |
| Credit default swaps selling<br>protection         | Other liabilities &<br>accrued expenses | 185       | n/a       | (13)     | 2     | (15)  |
| Subtotal                                           |                                         | 11,087    | 10,035    | (731)    | 15    | (746) |
| <b>Total liability derivatives</b>                 |                                         | 11,219    | 10,035    | (746) \$ | 15 \$ | (761) |
| <b>Total derivatives</b>                           |                                         | \$ 14,003 | 22,052 \$ | (479)    |       |       |

(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 1,238,580 stock rights and warrants. Stock rights and warrants can be converted to cash upon sale of those instruments or exercised for shares of common stock.

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The following table provides 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 |  |
| <b>June 30, 2014</b>     |              |                       |                                    |                             |                                          |            |  |
| Asset derivatives        | \$ 25        | \$ (9)                | \$ (8)                             | \$ 8                        | \$ --                                    | \$ 8       |  |
| Liability derivatives    | (31)         | 9                     | --                                 | (22)                        | 18                                       | (4)        |  |
| <b>December 31, 2013</b> |              |                       |                                    |                             |                                          |            |  |
| Asset derivatives        | \$ 28        | \$ (15)               | \$ (9)                             | \$ 4                        | \$ (4)                                   | \$ --      |  |
| Liability derivatives    | (41)         | 15                    | (4)                                | (30)                        | 23                                       | (7)        |  |

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 \$2 million during the next twelve months. There was no hedge ineffectiveness reported in realized gains and losses for the three months and six months ended June 30, 2014 or 2013.

| (\$ in millions)                                                                  | Three months ended |               | Six months ended |               |
|-----------------------------------------------------------------------------------|--------------------|---------------|------------------|---------------|
|                                                                                   | June 30, 2014      | June 30, 2013 | June 30, 2014    | June 30, 2013 |
| (Loss) gain recognized in OCI on derivatives during the period                    | \$ (2)             | \$ 6          | \$ (4)           | \$ 9          |
| Loss recognized in OCI on derivatives during the term of the hedging relationship | (19)               | (12)          | (19)             | (12)          |
| Loss reclassified from AOCI into income (net investment income)                   | --                 | (1)           | (1)              | (1)           |
| Loss reclassified from AOCI into income (realized capital gains and losses)       | (2)                | --            | (2)              | --            |

The following tables present gains and losses from valuation, settlements and hedge ineffectiveness reported on derivatives not designated as accounting hedging instruments in the Condensed Consolidated Statements of Operations. For the three months and six months ended June 30, 2014 and 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 | Loss on disposition of operations | Total gain (loss) recognized in net income on derivatives |
|-------------------------------------------|-----------------------------------|------------------------------------|-------------------------------------------|------------------------------|-----------------------------------|-----------------------------------------------------------|
| <b>Three months ended June 30, 2014</b>   |                                   |                                    |                                           |                              |                                   |                                                           |
| Interest rate contracts                   | \$ (4)                            | \$ --                              | \$ --                                     | \$ --                        | \$ --                             | (4)                                                       |
| Equity and index contracts                | (8)                               | --                                 | 12                                        | 6                            | --                                | 10                                                        |
| Embedded derivative financial instruments | --                                | (1)                                | (10)                                      | --                           | --                                | (11)                                                      |
| Foreign currency contracts                | 5                                 | --                                 | --                                        | 2                            | --                                | 7                                                         |
| Credit default contracts                  | 2                                 | --                                 | --                                        | --                           | --                                | 2                                                         |
| Other contracts                           | --                                | --                                 | 1                                         | --                           | --                                | 1                                                         |
| Total                                     | \$ (5)                            | \$ (1)                             | \$ 3                                      | \$ 8                         | \$ --                             | 5                                                         |
| <b>Six months ended June 30, 2014</b>     |                                   |                                    |                                           |                              |                                   |                                                           |
| Interest rate contracts                   | \$ (8)                            | \$ --                              | \$ --                                     | \$ --                        | \$ (4)                            | (12)                                                      |
| Equity and index contracts                | (11)                              | --                                 | 21                                        | 7                            | --                                | 17                                                        |

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|                                           |         |      |       |       |        |     |
|-------------------------------------------|---------|------|-------|-------|--------|-----|
| Embedded derivative financial instruments | --      | 4    | (11)  | --    | --     | (7) |
| Foreign currency contracts                | (1)     | --   | --    | 3     | --     | 2   |
| Credit default contracts                  | 3       | --   | --    | --    | --     | 3   |
| Other contracts                           | --      | --   | 1     | --    | --     | 1   |
| Total                                     | \$ (17) | \$ 4 | \$ 11 | \$ 10 | \$ (4) | 4   |

|                                           | Net<br>investment<br>income | Realized<br>capital<br>gains and<br>losses | Life and<br>annuity<br>contract<br>benefits | Interest<br>credited to<br>contractholder<br>funds | Operating<br>costs and<br>expenses | Total gain<br>(loss)<br>recognized in<br>net income on<br>derivatives |
|-------------------------------------------|-----------------------------|--------------------------------------------|---------------------------------------------|----------------------------------------------------|------------------------------------|-----------------------------------------------------------------------|
| <b>Three months ended June 30, 2013</b>   |                             |                                            |                                             |                                                    |                                    |                                                                       |
| Interest rate contracts                   | \$ --                       | \$ 3                                       | \$ --                                       | \$ --                                              | \$ --                              | 3                                                                     |
| Equity and index contracts                | --                          | 4                                          | --                                          | 9                                                  | 2                                  | 15                                                                    |
| Embedded derivative financial instruments | --                          | --                                         | 20                                          | 14                                                 | --                                 | 34                                                                    |
| Foreign currency contracts                | --                          | (5)                                        | --                                          | --                                                 | --                                 | (5)                                                                   |
| Credit default contracts                  | --                          | 12                                         | --                                          | --                                                 | --                                 | 12                                                                    |
| Other contracts                           | --                          | --                                         | --                                          | (3)                                                | --                                 | (3)                                                                   |
| Total                                     | \$ --                       | \$ 14                                      | \$ 20                                       | \$ 20                                              | \$ 2                               | 56                                                                    |
| <b>Six months ended June 30, 2013</b>     |                             |                                            |                                             |                                                    |                                    |                                                                       |
| Interest rate contracts                   | \$ --                       | \$ 3                                       | \$ --                                       | \$ --                                              | \$ --                              | 3                                                                     |
| Equity and index contracts                | --                          | (5)                                        | --                                          | 47                                                 | 13                                 | 55                                                                    |
| Embedded derivative financial instruments | --                          | (1)                                        | 46                                          | (26)                                               | --                                 | 19                                                                    |
| Foreign currency contracts                | --                          | (4)                                        | --                                          | --                                                 | (7)                                | (11)                                                                  |
| Credit default contracts                  | --                          | 17                                         | --                                          | --                                                 | --                                 | 17                                                                    |
| Other contracts                           | --                          | --                                         | --                                          | (3)                                                | --                                 | (3)                                                                   |
| Total                                     | \$ --                       | \$ 10                                      | \$ 46                                       | \$ 18                                              | \$ 6                               | 80                                                                    |

The Company manages its exposure to credit risk by utilizing highly rated counterparties, establishing risk control limits, executing legally enforceable master netting agreements ( MNAs ) and obtaining collateral where appropriate. The Company uses MNAs for OTC derivative transactions that permit either party to net payments due for transactions and collateral is either pledged or obtained when certain predetermined exposure limits are exceeded. As of June 30, 2014, counterparties pledged \$10 million in cash and securities to the Company, and the Company pledged \$20 million in securities to counterparties which includes \$16 million of collateral posted under MNAs for contracts containing credit-risk-contingent provisions that are in a liability position and \$4 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 legally 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) |                                  | June 30, 2014             |                           |                                          |                                  | December 31, 2013         |                           |                                          |  |
|------------------|----------------------------------|---------------------------|---------------------------|------------------------------------------|----------------------------------|---------------------------|---------------------------|------------------------------------------|--|
| Rating (1)       | Number of<br>counter-<br>parties | Notional<br>amount<br>(2) | Credit<br>exposure<br>(2) | Exposure,<br>net of<br>collateral<br>(2) | Number of<br>counter-<br>parties | Notional<br>amount<br>(2) | Credit<br>exposure<br>(2) | Exposure,<br>net of<br>collateral<br>(2) |  |
| A+               | 2                                | \$ 101                    | \$ 3                      | \$ 3                                     | 1                                | \$ 22                     | \$ 1                      | \$ 1                                     |  |
| A                | 5                                | 121                       | 6                         | 1                                        | 5                                | 1,628                     | 9                         | 2                                        |  |
| A-               | 1                                | 85                        | 3                         | 3                                        | 1                                | 24                        | 1                         | --                                       |  |
| BBB+             | 1                                | 65                        | 4                         | 1                                        | 1                                | 33                        | 3                         | --                                       |  |
| BBB              | 1                                | 62                        | --                        | --                                       | 1                                | 76                        | 1                         | --                                       |  |
| Total            | 10                               | \$ 434                    | \$ 16                     | \$ 8                                     | 9                                | \$ 1,783                  | \$ 15                     | \$ 3                                     |  |

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

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(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 legally enforceable MNAs.

| (\$ in millions)                                                                                                                     | June 30,<br>2014 | December 31,<br>2013 |
|--------------------------------------------------------------------------------------------------------------------------------------|------------------|----------------------|
| Gross liability fair value of contracts containing credit-risk-contingent features                                                   | \$ 29            | \$ 28                |
| Gross asset fair value of contracts containing credit-risk-contingent features and subject to MNAs                                   | (8)              | (11)                 |
| Collateral posted under MNAs for contracts containing credit-risk-contingent features                                                | (16)             | (14)                 |
| Maximum amount of additional exposure for contracts with credit-risk-contingent features if all features were triggered concurrently | \$ 5             | \$ 3                 |

#### 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 |        |        |              | Fair value |      |
|--------------------------------|-----------------|--------|--------|--------------|------------|------|
|                                | AA              | A      | BBB    | BB and lower | Total      |      |
| <b>June 30, 2014</b>           |                 |        |        |              |            |      |
| <b>Single name</b>             |                 |        |        |              |            |      |
| Corporate debt                 | \$ 20           | \$ 20  | \$ 65  | \$ --        | \$ 105     | \$ 2 |
| <b>First-to-default Basket</b> |                 |        |        |              |            |      |
| Municipal                      | --              | 100    | --     | --           | 100        | (8)  |
| <b>Index</b>                   |                 |        |        |              |            |      |
| Corporate debt                 | 1               | 21     | 53     | 5            | 80         | 2    |
| <b>Total</b>                   | \$ 21           | \$ 141 | \$ 118 | \$ 5         | \$ 285     | (4)  |
| <b>December 31, 2013</b>       |                 |        |        |              |            |      |
| <b>Single name</b>             |                 |        |        |              |            |      |
| Corporate debt                 | \$ 20           | \$ 25  | \$ 65  | \$ --        | \$ 110     | \$ 2 |

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### First-to-default Basket

|                |       |        |        |      |        |         |
|----------------|-------|--------|--------|------|--------|---------|
| Municipal      | --    | 100    | --     | --   | 100    | (15)    |
| <b>Index</b>   |       |        |        |      |        |         |
| Corporate debt | 1     | 20     | 55     | 4    | 80     | 2       |
| <b>Total</b>   | \$ 21 | \$ 145 | \$ 120 | \$ 4 | \$ 290 | \$ (11) |

In selling protection with CDS, the Company sells credit protection on an identified single name, a basket of names in a first-to-default ( FTD ) structure or credit derivative index ( CDX ) that is generally investment grade, and in return receives periodic premiums through expiration or termination of the agreement. With single name CDS, this premium or credit spread generally corresponds to the difference between the yield on the reference entity's public fixed maturity cash instruments and swap rates at the time the agreement is executed. With a FTD

basket, because of the additional credit risk inherent in a basket of named reference entities, the premium generally corresponds to a high proportion of the sum of the credit spreads of the names in the basket and the correlation between the names. CDX is utilized to take a position on multiple (generally 125) reference entities. Credit events are typically defined as bankruptcy, failure to pay, or restructuring, depending on the nature of the reference entities. If a credit event occurs, the Company settles with the counterparty, either through physical settlement or cash settlement. In a physical settlement, a reference asset is delivered by the buyer of protection to the Company, in exchange for cash payment at par, whereas in a cash settlement, the Company pays the difference between par and the prescribed value of the reference asset. When a credit event occurs in a single name or FTD basket (for FTD, the first credit event occurring for any one name in the basket), the contract terminates at the time of settlement. For CDX, the reference entity's name incurring the credit event is removed from the index while the contract continues until expiration. The maximum payout on a CDS is the contract notional amount. A physical settlement may afford the Company with recovery rights as the new owner of the asset.

The Company monitors risk associated with credit derivatives through individual name credit limits at both a credit derivative and a combined cash instrument/credit derivative level. The ratings of individual names for which protection has been sold are also monitored.

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 reinsurance ceded amounts shown in the following table.

| (\$ in millions)                               | Three months ended |        | Six months ended |        |
|------------------------------------------------|--------------------|--------|------------------|--------|
|                                                | June 30,           |        | June 30,         |        |
|                                                | 2014               | 2013   | 2014             | 2013   |
| Property-liability insurance premiums earned   | \$ 262             | \$ 274 | \$ 520           | \$ 547 |
| Life and annuity premiums and contract charges | 84                 | 164    | 237              | 322    |

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 |        | Six months ended |        |
|--------------------------------------------------------|--------------------|--------|------------------|--------|
|                                                        | June 30,           |        | June 30,         |        |
|                                                        | 2014               | 2013   | 2014             | 2013   |
| Property-liability insurance claims and claims expense | \$ 120             | \$ 224 | \$ 218           | \$ 442 |
| Life and annuity contract benefits                     | 79                 | 83     | 205              | 171    |
| Interest credited to contractholder funds              | 9                  | 8      | 15               | 14     |

**10. Capital Structure****Preferred stock**

In March 2014, the Company issued 29,900 shares of 6.625% Noncumulative Perpetual Preferred Stock, Series E, with a \$1.00 par value per share and a liquidation preference of \$25,000 per share, for gross proceeds of \$747.5 million. The proceeds of this issuance were used for general corporate purposes.

In June 2014, the Company issued 10,000 shares of 6.25% Noncumulative Perpetual Preferred Stock, Series F, with a \$1.00 par value per share and a liquidation preference of \$25,000 per share, for gross proceeds of \$250 million. The proceeds of this issuance will be used for general corporate purposes.

**11. Company Restructuring**

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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 \$4 million and \$20 million during the three months ended June 30, 2014 and 2013, respectively, and \$10 million and \$46 million during the six months ended June 30, 2014 and 2013, respectively.

The following table presents changes in the restructuring liability during the six months ended June 30, 2014.

| (\$ in millions)                   |    | <b>Employee<br/>costs</b> | <b>Exit<br/>costs</b> | <b>Total<br/>liability</b> |
|------------------------------------|----|---------------------------|-----------------------|----------------------------|
| Balance as of December 31, 2013    | \$ | 21 \$                     | 3 \$                  | 24                         |
| Expense incurred                   |    | 2                         | --                    | 2                          |
| Adjustments to liability           |    | (3)                       | 1                     | (2)                        |
| Payments applied against liability |    | (6)                       | (2)                   | (8)                        |
| Balance as of June 30, 2014        | \$ | 14 \$                     | 2 \$                  | 16                         |

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 June 30, 2014, the cumulative amount incurred to date for active programs totaled \$94 million for employee costs and \$55 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 June 30, 2014, the Company's maximum obligation pursuant to these guarantees, assuming the automobiles have no residual value, would be \$34 million as of June 30, 2014. 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 \$4 million as of June 30, 2014. The obligations associated with these fixed income securities expire at various dates on or before March 11, 2018.

Related to the sale of LBL on April 1, 2014, ALIC has agreed to indemnify Resolution Life Holdings, Inc. related to representations, warranties and covenants of ALIC, subject to certain contractual limitations as to ALIC's maximum obligation. The representations and warranties made by ALIC will expire by March 31, 2015, except for those pertaining to certain tax items and certain liabilities specifically excluded from the transaction. Management does not believe these indemnification provisions will have a material effect on results of operations, cash flows or financial position of the Company.

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 certain liabilities arising from 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

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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 June 30, 2014.

### **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 June 30, 2014, 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 \$825 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

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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. In January 2014, the Company timely filed a petition for a writ of certiorari with the U.S. Supreme Court seeking review of the Montana Supreme Court's decision. On May 5, 2014, the U.S. Supreme Court denied the petition for a writ of certiorari. The case will continue in Montana state court and all of the Company's various defenses remain available to it. 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.

The Company is vigorously litigating two class action cases in California in which the plaintiffs allege off-the-clock wage and hour claims. One case, involving two classes, is pending in Los Angeles Superior Court and was filed in December 2007. In this case, one class includes auto physical damage adjusters employed in the state of California from January 1, 2005 to the date of final judgment, to the extent the Company failed to pay for off-the-clock work to those adjusters who performed certain duties prior to their first assignments. The other class includes all non-exempt employees in California from December 19, 2006 until January 2010 who received pay statements from Allstate which allegedly did not comply with California law. The other case was filed in the U.S. District Court for the Central District of California in September 2010 and is now on appeal to the Ninth Circuit Court of Appeals. In addition to off-the-clock claims, the plaintiffs in this case allege other California Labor Code violations resulting from purported unpaid overtime. There is a class certified in this case which includes all adjusters in the state of California from September 29, 2006 to final judgment. Plaintiffs in both cases seek recovery of unpaid compensation, liquidated damages, penalties, and attorneys' fees and costs. 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 in July 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 February 28, 2014, the trial court denied plaintiffs' and Allstate's motions for summary judgment in Romero I and indicated that the question of whether the releases were knowingly and voluntarily signed under a totality of circumstances test raised factual issues to be resolved at trial. Among other things, the trial court also held that the release, if valid, would bar all claims in Romero I. On March 13, 2014, the trial court denied EEOC's motion for summary judgment and granted Allstate's motion for summary judgment in EEOC I and entered final judgment in favor of Allstate. The EEOC has appealed this decision. On May 23, 2014, plaintiffs moved to certify certain issues relating to the validity of the release for class treatment. 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. In April 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 February 28, 2014, the trial court denied plaintiffs' and Allstate's motions for summary judgment in Romero I and indicated that the question of whether the releases were knowingly and voluntarily signed under a totality of circumstances test raised factual issues to be resolved at trial. Among other things, the trial court also held that the release, if valid, would bar all claims asserted in Romero II. On March 13, 2014, the trial court denied EEOC's motion for summary judgment and granted Allstate's motion for summary judgment in EEOC I and entered final judgment in favor of Allstate. The EEOC has appealed this decision. On May 23, 2014, plaintiffs moved to certify certain issues relating to the validity of the release for class treatment. At present, no class is certified.

In these agency program reorganization matters, the threshold issue of the validity and scope of the waiver and release is yet to be fully decided. Based on the trial court's February 28, 2014 ruling, if the validity of the release is decided in favor of the Company, that would preclude any damages being awarded in Romero I and 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 \$976 million and \$1.02 billion, net of reinsurance recoverables of \$462 million and \$478 million, as of June 30, 2014 and December 31, 2013, respectively. Reserves for environmental claims were \$201 million and \$208 million, net of reinsurance recoverables of \$60 million and \$60 million, as of June 30, 2014 and December 31, 2013, respectively. Approximately 53% and 55% of the total net asbestos and environmental reserves as of June 30, 2014 and December 31, 2013, respectively, were for incurred but not reported estimated losses.

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

**13. Benefit Plans**

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

| (\$ in millions)               | Three months ended |       | Six months ended |        |
|--------------------------------|--------------------|-------|------------------|--------|
|                                | June 30,           |       | June 30,         |        |
|                                | 2014               | 2013  | 2014             | 2013   |
| <b>Pension benefits</b>        |                    |       |                  |        |
| Service cost                   | \$ 24              | \$ 39 | \$ 48            | \$ 79  |
| Interest cost                  | 64                 | 66    | 128              | 132    |
| Expected return on plan assets | (100)              | (96)  | (199)            | (193)  |
| Amortization of:               |                    |       |                  |        |
| Prior service credit           | (14)               | (1)   | (29)             | (1)    |
| Net actuarial loss             | 28                 | 65    | 57               | 130    |
| Settlement loss                | 11                 | 9     | 22               | 19     |
| Net periodic pension cost      | \$ 13              | \$ 82 | \$ 27            | \$ 166 |
| <b>Postretirement benefits</b> |                    |       |                  |        |

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|                                           |    |     |    |     |    |      |    |      |
|-------------------------------------------|----|-----|----|-----|----|------|----|------|
| Service cost                              | \$ | 2   | \$ | 3   | \$ | 5    | \$ | 7    |
| Interest cost                             |    | 5   |    | 9   |    | 11   |    | 17   |
| Amortization of:                          |    |     |    |     |    |      |    |      |
| Prior service credit                      |    | (5) |    | (6) |    | (11) |    | (12) |
| Net actuarial gain                        |    | (5) |    | (3) |    | (11) |    | (6)  |
| Net periodic postretirement (credit) cost | \$ | (3) | \$ | 3   | \$ | (6)  | \$ | 6    |

**14. Reporting Segments**

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

| (\$ in millions)                                                  | Three months ended |          | Six months ended |           |
|-------------------------------------------------------------------|--------------------|----------|------------------|-----------|
|                                                                   | June 30,           |          | June 30,         |           |
|                                                                   | 2014               | 2013     | 2014             | 2013      |
| <b>Revenues</b>                                                   |                    |          |                  |           |
| <i>Property-Liability</i>                                         |                    |          |                  |           |
| Property-liability insurance premiums                             |                    |          |                  |           |
| Auto                                                              | \$ 4,824           | \$ 4,599 | \$ 9,536         | \$ 9,129  |
| Homeowners                                                        | 1,714              | 1,630    | 3,411            | 3,246     |
| Other personal lines                                              | 414                | 405      | 826              | 809       |
| Commercial lines                                                  | 121                | 113      | 231              | 227       |
| Other business lines                                              | 131                | 115      | 264              | 221       |
| Allstate Protection                                               | 7,204              | 6,862    | 14,268           | 13,632    |
| Discontinued Lines and Coverages                                  | --                 | --       | --               | --        |
| Total property-liability insurance premiums                       | 7,204              | 6,862    | 14,268           | 13,632    |
| Net investment income                                             | 351                | 343      | 663              | 684       |
| Realized capital gains and losses                                 | 250                | 305      | 303              | 417       |
| Total Property-Liability                                          | 7,805              | 7,510    | 15,234           | 14,733    |
| <i>Allstate Financial</i>                                         |                    |          |                  |           |
| Life and annuity premiums and contract charges                    |                    |          |                  |           |
| Traditional life insurance                                        | 125                | 119      | 252              | 235       |
| Immediate annuities with life contingencies                       | --                 | 9        | 5                | 16        |
| Accident and health insurance                                     | 187                | 179      | 382              | 359       |
| Total life and annuity premiums                                   | 312                | 307      | 639              | 610       |
| Interest-sensitive life insurance                                 | 202                | 268      | 476              | 541       |
| Fixed annuities                                                   | 4                  | 4        | 10               | 7         |
| Total contract charges                                            | 206                | 272      | 486              | 548       |
| Total life and annuity premiums and contract charges              | 518                | 579      | 1,125            | 1,158     |
| Net investment income                                             | 538                | 633      | 1,178            | 1,268     |
| Realized capital gains and losses                                 | (10)               | 57       | (9)              | 76        |
| Total Allstate Financial                                          | 1,046              | 1,269    | 2,294            | 2,502     |
| <i>Corporate and Other</i>                                        |                    |          |                  |           |
| Service fees                                                      | 1                  | 2        | 3                | 3         |
| Net investment income                                             | 9                  | 8        | 16               | 15        |
| Total Corporate and Other before reclassification of service fees | 10                 | 10       | 19               | 18        |
| Reclassification of service fees (1)                              | (1)                | (2)      | (3)              | (3)       |
| Total Corporate and Other                                         | 9                  | 8        | 16               | 15        |
| Consolidated revenues                                             | \$ 8,860           | \$ 8,787 | \$ 17,544        | \$ 17,250 |

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

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

| (\$ in millions)                                                                                                                                   | Three months ended<br>June 30, |        | Six months ended<br>June 30, |          |
|----------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------|--------|------------------------------|----------|
|                                                                                                                                                    | 2014                           | 2013   | 2014                         | 2013     |
| <b>Net income</b>                                                                                                                                  |                                |        |                              |          |
| <i>Property-Liability</i>                                                                                                                          |                                |        |                              |          |
| Underwriting income (loss)                                                                                                                         |                                |        |                              |          |
| Allstate Protection                                                                                                                                | \$ 192                         | \$ 273 | \$ 567                       | \$ 735   |
| Discontinued Lines and Coverages                                                                                                                   | (3)                            | (4)    | (6)                          | (8)      |
| Total underwriting income                                                                                                                          | 189                            | 269    | 561                          | 727      |
| Net investment income                                                                                                                              | 351                            | 343    | 663                          | 684      |
| Income tax expense on operations                                                                                                                   | (185)                          | (191)  | (410)                        | (447)    |
| Realized capital gains and losses, after-tax                                                                                                       | 161                            | 197    | 195                          | 270      |
| Gain (loss) on disposition of operations, after-tax                                                                                                | 38                             | (1)    | 38                           | (1)      |
| Property-Liability net income available to common shareholders                                                                                     | 554                            | 617    | 1,047                        | 1,233    |
| <i>Allstate Financial</i>                                                                                                                          |                                |        |                              |          |
| Life and annuity premiums and contract charges                                                                                                     | 518                            | 579    | 1,125                        | 1,158    |
| Net investment income                                                                                                                              | 538                            | 633    | 1,178                        | 1,268    |
| Periodic settlements and accruals on non-hedge derivative instruments                                                                              | (1)                            | 5      | (1)                          | 15       |
| Contract benefits and interest credited to contractholder funds                                                                                    | (621)                          | (786)  | (1,400)                      | (1,580)  |
| Operating costs and expenses and amortization of deferred policy acquisition costs                                                                 | (177)                          | (205)  | (369)                        | (429)    |
| Restructuring and related charges                                                                                                                  | (1)                            | (1)    | (3)                          | (3)      |
| Income tax expense on operations                                                                                                                   | (91)                           | (68)   | (176)                        | (128)    |
| Operating income                                                                                                                                   | 165                            | 157    | 354                          | 301      |
| Realized capital gains and losses, after-tax                                                                                                       | (6)                            | 37     | (6)                          | 49       |
| Valuation changes on embedded derivatives that are not hedged, after-tax                                                                           | (3)                            | 3      | (14)                         | (3)      |
| DAC and DSI amortization related to realized capital gains and losses and valuation changes on embedded derivatives that are not hedged, after-tax | --                             | (4)    | --                           | (3)      |
| Reclassification of periodic settlements and accruals on non-hedge derivative instruments, after-tax                                               | 1                              | (4)    | 1                            | (10)     |
| (Loss) gain on disposition of operations, after-tax                                                                                                | (12)                           | 1      | (28)                         | 2        |
| Allstate Financial net income available to common shareholders                                                                                     | 145                            | 190    | 307                          | 336      |
| <i>Corporate and Other</i>                                                                                                                         |                                |        |                              |          |
| Service fees (1)                                                                                                                                   | 1                              | 2      | 3                            | 3        |
| Net investment income                                                                                                                              | 9                              | 8      | 16                           | 15       |
| Operating costs and expenses (1)                                                                                                                   | (95)                           | (108)  | (192)                        | (204)    |
| Income tax benefit on operations                                                                                                                   | 32                             | 37     | 64                           | 72       |
| Preferred stock dividends                                                                                                                          | (31)                           | --     | (44)                         | --       |
| Operating loss                                                                                                                                     | (84)                           | (61)   | (153)                        | (114)    |
| Realized capital gains and losses, after-tax                                                                                                       | (1)                            | --     | --                           | --       |
| Loss on extinguishment of debt, after-tax                                                                                                          | --                             | (312)  | --                           | (312)    |
| Corporate and Other net loss available to common shareholders                                                                                      | (85)                           | (373)  | (153)                        | (426)    |
| Consolidated net income available to common shareholders                                                                                           | \$ 614                         | \$ 434 | \$ 1,201                     | \$ 1,143 |

(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.



## 15. Other Comprehensive Income

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

| (\$ in millions)                                                                                  | Three months ended June 30, |          |           |            |        |            |
|---------------------------------------------------------------------------------------------------|-----------------------------|----------|-----------|------------|--------|------------|
|                                                                                                   | 2014                        |          |           |            | 2013   |            |
|                                                                                                   | Pre-tax                     | Tax      | After-tax | Pre-tax    | Tax    | After-tax  |
| Unrealized net holding gains and losses arising during the period, net of related offsets         | \$ 322                      | \$ (112) | \$ 210    | \$ (1,559) | \$ 545 | \$ (1,014) |
| Less: reclassification adjustment of realized capital gains and losses                            | 232                         | (81)     | 151       | 369        | (129)  | 240        |
| Unrealized net capital gains and losses                                                           | 90                          | (31)     | 59        | (1,928)    | 674    | (1,254)    |
| Unrecognized pension and other postretirement benefit cost arising during the period              | (4)                         | 2        | (2)       | 7          | (2)    | 5          |
| Less: reclassification adjustment of net periodic cost recognized in operating costs and expenses | (15)                        | 5        | (10)      | (64)       | 23     | (41)       |
| Unrecognized pension and other postretirement benefit cost                                        | 11                          | (3)      | 8         | 71         | (25)   | 46         |
| Unrealized foreign currency translation adjustments                                               | 20                          | (7)      | 13        | (33)       | 12     | (21)       |
| Other comprehensive income (loss)                                                                 | \$ 121                      | \$ (41)  | 80        | \$ (1,890) | \$ 661 | (1,229)    |
| Net income                                                                                        |                             |          | 645       |            |        | 434        |
| Comprehensive income (loss)                                                                       |                             |          | \$ 725    |            |        | \$ (795)   |

| (\$ in millions)                                                                                  | Six months ended June 30, |          |           |            |        |           |
|---------------------------------------------------------------------------------------------------|---------------------------|----------|-----------|------------|--------|-----------|
|                                                                                                   | 2014                      |          |           |            | 2013   |           |
|                                                                                                   | Pre-tax                   | Tax      | After-tax | Pre-tax    | Tax    | After-tax |
| Unrealized net holding gains and losses arising during the period, net of related offsets         | \$ 1,039                  | \$ (363) | \$ 676    | \$ (1,361) | \$ 476 | \$ (885)  |
| Less: reclassification adjustment of realized capital gains and losses                            | 265                       | (93)     | 172       | 458        | (160)  | 298       |
| Unrealized net capital gains and losses                                                           | 774                       | (270)    | 504       | (1,819)    | 636    | (1,183)   |
| Unrecognized pension and other postretirement benefit cost arising during the period              | --                        | 1        | 1         | 9          | (2)    | 7         |
| Less: reclassification adjustment of net periodic cost recognized in operating costs and expenses | (28)                      | 10       | (18)      | (130)      | 46     | (84)      |
| Unrecognized pension and other postretirement benefit cost                                        | 28                        | (9)      | 19        | 139        | (48)   | 91        |
| Unrealized foreign currency translation adjustments                                               | (5)                       | 2        | (3)       | (51)       | 18     | (33)      |
| Other comprehensive income (loss)                                                                 | \$ 797                    | \$ (277) | 520       | \$ (1,731) | \$ 606 | (1,125)   |
| Net income                                                                                        |                           |          | 1,245     |            |        | 1,143     |
| Comprehensive income                                                                              |                           |          | \$ 1,765  |            |        | \$ 18     |

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Shareholders of

The Allstate Corporation

Northbrook, Illinois 60062

We have reviewed the accompanying condensed consolidated statement of financial position of The Allstate Corporation and subsidiaries (the Company ) as of June 30, 2014, and the related condensed consolidated statements of operations and comprehensive income for the three-month and six-month periods ended June 30, 2014 and 2013, and of shareholders' equity and cash flows for the six-month periods ended June 30, 2014 and 2013. 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, 2013, 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, 2014, 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, 2013 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

July 30, 2014

**Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE THREE-MONTH AND SIX-MONTH PERIODS ENDED JUNE 30, 2014 AND 2013**

**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 2013. 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. Resources are allocated by the chief operating decision maker and performance is assessed for Allstate Protection, Discontinued Lines and Coverages and Allstate Financial. Allstate Protection and Allstate Financial performance and resources are managed by committees of senior officers of the respective segments.

Allstate is focused on the following priorities:

- grow insurance policies in force;
- maintain the underlying combined ratio;
- proactively manage investments to generate attractive risk adjusted returns;
- modernize the operating model; and
- build long-term growth platforms.

**HIGHLIGHTS**

- Consolidated net income available to common shareholders was \$614 million in the second quarter of 2014 compared to \$434 million in the second quarter of 2013, and \$1.20 billion in the first six months of 2014 compared to \$1.14 billion in the first six months of 2013. Second quarter 2013 included a loss on extinguishment of debt of \$312 million, after-tax. Net income available to common shareholders per diluted common share was \$1.39 in the second quarter of 2014 compared to \$0.92 in the second quarter of 2013, and \$2.69 in the first six months of 2014 compared to \$2.39 in the first six months of 2013.
- Property-Liability net income available to common shareholders was \$554 million in the second quarter of 2014 compared to \$617 million in the second quarter of 2013, and \$1.05 billion in the first six months of 2014 compared to \$1.23 billion in the first six months of 2013.
- The Property-Liability combined ratio was 97.4 in the second quarter of 2014 compared to 96.1 in the second quarter of 2013, and 96.1 in the first six months of 2014 compared to 94.7 in the first six months of 2013.

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- Allstate Financial net income available to common shareholders was \$145 million in the second quarter of 2014 compared to \$190 million in the second quarter of 2013, and \$307 million in the first six months of 2014 compared to \$336 million in the first six months of 2013.
- Total revenues were \$8.86 billion in the second quarter of 2014 compared to \$8.79 billion in the second quarter of 2013, and \$17.54 billion in the first six months of 2014 compared to \$17.25 billion in the first six months of 2013.
- Property-Liability premiums earned totaled \$7.20 billion in the second quarter of 2014, an increase of 5.0% from \$6.86 billion in the second quarter of 2013, and \$14.27 billion in the first six months of 2014, an increase of 4.7% from \$13.63 billion in the first six months of 2013.
- Investments totaled \$82.56 billion as of June 30, 2014, increasing from \$81.16 billion as of December 31, 2013. Net investment income was \$898 million in the second quarter of 2014, a decrease of 8.7% from \$984 million in the second quarter of 2013, and \$1.86 billion in the first six months of 2014, a decrease of 5.6% from \$1.97 billion in the first six months of 2013.
- Net realized capital gains were \$240 million in the second quarter of 2014 compared to \$362 million in the second quarter of 2013, and \$294 million in the first six months of 2014 compared to \$493 million in the first six months of 2013.
- In June 2014, we issued 10,000 shares of 6.25% Noncumulative Perpetual Preferred Stock for gross proceeds of \$250 million.

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- Book value per diluted common share (ratio of common shareholders' equity to total common shares outstanding and dilutive potential common shares outstanding) was \$47.97 as of June 30, 2014, an increase of 15.2% from \$41.63 as of June 30, 2013, and an increase of 5.9% from \$45.31 as of December 31, 2013.
- For the twelve months ended June 30, 2014, return on the average of beginning and ending period common shareholders' equity of 11.4% decreased by 0.2 points from 11.6% for the twelve months ended June 30, 2013.
- As of June 30, 2014, shareholders' equity was \$22.87 billion. This total included \$3.61 billion in deployable assets at the parent holding company level.
- On April 1, 2014, we closed the sale of 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 to Resolution Life Holdings, Inc. The loss on disposition increased by \$13 million, after-tax, and \$31 million, after-tax, in the three months and six months ended June 30, 2014, respectively.

## CONSOLIDATED NET INCOME

(\$ in millions)

|                                                                   | Three months ended<br>June 30, |          | Six months ended<br>June 30, |           |
|-------------------------------------------------------------------|--------------------------------|----------|------------------------------|-----------|
|                                                                   | 2014                           | 2013     | 2014                         | 2013      |
| <b>Revenues</b>                                                   |                                |          |                              |           |
| Property-liability insurance premiums                             | \$ 7,204                       | \$ 6,862 | \$ 14,268                    | \$ 13,632 |
| Life and annuity premiums and contract charges                    | 518                            | 579      | 1,125                        | 1,158     |
| Net investment income                                             | 898                            | 984      | 1,857                        | 1,967     |
| Realized capital gains and losses:                                |                                |          |                              |           |
| Total other-than-temporary impairment losses                      | (44)                           | (55)     | (124)                        | (82)      |
| Portion of loss recognized in other comprehensive income          | (1)                            | (5)      | (2)                          | (15)      |
| Net other-than-temporary impairment losses recognized in earnings | (45)                           | (60)     | (126)                        | (97)      |
| Sales and other realized capital gains and losses                 | 285                            | 422      | 420                          | 590       |
| Total realized capital gains and losses                           | 240                            | 362      | 294                          | 493       |
| Total revenues                                                    | 8,860                          | 8,787    | 17,544                       | 17,250    |
| <b>Costs and expenses</b>                                         |                                |          |                              |           |
| Property-liability insurance claims and claims expense            | (5,142)                        | (4,741)  | (9,901)                      | (9,201)   |
| Life and annuity contract benefits                                | (413)                          | (471)    | (901)                        | (929)     |
| Interest credited to contractholder funds                         | (212)                          | (311)    | (519)                        | (656)     |
| Amortization of deferred policy acquisition costs                 | (1,035)                        | (961)    | (2,070)                      | (1,907)   |
| Operating costs and expenses                                      | (1,023)                        | (1,090)  | (2,117)                      | (2,192)   |
| Restructuring and related charges                                 | (4)                            | (20)     | (10)                         | (46)      |
| Loss on extinguishment of debt                                    | (1)                            | (480)    | (1)                          | (480)     |
| Interest expense                                                  | (84)                           | (99)     | (171)                        | (197)     |
| Total costs and expenses                                          | (7,914)                        | (8,173)  | (15,690)                     | (15,608)  |
| Gain (loss) on disposition of operations                          | 9                              | --       | (50)                         | 2         |
| Income tax expense                                                | (310)                          | (180)    | (559)                        | (501)     |
| <b>Net income</b>                                                 | 645                            | 434      | 1,245                        | 1,143     |
| Preferred stock dividends                                         | (31)                           | --       | (44)                         | --        |
| <b>Net income available to common shareholders</b>                | \$ 614                         | \$ 434   | \$ 1,201                     | \$ 1,143  |
| Property-Liability                                                | \$ 554                         | \$ 617   | \$ 1,047                     | \$ 1,233  |
| Allstate Financial                                                | 145                            | 190      | 307                          | 336       |

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|                                             |    |      |    |       |    |       |    |       |
|---------------------------------------------|----|------|----|-------|----|-------|----|-------|
| Corporate and Other                         |    | (85) |    | (373) |    | (153) |    | (426) |
| Net income available to common shareholders | \$ | 614  | \$ | 434   | \$ | 1,201 | \$ | 1,143 |

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## PROPERTY-LIABILITY HIGHLIGHTS

- Property-Liability net income available to common shareholders was \$554 million in the second quarter of 2014 compared to \$617 million in the second quarter of 2013, and \$1.05 billion in the first six months of 2014 compared to \$1.23 billion in the first six months of 2013.
- Property-Liability premiums written totaled \$7.55 billion in the second quarter of 2014, an increase of 5.5% from \$7.15 billion in the second quarter of 2013, and \$14.52 billion in the first six months of 2014, an increase of 5.4% from \$13.78 billion in the first six months of 2013.
- The Property-Liability loss ratio was 71.4 in the second quarter of 2014 compared to 69.1 in the second quarter of 2013, and 69.4 in the first six months of 2014 compared to 67.5 in the first six months of 2013.
- Catastrophe losses were \$936 million in the second quarter of 2014 compared to \$647 million in the second quarter of 2013, and \$1.38 billion in the first six months of 2014 compared to \$1.01 billion in the first six months of 2013.
- Property-Liability prior year reserve reestimates totaled \$6 million favorable in the second quarter of 2014 compared to \$58 million favorable in the second quarter of 2013, and \$19 million favorable in the first six months of 2014 compared to \$93 million favorable in the first six months of 2013.
- Property-Liability underwriting income was \$189 million in the second quarter of 2014 compared to \$269 million in the second quarter of 2013, and \$561 million in the first six months of 2014 compared to \$727 million in the first six months of 2013. 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 \$39.67 billion as of June 30, 2014, an increase of 0.1% from \$39.64 billion as of December 31, 2013. Net investment income was \$351 million in the second quarter of 2014, an increase of 2.3% from \$343 million in the second quarter of 2013, and \$663 million in the first six months of 2014, a decrease of 3.1% from \$684 million in the first six months of 2013.
- Net realized capital gains were \$250 million in the second quarter of 2014 compared to \$305 million in the second quarter of 2013, and \$303 million in the first six months of 2014 compared to \$417 million in the first six months of 2013.

## 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 where we accept underwriting risk: 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 amortization of purchased intangible assets on combined and expense ratio - the percentage of amortization of purchased intangible assets to premiums earned.
- Effect of restructuring and related charges on combined ratio - the percentage of restructuring and related charges to premiums earned.
- Effect of Discontinued Lines and Coverages on combined ratio - the ratio of claims and claims expense and operating costs and expenses in the Discontinued Lines and Coverages segment to Property-Liability premiums earned. The sum of the effect of Discontinued Lines and Coverages on the combined ratio and the Allstate Protection combined ratio is equal to the Property-Liability combined ratio.

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

| (\$ in millions, except ratios)                                         | Three months ended |          | Six months ended |           |
|-------------------------------------------------------------------------|--------------------|----------|------------------|-----------|
|                                                                         | June 30,           |          | June 30,         |           |
|                                                                         | 2014               | 2013     | 2014             | 2013      |
| Premiums written                                                        | \$ 7,547           | \$ 7,151 | \$ 14,516        | \$ 13,776 |
| <b>Revenues</b>                                                         |                    |          |                  |           |
| Premiums earned                                                         | \$ 7,204           | \$ 6,862 | \$ 14,268        | \$ 13,632 |
| Net investment income                                                   | 351                | 343      | 663              | 684       |
| Realized capital gains and losses                                       | 250                | 305      | 303              | 417       |
| Total revenues                                                          | 7,805              | 7,510    | 15,234           | 14,733    |
| <b>Costs and expenses</b>                                               |                    |          |                  |           |
| Claims and claims expense                                               | (5,142)            | (4,741)  | (9,901)          | (9,201)   |
| Amortization of DAC                                                     | (969)              | (890)    | (1,930)          | (1,761)   |
| Operating costs and expenses                                            | (901)              | (943)    | (1,869)          | (1,900)   |
| Restructuring and related charges                                       | (3)                | (19)     | (7)              | (43)      |
| Total costs and expenses                                                | (7,015)            | (6,593)  | (13,707)         | (12,905)  |
| Gain (loss) on disposition of operations                                | 17                 | (1)      | 17               | (1)       |
| Income tax expense                                                      | (253)              | (299)    | (497)            | (594)     |
| <b>Net income available to common shareholders</b>                      | \$ 554             | \$ 617   | \$ 1,047         | \$ 1,233  |
| <b>Underwriting income</b>                                              | \$ 189             | \$ 269   | \$ 561           | \$ 727    |
| Net investment income                                                   | 351                | 343      | 663              | 684       |
| Income tax expense on operations                                        | (185)              | (191)    | (410)            | (447)     |
| Realized capital gains and losses, after-tax                            | 161                | 197      | 195              | 270       |
| Gain (loss) on disposition of operations, after-tax                     | 38                 | (1)      | 38               | (1)       |
| <b>Net income available to common shareholders</b>                      | \$ 554             | \$ 617   | \$ 1,047         | \$ 1,233  |
| Catastrophe losses (1)                                                  | \$ 936             | \$ 647   | \$ 1,381         | \$ 1,006  |
| <b>GAAP operating ratios</b>                                            |                    |          |                  |           |
| Claims and claims expense ratio                                         | 71.4               | 69.1     | 69.4             | 67.5      |
| Expense ratio                                                           | 26.0               | 27.0     | 26.7             | 27.2      |
| Combined ratio                                                          | 97.4               | 96.1     | 96.1             | 94.7      |
| Effect of catastrophe losses on combined ratio (1)                      | 13.0               | 9.4      | 9.7              | 7.4       |
| Effect of prior year reserve reestimates on combined ratio (1)          | (0.1)              | (0.8)    | (0.1)            | (0.7)     |
| Effect of amortization of purchased intangible assets on combined ratio | 0.3                | 0.3      | 0.2              | 0.3       |
| Effect of restructuring and related charges on combined ratio           | --                 | 0.3      | --               | 0.3       |
| Effect of Discontinued Lines and Coverages on combined ratio            | 0.1                | 0.1      | 0.1              | 0.1       |

(1) Prior year reserve reestimates included in catastrophe losses totaled \$36 million and \$38 million unfavorable in the three months and six months ended June 30, 2014, respectively, compared to \$18 million and \$50 million favorable in the three months and six months ended June 30, 2013, respectively.



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

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

| (\$ in millions)                    | Three months ended<br>June 30, |          | Six months ended<br>June 30, |           |
|-------------------------------------|--------------------------------|----------|------------------------------|-----------|
|                                     | 2014                           | 2013     | 2014                         | 2013      |
| <b>Premiums written:</b>            |                                |          |                              |           |
| Allstate Protection                 | \$ 7,547                       | \$ 7,151 | \$ 14,516                    | \$ 13,776 |
| Discontinued Lines and Coverages    | --                             | --       | --                           | --        |
| Property-Liability premiums written | 7,547                          | 7,151    | 14,516                       | 13,776    |
| Increase in unearned premiums       | (397)                          | (293)    | (285)                        | (138)     |
| Other                               | 54                             | 4        | 37                           | (6)       |
| Property-Liability premiums earned  | \$ 7,204                       | \$ 6,862 | \$ 14,268                    | \$ 13,632 |
| <b>Premiums earned:</b>             |                                |          |                              |           |
| Allstate Protection                 | \$ 7,204                       | \$ 6,862 | \$ 14,268                    | \$ 13,632 |
| Discontinued Lines and Coverages    | --                             | --       | --                           | --        |
| Property-Liability                  | \$ 7,204                       | \$ 6,862 | \$ 14,268                    | \$ 13,632 |

**ALLSTATE PROTECTION SEGMENT**

Premiums written by brand are shown in the following table.

| (\$ in millions)        | Three months ended June 30, |          |                 |        |                |        |                     |          |
|-------------------------|-----------------------------|----------|-----------------|--------|----------------|--------|---------------------|----------|
|                         | Allstate brand              |          | Encompass brand |        | Esurance brand |        | Allstate Protection |          |
|                         | 2014                        | 2013     | 2014            | 2013   | 2014           | 2013   | 2014                | 2013     |
| Auto                    | \$ 4,375                    | \$ 4,170 | \$ 176          | \$ 167 | \$ 338         | \$ 294 | \$ 4,889            | \$ 4,631 |
| Homeowners              | 1,765                       | 1,693    | 136             | 120    | 1              | --     | 1,902               | 1,813    |
| Other personal lines    |                             |          |                 |        |                |        |                     |          |
| (1)                     | 416                         | 406      | 29              | 28     | 1              | 1      | 446                 | 435      |
| Subtotal Personal lines | 6,556                       | 6,269    | 341             | 315    | 340            | 295    | 7,237               | 6,879    |
| Commercial lines        | 130                         | 121      | --              | --     | --             | --     | 130                 | 121      |
| Other business lines    |                             |          |                 |        |                |        |                     |          |
| (2)                     | 180                         | 151      | --              | --     | --             | --     | 180                 | 151      |
| Total                   | \$ 6,866                    | \$ 6,541 | \$ 341          | \$ 315 | \$ 340         | \$ 295 | \$ 7,547            | \$ 7,151 |

  

|      | Six months ended June 30, |          |                 |        |                |        |                     |          |
|------|---------------------------|----------|-----------------|--------|----------------|--------|---------------------|----------|
|      | Allstate brand            |          | Encompass brand |        | Esurance brand |        | Allstate Protection |          |
|      | 2014                      | 2013     | 2014            | 2013   | 2014           | 2013   | 2014                | 2013     |
| Auto | \$ 8,667                  | \$ 8,325 | \$ 327          | \$ 314 | \$ 742         | \$ 636 | \$ 9,736            | \$ 9,275 |

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|                         |           |           |        |        |        |        |           |           |
|-------------------------|-----------|-----------|--------|--------|--------|--------|-----------|-----------|
| Homeowners              | 3,107     | 2,961     | 246    | 217    | 2      | --     | 3,355     | 3,178     |
| Other personal lines    |           |           |        |        |        |        |           |           |
| (1)                     | 767       | 754       | 54     | 51     | 2      | 1      | 823       | 806       |
| Subtotal Personal lines | 12,541    | 12,040    | 627    | 582    | 746    | 637    | 13,914    | 13,259    |
| Commercial lines        | 246       | 233       | --     | --     | --     | --     | 246       | 233       |
| Other business lines    |           |           |        |        |        |        |           |           |
| (2)                     | 356       | 284       | --     | --     | --     | --     | 356       | 284       |
| Total                   | \$ 13,143 | \$ 12,557 | \$ 627 | \$ 582 | \$ 746 | \$ 637 | \$ 14,516 | \$ 13,776 |

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

(2) Other business lines include Allstate Roadside Services, Allstate Dealer Services and other business lines.

Premiums earned by brand are shown in the following table.

(\$ in millions)

|                         | Three months ended June 30, |          |                 |        |                |        |                     |          |  |  |
|-------------------------|-----------------------------|----------|-----------------|--------|----------------|--------|---------------------|----------|--|--|
|                         | Allstate brand              |          | Encompass brand |        | Esurance brand |        | Allstate Protection |          |  |  |
|                         | 2014                        | 2013     | 2014            | 2013   | 2014           | 2013   | 2014                | 2013     |  |  |
| Auto                    | \$ 4,297                    | \$ 4,133 | \$ 162          | \$ 158 | \$ 365         | \$ 308 | \$ 4,824            | \$ 4,599 |  |  |
| Homeowners              | 1,594                       | 1,525    | 120             | 105    | --             | --     | 1,714               | 1,630    |  |  |
| Other personal lines    | 387                         | 380      | 26              | 24     | 1              | 1      | 414                 | 405      |  |  |
| Subtotal Personal lines | 6,278                       | 6,038    | 308             | 287    | 366            | 309    | 6,952               | 6,634    |  |  |
| Commercial lines        | 121                         | 113      | --              | --     | --             | --     | 121                 | 113      |  |  |
| Other business lines    | 131                         | 115      | --              | --     | --             | --     | 131                 | 115      |  |  |
| Total                   | \$ 6,530                    | \$ 6,266 | \$ 308          | \$ 287 | \$ 366         | \$ 309 | \$ 7,204            | \$ 6,862 |  |  |

|                         | Six months ended June 30, |           |                 |        |                |        |                     |           |  |  |
|-------------------------|---------------------------|-----------|-----------------|--------|----------------|--------|---------------------|-----------|--|--|
|                         | Allstate brand            |           | Encompass brand |        | Esurance Brand |        | Allstate Protection |           |  |  |
|                         | 2014                      | 2013      | 2014            | 2013   | 2014           | 2013   | 2014                | 2013      |  |  |
| Auto                    | \$ 8,506                  | \$ 8,227  | \$ 323          | \$ 313 | \$ 707         | \$ 589 | \$ 9,536            | \$ 9,129  |  |  |
| Homeowners              | 3,174                     | 3,041     | 237             | 205    | --             | --     | 3,411               | 3,246     |  |  |
| Other personal lines    | 772                       | 759       | 52              | 49     | 2              | 1      | 826                 | 809       |  |  |
| Subtotal Personal lines | 12,452                    | 12,027    | 612             | 567    | 709            | 590    | 13,773              | 13,184    |  |  |
| Commercial lines        | 231                       | 227       | --              | --     | --             | --     | 231                 | 227       |  |  |
| Other business lines    | 264                       | 221       | --              | --     | --             | --     | 264                 | 221       |  |  |
| Total                   | \$ 12,947                 | \$ 12,475 | \$ 612          | \$ 567 | \$ 709         | \$ 590 | \$ 14,268           | \$ 13,632 |  |  |

Premium measures and statistics that are used to analyze the business are calculated and described below.

- 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 ( average premium ): Gross premiums written divided by issued item count. Gross premiums written include the impacts from discounts, surcharges and ceded reinsurance premiums and exclude the impacts from mid-term premium adjustments and premium refund accruals. Average premiums represent the appropriate policy term for each line. Allstate and Esurance brands are 6 months for auto and 12 months for homeowners. Encompass brand is 12 months for auto and homeowners.
- Renewal ratio: Renewal policies issued during the period, based on contract effective dates, divided by the total policies issued 6 months prior for auto (12 months prior for Encompass brand) 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 brand. Does not include automobiles that are added by existing customers.

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*Auto premiums written* totaled \$4.89 billion in the second quarter of 2014, a 5.6% increase from \$4.63 billion in the second quarter of 2013, and \$9.74 billion in the first six months of 2014, a 5.0% increase from \$9.28 billion in the first six months of 2013.

| Three months ended June 30,      | Allstate brand |        | Encompass brand |        | Esurance brand |        |
|----------------------------------|----------------|--------|-----------------|--------|----------------|--------|
|                                  | 2014           | 2013   | 2014            | 2013   | 2014           | 2013   |
| PIF (thousands)                  | 19,605         | 19,155 | 788             | 752    | 1,399          | 1,207  |
| Average premium (1)              | \$ 478         | \$ 466 | \$ 888          | \$ 872 | \$ 497         | \$ 481 |
| Renewal ratio (%)                | 89.1           | 88.6   | 80.3            | 78.4   | 80.1           | 81.7   |
| Approved rate changes (2):       |                |        |                 |        |                |        |
| # of states                      | 25(6)          | 15     | 12              | 14     | 15             | 15     |
| Countrywide (%) (3)              | --(7)          | 0.1    | 2.4             | 1.6    | 1.7            | 1.7    |
| State specific (%) (4) (5)       | (0.2)          | 0.5    | 7.6             | 4.8    | 4.4            | 4.7    |
| <b>Six months ended June 30,</b> |                |        |                 |        |                |        |
| PIF (thousands)                  | 19,605         | 19,155 | 788             | 752    | 1,399          | 1,207  |
| Average premium (1)              | \$ 475         | \$ 465 | \$ 890          | \$ 877 | \$ 503         | \$ 487 |
| Renewal ratio (%)                | 89.1           | 88.5   | 79.8            | 78.1   | 80.3           | 81.5   |
| Approved rate changes (2):       |                |        |                 |        |                |        |
| # of states                      | 36(6)          | 24     | 14              | 17     | 31             | 26     |
| Countrywide (%) (3)              | 0.7(7)         | 0.3    | 2.9             | 2.5    | 3.9            | 2.6    |
| State specific (%) (4) (5)       | 1.4            | 1.2    | 6.9             | 5.2    | 6.0            | 4.5    |

(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. Rate changes for Allstate brand for the 2013 period exclude Canada and specialty auto.

(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 auto totaled \$30 million and \$196 million in the three months and six months ended June 30, 2014, respectively, compared to \$41 million and \$95 million in the three months and six months ended June 30, 2013, respectively.

(6) Includes 3 Canadian provinces.

(7) Excluding Canada, countrywide rate changes in the three months and six months ended June 30, 2014 were 0.5% and 1.3%, respectively.

Allstate brand auto premiums written totaled \$4.38 billion in the second quarter of 2014, a 4.9% increase from \$4.17 billion in the second quarter of 2013, and \$8.67 billion in the first six months of 2014, a 4.1% increase from \$8.33 billion in the first six months of 2013. Factors impacting premiums written were the following:

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2.3% or 450 thousand increase in PIF as of June 30, 2014 compared to June 30, 2013.

8.6% increase in new issued applications to 770 thousand in the second quarter of 2014 from 709 thousand in the second quarter of 2013, and 8.7% increase to 1,484 thousand in the first six months of 2014 from 1,365 thousand in the first six months of 2013.

2.6% and 2.2% increase in average premium in the second quarter and first six months of 2014, respectively, compared to the same periods of 2013.

0.5 point and 0.6 point increase in the renewal ratio in the second quarter and first six months of 2014, respectively, compared to the same periods of 2013.

In 2013, the Ontario government gave the Financial Services Commission of Ontario the authority to implement an average reduction of premium rates by 15%. The rate reductions are effective on new business beginning May 2014 and renewal contracts beginning July 2014 and represent an overall decrease of approximately 14%. This will reduce expected premiums written by approximately \$35 million and premiums earned by approximately \$11 million in 2014.

Encompass brand auto premiums written totaled \$176 million in the second quarter of 2014, a 5.4% increase from \$167 million in the second quarter of 2013, and \$327 million in the first six months of 2014, an increase of 4.1% from \$314 million in the first six months of 2013. The increase was primarily due to a 4.8% or 36 thousand increase in PIF as of June 30, 2014 compared to June 30, 2013. New issued applications decreased 2.4% to 40 thousand in the second quarter of 2014 from 41 thousand in the second quarter of 2013, and decreased 3.9% to 73

thousand in the first six months of 2014 from 76 thousand in the first six months of 2013 primarily due to rate actions in certain states. Average premium increased 1.8% and 1.5% in the second quarter and first six months of 2014, respectively, compared to the same periods of 2013. The renewal ratio increased 1.9 points and 1.7 points in the second quarter and first six months of 2014, respectively, compared to the same periods of 2013. Through new business writings, Encompass is gradually changing the mix of business to states where the risk-return opportunities meet its requirements and reducing its concentration in states with greater exposure to hurricane catastrophes.

Esurance brand auto premiums written totaled \$338 million in the second quarter of 2014, a 15.0% increase from \$294 million in the second quarter of 2013, and \$742 million in the first six months of 2014, an increase of 16.7% from \$636 million in the first six months of 2013. The increase was primarily due to a 15.9% or 192 thousand increase in PIF as of June 30, 2014 compared to June 30, 2013. New issued applications increased 1.1% to 177 thousand in the second quarter of 2014 from 175 thousand in the second quarter of 2013, and 0.3% to 398 thousand in the first six months of 2014 from 397 thousand in the first six months of 2013. An increase in quote volume driven by the new advertising program was offset by a decrease in conversion rate (the percentage of completed quotes to actual issued policies) primarily due to rate actions. Average premium increased 3.3% in both the second quarter and first six months of 2014 compared to the same periods of 2013. The renewal ratio decreased 1.6 points and 1.2 points in the second quarter and first six months of 2014, respectively, compared to the same periods of 2013.

*Homeowners premiums written* totaled \$1.90 billion in the second quarter of 2014, a 4.9% increase from \$1.81 billion in the second quarter of 2013, and \$3.36 billion in the first six months of 2014, a 5.6% increase from \$3.18 billion in the first six months of 2013. Excluding the cost of catastrophe reinsurance, premiums written increased 3.7% and 4.1% in the second quarter and first six months of 2014, respectively, compared to the same periods of 2013.

|                               | Allstate brand |          | Encompass brand |          | Esurance brand |
|-------------------------------|----------------|----------|-----------------|----------|----------------|
| Three months ended June 30,   | 2014           | 2013     | 2014            | 2013     | 2014           |
| PIF (thousands)               | 6,069          | 6,097    | 364             | 341      | 2              |
| Average premium (12 months)   | \$ 1,135       | \$ 1,109 | \$ 1,437        | \$ 1,362 | \$ 822         |
| Renewal ratio (%) (12 months) | 88.3           | 87.5     | 86.2            | 86.4     | N/A            |
| Approved rate changes (1):    |                |          |                 |          |                |
| # of states                   | 11(3)          | 8        | 12              | 15       | N/A            |
| Countrywide (%)               | 0.4            | 0.5      | 1.5             | 1.9      | N/A            |
| State specific (%) (2)        | 5.7            | 6.2      | 7.8             | 4.8      | N/A            |
| Six months ended June 30,     |                |          |                 |          |                |
| PIF (thousands)               | 6,069          | 6,097    | 364             | 341      | 2              |
| Average premium (12 months)   | \$ 1,136       | \$ 1,107 | \$ 1,438        | \$ 1,355 | \$ 805         |
| Renewal ratio (%) (12 months) | 88.3           | 87.3     | 86.4            | 86.3     | N/A            |
| Approved rate changes (1):    |                |          |                 |          |                |
| # of states                   | 17(3)          | 22       | 12              | 18       | N/A            |
| Countrywide (%)               | 0.6            | 1.8      | 1.6             | 3.3      | N/A            |
| State specific (%) (2)        | 4.4            | 5.2      | 7.4             | 5.6      | N/A            |

(1) Includes rate changes approved based on our net cost of reinsurance. Rate changes for Allstate brand for the 2013 period exclude Canada.

(2) Based on historical premiums written in those states, rate changes approved for homeowners totaled \$38 million and \$51 million in the three months and six months ended June 30, 2014, respectively, compared to \$41 million and \$128 million in the three months and six months ended June 30, 2013, respectively.

(3) Includes 2 Canadian provinces.

N/A reflects not applicable.

Allstate brand homeowners premiums written totaled \$1.77 billion in the second quarter of 2014, a 4.3% increase from \$1.69 billion in the second quarter of 2013, and \$3.11 billion in the first six months of 2014, a 4.9% increase from \$2.96 billion in the first six months of 2013. Factors impacting premiums written were the following:

0.5% or 28 thousand decrease in PIF as of June 30, 2014 compared to June 30, 2013 due to fewer policies available to renew. Allstate brand homeowners PIF increased 0.1% or 6 thousand as of June 30, 2014 compared to March 31, 2014.

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15.0% increase in new issued applications to 192 thousand in the second quarter of 2014 from 167 thousand in the second quarter of 2013, and 20.1% increase to 346 thousand in the first six months of 2014 from 288 thousand in the first six months of 2013.

2.3% and 2.6% increase in average premium in the second quarter and first six months of 2014, respectively, compared to the same periods of 2013 primarily due to rate changes as well as increasing insured home valuations.

0.8 point and 1.0 point increase in the renewal ratio in the second quarter and first six months of 2014, respectively, compared to the same periods of 2013.

\$18 million decrease in the cost of our catastrophe reinsurance program to \$97 million in the second quarter of 2014 from \$115 million in the second quarter of 2013, and \$36 million decrease to \$195 million in the first six months of 2014 from \$231 million in the first six months of 2013.

Premiums written for Allstate's House and Home® product, our redesigned homeowners new business offering currently available in 30 states, totaled \$233 million in the second quarter of 2014 compared to \$113 million in the second quarter of 2013, and \$384 million in the first six months of 2014 compared to \$169 million in the first six months of 2013. Allstate House and Home® premiums written totaled \$471 million in 2013. Most House and Home policies are issued to customers new to Allstate homeowners policies.

Encompass brand homeowners premiums written totaled \$136 million in the second quarter of 2014, a 13.3% increase from \$120 million in the second quarter of 2013, and \$246 million in the first six months of 2014, a 13.4% increase from \$217 million in the first six months of 2013. The increase was primarily due to a 6.7% or 23 thousand increase in PIF as of June 30, 2014 compared to June 30, 2013. New issued applications decreased 9.1% to 20 thousand in the second quarter of 2014 from 22 thousand in the second quarter of 2013, and decreased 5.1% to 37 thousand in the first six months of 2014 from 39 thousand in the first six months of 2013 due to rate actions in certain states. Average premium increased 5.5% and 6.1% in the second quarter and first six months of 2014, respectively, compared to the same periods of 2013. The renewal ratio decreased 0.2 points and increased 0.1 points in the second quarter and first six months of 2014, respectively, compared to the same periods of 2013.

Esurance brand homeowners premiums written totaled \$1 million and \$2 million in the second quarter and first six months of 2014, respectively. New issued applications totaled 1 thousand and 2 thousand in the second quarter and first six months of 2014, respectively. As of June 30, 2014, Esurance is writing homeowners insurance in seven states with low hurricane risk.

*Other personal lines* Allstate brand other personal lines premiums written totaled \$416 million in the second quarter of 2014, a 2.5% increase from \$406 million in the second quarter of 2013, and \$767 million in the first six months of 2014, a 1.7% increase from \$754 million in the first six months of 2013. The increase primarily relates to renter and condominium insurance.

*Commercial lines* premiums written totaled \$130 million in the second quarter of 2014, a 7.4% increase from \$121 million in the second quarter of 2013, and \$246 million in the first six months of 2014, a 5.6% increase from \$233 million in the first six months of 2013.

*Other business lines* premiums written totaled \$180 million in the second quarter of 2014, a 19.2% increase from \$151 million in the second quarter of 2013, and \$356 million in the first six months of 2014, a 25.4% increase from \$284 million in the first six months of 2013. The increase was primarily due to increased sales of vehicle service contracts at Allstate Dealer Services and new and expanded contracts where Allstate Roadside Services provides roadside assistance to a third party company's customer base.



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

| (\$ in millions)                                      | Three months ended |          |    | Six months ended |           |  |
|-------------------------------------------------------|--------------------|----------|----|------------------|-----------|--|
|                                                       | June 30,           |          |    | June 30,         |           |  |
|                                                       | 2014               | 2013     |    | 2014             | 2013      |  |
| Premiums written                                      | \$ 7,547           | \$ 7,151 | \$ | 14,516           | \$ 13,776 |  |
| Premiums earned                                       | \$ 7,204           | \$ 6,862 | \$ | 14,268           | \$ 13,632 |  |
| Claims and claims expense                             | (5,140)            | (4,738)  |    | (9,896)          | (9,195)   |  |
| Amortization of DAC                                   | (969)              | (890)    |    | (1,930)          | (1,761)   |  |
| Other costs and expenses                              | (900)              | (942)    |    | (1,868)          | (1,898)   |  |
| Restructuring and related charges                     | (3)                | (19)     |    | (7)              | (43)      |  |
| Underwriting income                                   | \$ 192             | \$ 273   | \$ | 567              | \$ 735    |  |
| Catastrophe losses                                    | \$ 936             | \$ 647   | \$ | 1,381            | \$ 1,006  |  |
| <b>Underwriting income (loss) by line of business</b> |                    |          |    |                  |           |  |
| Auto                                                  | \$ 130             | \$ 154   | \$ | 313              | \$ 350    |  |
| Homeowners                                            | (12)               | 76       |    | 185              | 308       |  |
| Other personal lines                                  | 54                 | 24       |    | 48               | 38        |  |
| Commercial lines                                      | 8                  | 11       |    | 3                | 30        |  |
| Other business lines                                  | 15                 | 13       |    | 23               | 19        |  |
| Answer Financial                                      | (3)                | (5)      |    | (5)              | (10)      |  |
| Underwriting income                                   | \$ 192             | \$ 273   | \$ | 567              | \$ 735    |  |
| <b>Underwriting income (loss) by brand</b>            |                    |          |    |                  |           |  |
| Allstate brand                                        | \$ 299             | \$ 346   | \$ | 777              | \$ 866    |  |
| Encompass brand                                       | (59)               | (7)      |    | (67)             | (13)      |  |
| Esurance brand                                        | (45)               | (61)     |    | (138)            | (108)     |  |
| Answer Financial                                      | (3)                | (5)      |    | (5)              | (10)      |  |
| Underwriting income                                   | \$ 192             | \$ 273   | \$ | 567              | \$ 735    |  |

Allstate Protection had underwriting income of \$192 million in the second quarter of 2014 compared to \$273 million in the second quarter of 2013. Homeowners underwriting loss was \$12 million in the second quarter of 2014 compared to underwriting income of \$76 million in the second quarter of 2013, primarily due to increased catastrophe losses, partially offset by increased premiums earned. Auto underwriting income was \$130 million in the second quarter of 2014 compared to \$154 million in the second quarter of 2013, primarily due to increased catastrophe losses, increased loss costs excluding catastrophe losses, increased expenses and lower favorable reserve reestimates, partially offset by increased premiums earned.

Allstate Protection had underwriting income of \$567 million in the first six months of 2014 compared to \$735 million in the first six months of 2013. Homeowners underwriting income was \$185 million in the first six months of 2014 compared to \$308 million in the first six months of 2013, primarily due to increased catastrophe losses and increased loss costs excluding catastrophe losses, partially offset by increased premiums earned. Auto underwriting income was \$313 million in the first six months of 2014 compared to \$350 million in the first six months of 2013, primarily due to increased loss costs excluding catastrophe losses, increased expenses, increased catastrophe losses and lower favorable reserve reestimates, partially offset by increased premiums earned. Commercial lines underwriting income was \$3 million in the first six months of 2014 compared to \$30 million in the first six months of 2013, primarily due to increased catastrophe losses, lower favorable reserve reestimates and increased expenses, partially offset by lower loss costs excluding catastrophe losses and increased premiums earned.

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**Catastrophe losses** were \$936 million and \$1.38 billion in the second quarter and first six months of 2014, respectively, compared to \$647 million and \$1.01 billion in the second quarter and first six months of 2013, 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<br>June 30, 2014 |        |                             |                                             |
|-----------------------------------|---------------------|--------|-------------------------------------|--------|-----------------------------|---------------------------------------------|
|                                   | Number<br>of events |        | Claims<br>and<br>claims<br>expense  |        | Combined<br>ratio<br>impact | Average<br>catastrophe<br>loss per<br>event |
| <b>Size of catastrophe loss</b>   |                     |        |                                     |        |                             |                                             |
| Greater than \$250 million        | --                  | --%    | \$ --                               | --%    | --                          | \$ --                                       |
| \$101 million to \$250 million    | 2                   | 6.9    | 322                                 | 34.4   | 4.5                         | 161                                         |
| \$50 million to \$100 million     | 3                   | 10.3   | 208                                 | 22.2   | 2.9                         | 69                                          |
| Less than \$50 million            | 24                  | 82.8   | 347                                 | 37.1   | 4.8                         | 14                                          |
| Total                             | 29                  | 100.0% | 877                                 | 93.7   | 12.2                        | 30                                          |
| Prior year reserve reestimates    |                     |        | 36                                  | 3.8    | 0.5                         |                                             |
| Prior quarter reserve reestimates |                     |        | 23                                  | 2.5    | 0.3                         |                                             |
| Total catastrophe losses          |                     |        | \$ 936                              | 100.0% | 13.0                        |                                             |

| (\$ in millions)                |                     |        | Six months ended<br>June 30, 2014  |        |                             |                                             |
|---------------------------------|---------------------|--------|------------------------------------|--------|-----------------------------|---------------------------------------------|
|                                 | Number<br>of events |        | Claims<br>and<br>claims<br>expense |        | Combined<br>ratio<br>impact | Average<br>catastrophe<br>loss per<br>event |
| <b>Size of catastrophe loss</b> |                     |        |                                    |        |                             |                                             |
| Greater than \$250 million      | 1                   | 2.4%   | \$ 258                             | 18.7%  | 1.8                         | \$ 258                                      |
| \$101 million to \$250 million  | 2                   | 4.8    | 322                                | 23.3   | 2.3                         | 161                                         |
| \$50 million to \$100 million   | 4                   | 9.5    | 293                                | 21.2   | 2.0                         | 73                                          |
| Less than \$50 million          | 35                  | 83.3   | 470                                | 34.0   | 3.3                         | 13                                          |
| Total                           | 42                  | 100.0% | 1,343                              | 97.2   | 9.4                         | 32                                          |
| Prior year reserve reestimates  |                     |        | 38                                 | 2.8    | 0.3                         |                                             |
| Total catastrophe losses        |                     |        | \$ 1,381                           | 100.0% | 9.7                         |                                             |

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

| (\$ in millions) |      |                     | Three months ended<br>June 30, |                     |      | Six months ended<br>June 30, |      |                     |
|------------------|------|---------------------|--------------------------------|---------------------|------|------------------------------|------|---------------------|
|                  | 2014 | Number<br>of events | 2013                           | Number<br>of events | 2014 | Number<br>of events          | 2013 | Number<br>of events |

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|                                   |    |     |    |    |      |    |    |       |    |    |       |    |
|-----------------------------------|----|-----|----|----|------|----|----|-------|----|----|-------|----|
| Hurricanes/Tropical storms        | \$ | --  | -- | \$ | 15   | 1  | \$ | --    | -- | \$ | 15    | 1  |
| Tornadoes                         |    | 94  | 2  |    | 136  | 2  |    | 94    | 2  |    | 136   | 2  |
| Wind/Hail                         |    | 782 | 26 |    | 513  | 19 |    | 846   | 32 |    | 852   | 27 |
| Wildfires                         |    | 1   | 1  |    | 41   | 4  |    | 6     | 2  |    | 41    | 4  |
| Other events                      |    | --  | -- |    | --   | -- |    | 397   | 6  |    | 12    | 1  |
| Prior year reserve reestimates    |    | 36  |    |    | (18) |    |    | 38    |    |    | (50)  |    |
| Prior quarter reserve reestimates |    | 23  |    |    | (40) |    |    | --    |    |    | --    |    |
| Total catastrophe losses          | \$ | 936 | 29 | \$ | 647  | 26 | \$ | 1,381 | 42 | \$ | 1,006 | 35 |

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Catastrophe losses, including prior year reserve reestimates, excluding hurricanes named or numbered by the National Weather Service, fires following earthquakes and earthquakes totaled \$1.39 billion and \$1.07 billion in the first six months of 2014 and 2013, respectively.

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

|                                         | Three months ended<br>June 30, |       |                                                            |      |                                                                              |        |                                                                                           |      | Six months ended<br>June 30, |       |                                                            |      |                                                                              |        |                                                                                           |      |
|-----------------------------------------|--------------------------------|-------|------------------------------------------------------------|------|------------------------------------------------------------------------------|--------|-------------------------------------------------------------------------------------------|------|------------------------------|-------|------------------------------------------------------------|------|------------------------------------------------------------------------------|--------|-------------------------------------------------------------------------------------------|------|
|                                         | Ratio (1)                      |       | Effect of<br>catastrophe<br>losses on<br>combined<br>ratio |      | Effect of<br>prior year<br>reserve<br>reestimates<br>on<br>combined<br>ratio |        | Effect of<br>amortization<br>of purchased<br>intangible<br>assets on<br>combined<br>ratio |      | Ratio (1)                    |       | Effect of<br>catastrophe<br>losses on<br>combined<br>ratio |      | Effect of<br>prior year<br>reserve<br>reestimates<br>on<br>combined<br>ratio |        | Effect of<br>amortization<br>of purchased<br>intangible<br>assets on<br>combined<br>ratio |      |
|                                         |                                |       |                                                            |      |                                                                              |        |                                                                                           |      |                              |       |                                                            |      |                                                                              |        |                                                                                           |      |
|                                         | 2014                           | 2013  | 2014                                                       | 2013 | 2014                                                                         | 2013   | 2014                                                                                      | 2013 | 2014                         | 2013  | 2014                                                       | 2013 | 2014                                                                         | 2013   | 2014                                                                                      | 2013 |
| <b>Allstate brand loss ratio:</b>       |                                |       |                                                            |      |                                                                              |        |                                                                                           |      |                              |       |                                                            |      |                                                                              |        |                                                                                           |      |
| Auto                                    | 70.1                           | 68.8  | 4.1                                                        | 1.9  | (0.6)                                                                        | (1.8)  |                                                                                           |      | 69.0                         | 68.3  | 2.3                                                        | 1.5  | (0.7)                                                                        | (1.7)  |                                                                                           |      |
| Homeowners                              | 76.1                           | 71.1  | 38.7                                                       | 32.5 | 2.1                                                                          | 1.0    |                                                                                           |      | 69.5                         | 65.7  | 30.0                                                       | 25.6 | 1.4                                                                          | 1.8    |                                                                                           |      |
| Other personal lines                    | 58.4                           | 62.9  | 12.4                                                       | 8.7  | (3.4)                                                                        | 4.2    |                                                                                           |      | 65.4                         | 64.0  | 12.6                                                       | 6.7  | 0.3                                                                          | 2.2    |                                                                                           |      |
| Commercial lines                        | 64.5                           | 61.1  | 8.3                                                        | 4.4  | (0.8)                                                                        | (12.4) |                                                                                           |      | 68.8                         | 57.3  | 8.2                                                        | 1.3  | (0.9)                                                                        | (10.6) |                                                                                           |      |
| <b>Total Allstate brand loss ratio</b>  | 70.3                           | 68.4  | 13.1                                                       | 9.8  | (0.1)                                                                        | (0.9)  |                                                                                           |      | 68.5                         | 66.7  | 9.8                                                        | 7.7  | (0.1)                                                                        | (0.7)  |                                                                                           |      |
| <b>Allstate brand expense ratio</b>     | 25.1                           | 26.1  | --                                                         | --   | --                                                                           | --     | --                                                                                        | --   | 25.5                         | 26.3  | --                                                         | --   | --                                                                           | --     | --                                                                                        | --   |
| <b>Allstate brand combined ratio</b>    | 95.4                           | 94.5  | 13.1                                                       | 9.8  | (0.1)                                                                        | (0.9)  | --                                                                                        | --   | 94.0                         | 93.0  | 9.8                                                        | 7.7  | (0.1)                                                                        | (0.7)  | --                                                                                        | --   |
| <b>Encompass brand loss ratio:</b>      |                                |       |                                                            |      |                                                                              |        |                                                                                           |      |                              |       |                                                            |      |                                                                              |        |                                                                                           |      |
| Auto                                    | 82.7                           | 74.0  | 9.3                                                        | 0.6  | (3.7)                                                                        | (3.2)  |                                                                                           |      | 76.8                         | 74.8  | 5.0                                                        | --   | (4.0)                                                                        | (3.5)  |                                                                                           |      |
| Homeowners                              | 98.3                           | 65.7  | 46.7                                                       | 23.8 | 6.7                                                                          | (1.0)  |                                                                                           |      | 86.1                         | 63.9  | 36.3                                                       | 18.0 | 5.5                                                                          | --     |                                                                                           |      |
| Other personal lines                    | 80.8                           | 87.5  | 7.7                                                        | 12.5 | 3.8                                                                          | 8.3    |                                                                                           |      | 80.8                         | 83.7  | 9.6                                                        | 10.2 | 1.9                                                                          | 10.2   |                                                                                           |      |
| <b>Total Encompass brand loss ratio</b> | 88.7                           | 72.1  | 23.7                                                       | 10.1 | 1.0                                                                          | (1.4)  |                                                                                           |      | 80.7                         | 71.6  | 17.5                                                       | 7.4  | 0.1                                                                          | (1.1)  |                                                                                           |      |
| <b>Encompass brand expense ratio</b>    | 30.5                           | 30.3  | --                                                         | --   | --                                                                           | --     | --                                                                                        | --   | 30.2                         | 30.7  | --                                                         | --   | --                                                                           | --     | --                                                                                        | --   |
| <b>Encompass brand combined ratio</b>   | 119.2                          | 102.4 | 23.7                                                       | 10.1 | 1.0                                                                          | (1.4)  | --                                                                                        | --   | 110.9                        | 102.3 | 17.5                                                       | 7.4  | 0.1                                                                          | (1.1)  | --                                                                                        | --   |
| <b>Esurance brand loss ratio:</b>       |                                |       |                                                            |      |                                                                              |        |                                                                                           |      |                              |       |                                                            |      |                                                                              |        |                                                                                           |      |
| Auto                                    | 75.3                           | 79.9  | 2.7                                                        | 1.6  | (1.4)                                                                        | --     |                                                                                           |      | 75.7                         | 78.3  | 1.6                                                        | 1.4  | (1.1)                                                                        | --     |                                                                                           |      |
| Other personal lines                    | 100.0                          | 100.0 | --                                                         | --   | --                                                                           | --     |                                                                                           |      | 50.0                         | 100.0 | --                                                         | --   | --                                                                           | --     |                                                                                           |      |
| <b>Total Esurance brand loss ratio</b>  | 75.4                           | 79.9  | 2.7                                                        | 1.6  | (1.4)                                                                        | --     |                                                                                           |      | 75.6                         | 78.3  | 1.6                                                        | 1.4  | (1.1)                                                                        | --     |                                                                                           |      |
| <b>Esurance brand expense ratio</b>     | 36.9                           | 39.8  | --                                                         | --   | --                                                                           | --     | 3.3                                                                                       | 5.2  | 43.9                         | 40.0  | --                                                         | --   | --                                                                           | --     | 3.3                                                                                       | 5.3  |
| <b>Esurance brand combined ratio</b>    | 112.3                          | 119.7 | 2.7                                                        | 1.6  | (1.4)                                                                        | --     | 3.3                                                                                       | 5.2  | 119.5                        | 118.3 | 1.6                                                        | 1.4  | (1.1)                                                                        | --     | 3.3                                                                                       | 5.3  |

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|                            |      |      |      |     |       |       |     |     |      |      |     |     |       |       |     |     |
|----------------------------|------|------|------|-----|-------|-------|-----|-----|------|------|-----|-----|-------|-------|-----|-----|
| <b>Allstate Protection</b> |      |      |      |     |       |       |     |     |      |      |     |     |       |       |     |     |
| <b>loss ratio</b>          | 71.3 | 69.0 | 13.0 | 9.4 | (0.1) | (0.9) |     |     | 69.3 | 67.4 | 9.7 | 7.4 | (0.2) | (0.7) |     |     |
| <b>Allstate Protection</b> |      |      |      |     |       |       |     |     |      |      |     |     |       |       |     |     |
| <b>expense ratio</b>       | 26.0 | 27.0 | --   | --  | --    | --    | 0.2 | 0.3 | 26.7 | 27.2 | --  | --  | --    | --    | 0.2 | 0.3 |
| <b>Allstate Protection</b> |      |      |      |     |       |       |     |     |      |      |     |     |       |       |     |     |
| <b>combined ratio</b>      | 97.3 | 96.0 | 13.0 | 9.4 | (0.1) | (0.9) | 0.2 | 0.3 | 96.0 | 94.6 | 9.7 | 7.4 | (0.2) | (0.7) | 0.2 | 0.3 |

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

*Auto loss ratio* for the Allstate brand increased 1.3 points and 0.7 points in the second quarter and first six months of 2014, respectively, compared to the same periods of 2013, primarily due to increased catastrophe losses and lower favorable reserve reestimates.

Claim frequencies (rate of claim occurrence per policy in force) in the bodily injury and property damage coverages decreased 2.8% and 2.4% in the second quarter of 2014, respectively, compared to the second quarter of 2013, and claim frequency in the bodily injury coverage and property damage decreased 1.6% and increased 1.2% in the first six months of 2014, respectively, compared to the first six months of 2013. Frequencies in bodily injury and property damage performed within historical ranges. Bodily injury and property damage coverage paid claim severities (average cost per claim) increased 1.3% and 4.4% in the second quarter of 2014, respectively, compared to second quarter of 2013, and increased 1.0% and 3.5% in the first six months of 2014, respectively, compared to the first six months of 2013. Bodily injury severity in the second quarter and first six months of 2014 is showing only moderate growth compared to the historical Consumer Price Index trends after adjusting for geographic mix, age of claims and policy limit shifts.

Encompass brand auto loss ratio increased 8.7 points and 2.0 points in the second quarter and first six months of 2014, respectively, compared to the same periods of 2013, due to increased catastrophe losses.

Esurance brand auto loss ratio decreased 4.6 points and 2.6 points in the second quarter and first six months of 2014, respectively, compared to the same periods of 2013, primarily due to lower claim severity, rate actions and favorable reserve reestimates related to personal injury protection losses. Subsequent to the year of policy inception, in which advertising costs are expensed, Esurance's annual combined ratio, excluding the amortization of purchased intangible assets, remains below 100. We manage the business so that it is profitable over the life of the business, taking rate increases as appropriate.

*Homeowners loss ratio* for the Allstate brand increased 5.0 points to 76.1 in the second quarter of 2014 from 71.1 in the second quarter of 2013, primarily due to higher catastrophe losses and higher unfavorable reserve reestimates, partially offset by increased premiums earned. Homeowners loss ratio increased 3.8 points to 69.5 in the first six months of 2014 from 65.7 in the first six months of 2013, primarily due to higher catastrophe losses and increased loss costs excluding catastrophe losses, partially offset by increased premiums earned. Claim frequency excluding catastrophe losses increased 2.3% and 4.2% in the second quarter and first six months of 2014, respectively, compared to the same periods of 2013. Paid claim severity excluding catastrophe losses increased 5.5% and 6.9% in the second quarter and first six months of 2014, respectively, compared to the same periods of 2013.

Encompass brand homeowners loss ratio increased 32.6 points and 22.2 points in the second quarter and first six months of 2014, respectively, compared to the same periods of 2013, primarily due to higher catastrophe losses and higher non-catastrophe losses. Several catastrophes occurred in areas where Encompass has a concentration of policyholders. Excluding the impact of catastrophe losses, the Encompass brand homeowners loss ratio increased 9.7 points and increased 3.9 points in the second quarter and first six months of 2014, respectively, compared to the same periods of 2013, primarily due to the impact of severe weather.

**Expense ratio** for Allstate Protection decreased 1.0 points and 0.5 points in the second quarter and first six months of 2014, respectively, compared to the same periods of 2013. The impact of specific costs and expenses on the expense ratio are shown in the following table.

|                                             | Three months ended June 30, |      |                 |      |                |      |                     |      |
|---------------------------------------------|-----------------------------|------|-----------------|------|----------------|------|---------------------|------|
|                                             | Allstate brand              |      | Encompass brand |      | Esurance brand |      | Allstate Protection |      |
|                                             | 2014                        | 2013 | 2014            | 2013 | 2014           | 2013 | 2014                | 2013 |
| Amortization of DAC                         | 13.8                        | 13.2 | 19.2            | 17.8 | 2.7            | 2.6  | 13.5                | 13.0 |
| Advertising expenses                        | 2.7                         | 3.2  | 0.6             | 0.7  | 14.5           | 16.2 | 3.2                 | 3.7  |
| Amortization of purchased intangible assets | --                          | --   | --              | --   | 3.3            | 5.2  | 0.2                 | 0.3  |
| Other costs and expenses                    | 8.6                         | 9.4  | 10.4            | 11.1 | 16.4           | 15.8 | 9.1                 | 9.7  |
| Restructuring and related charges           | --                          | 0.3  | 0.3             | 0.7  | --             | --   | --                  | 0.3  |
| Total expense ratio                         | 25.1                        | 26.1 | 30.5            | 30.3 | 36.9           | 39.8 | 26.0                | 27.0 |

|                                             | Six months ended June 30, |      |                 |      |                |      |                     |      |
|---------------------------------------------|---------------------------|------|-----------------|------|----------------|------|---------------------|------|
|                                             | Allstate brand            |      | Encompass brand |      | Esurance brand |      | Allstate Protection |      |
|                                             | 2014                      | 2013 | 2014            | 2013 | 2014           | 2013 | 2014                | 2013 |
| Amortization of DAC                         | 13.9                      | 13.2 | 18.9            | 17.8 | 2.7            | 2.5  | 13.6                | 12.9 |
| Advertising expenses                        | 2.6                       | 3.0  | 0.7             | 0.7  | 21.2           | 16.1 | 3.4                 | 3.4  |
| Amortization of purchased intangible assets | --                        | --   | --              | --   | 3.3            | 5.3  | 0.2                 | 0.3  |
| Other costs and expenses                    | 9.0                       | 9.8  | 10.4            | 11.7 | 16.7           | 16.1 | 9.5                 | 10.3 |
| Restructuring and related charges           | --                        | 0.3  | 0.2             | 0.5  | --             | --   | --                  | 0.3  |
| Total expense ratio                         | 25.5                      | 26.3 | 30.2            | 30.7 | 43.9           | 40.0 | 26.7                | 27.2 |

Amortization of DAC increased in the second quarter and first six months of 2014 compared to the same periods of 2013. Amortization of DAC primarily includes agent remuneration and premium taxes. Allstate exclusive agent remuneration comprises a base commission, variable compensation and a bonus. Variable compensation has two components: agency success factors (local presence, Allstate Financial product sales and licensed staff), which must be achieved in order to qualify for the second component, customer experience (customer satisfaction survey). In addition, a bonus that is a percentage of premiums can be earned by agents. To qualify for the bonus, agents must achieve a loss ratio and an amount of sales of Allstate Financial products. The bonus is earned by achieving qualifying numbers of multi-category households and increases in Property-Liability policies in force and Allstate Financial policies in force. The Allstate agent commissions and bonus were expensed as a component of DAC amortization at increasing levels during 2013 and continuing in 2014 as more agents successfully met the success factors. In 2014, the bonus success factors were raised from 2013 levels commensurate with performance achieved in 2013, which was in excess of target amounts.

Advertising expenses decreased in the second quarter compared to the same period of 2013, primarily due to a change in seasonality of advertising spend. Advertising expenses were comparable in the first six months of 2014 compared to the same period of 2013 due to lower spending for Allstate brand, offset by higher spending at Esurance related to a new campaign.

Other costs and expenses decreased in the second quarter and first six months of 2014 compared to the same periods of 2013, primarily due to lower employee related costs, including pension expense, for Allstate and Encompass brands, partially offset by increased expenses for Esurance brand. Esurance continues to invest in geographic expansion of its products. Esurance expanded its renters product since December 31, 2013 from 16 to 18 states, auto from 41 to 43 states, motorcycle from 6 to 9 states, and homeowners from 3 to 7 states. The spending on expansion, which occurs prior to premiums being written, contributed approximately 1.8 points and 1.9 points to the expense ratio in the second quarter and first six months of 2014, respectively. Other costs and expenses for



Esurance also includes certain costs relating to the acquisition of new business, such as salaries of telephone sales personnel and other underwriting costs.

**Gain on disposition** of \$38 million in second quarter 2014 relates to the sale of Sterling Collision Centers, Inc.

**Allstate Protection catastrophe reinsurance** Our catastrophe reinsurance program allows us to continue to provide customers with insurance while protecting capital from the costs associated with major catastrophe losses. It was designed, utilizing our risk management methodology, to address our exposure to catastrophes nationwide. Our program provides reinsurance protection for catastrophes resulting from multiple perils, including hurricanes, windstorms, hail, tornados, earthquakes, fires following earthquakes, riots, freeze, and wildfires. These reinsurance agreements are part of our catastrophe management strategy, which is intended to provide our shareholders an acceptable return on the risks assumed in our property business, and to reduce variability of earnings while providing protection to our customers. For a complete summary of the 2014 reinsurance placement, please read this in conjunction with the discussion and analysis in Part I. Item 2. of The Allstate Corporation Form 10-Q for the quarterly period ended March 31, 2014.

During the second quarter of 2014, we completed the placement of a 2014-1 Property Claim Service ( PCS ) Excess Catastrophe Reinsurance agreement that provides additional limits for our Nationwide Per Occurrence Excess Catastrophe Reinsurance program. The placement of this agreement achieves, for the 2014 Nationwide Per Occurrence Excess Catastrophe program, \$4.18 billion of reinsurance coverage subject to a \$500 million retention for reinsured losses in all states other than Florida and New Jersey. We also completed the placement of our Florida reinsurance program.

The 2014-1 PCS Excess Catastrophe Reinsurance agreement reinsures personal lines property and automobile excess catastrophe losses caused by hurricanes in 29 states and the District of Columbia, and earthquakes, including fires following earthquakes, in California, New York, and Washington. This agreement is placed with a Bermuda insurance company, Sanders Re Ltd. ( Sanders Re ), which completed an offering to unrelated investors of principal at risk, variable market rate notes to collateralize losses covered by the agreement. Amounts payable under the agreement are based on insured industry losses as reported by PCS and further indexed by annual pay-out factors specific to personal lines property and automobile exposures in the agreement's covered areas. Reinsurance recoveries under the 2014-1 PCS Excess Catastrophe Reinsurance agreement are limited to our ultimate net loss from a PCS reported hurricane or earthquake event, in excess of each contract's specific attachment level and subject to each contract's limit. The agreement comprises three contracts with each contract's risk period beginning on May 22, 2014 and with two of the three contracts' risk periods expiring on May 21, 2018 and one contract's risk period expiring on May 21, 2019. The placement of these contracts achieves, for the perils of hurricane and earthquakes, including fires following earthquakes, a \$305 million limit or 63.28% of \$482 million between a \$2.95 billion to \$3.44 billion layer; a \$115 million limit or 34.74% of \$331 million between a \$3.50 billion to \$3.83 billion layer; and a \$330 million limit or 94.29% of \$350 million between a \$3.83 billion to \$4.18 billion layer. The contracts comprising the agreement contain a variable reset option which the ceding entities may elect to invoke for risk periods subsequent to the first risk period and which allows for the annual adjustment of each contract's attachment and exhaustion levels within specified limits. The variable reset option requires a premium adjustment for an increase or decrease in the updated modeled annual expected loss from the initial modeled annual expected loss. The contracts do not include a reinstatement of limits.

The Florida component of our reinsurance program is designed separately from the other components of the program to address the distinct needs of our separately capitalized legal entities in that state. The Florida Excess Catastrophe Reinsurance agreement comprises six contracts which reinsure Castle Key Insurance Company ( CKIC ) and Castle Key Indemnity Company ( CKI ), and together with CKIC, Castle Key ) for personal lines property excess catastrophe losses in Florida. The agreement includes CKIC's and CKI's reimbursement contracts with the Florida Hurricane Catastrophe Fund (the Mandatory FHCF contracts). All contracts comprising the agreement, except the Sanders Re 2014-2 Class A contract ( Sanders Re 2014-2 contract ), provide a one year term effective June 1, 2014 through May 31, 2015 with reinsurance premium subject to redetermination for exposure changes. The Sanders Re 2014-2 contract is a three year term contract with a risk period effective June 1, 2014 through May 31, 2017. Sanders Re utilized privately placed funding similarly employed for the 2014-1 PCS Excess Catastrophe Reinsurance agreement to provide collateral equal to the contract's limit for qualified covered losses. The Sanders Re 2014-2 contract contains a variable

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reset option which Castle Key may elect to invoke for the last two risk periods and which allows for annual adjustment of the contract's attachment level, within specified limits, and at a corresponding premium adjustment. With the exception of the Mandatory FHCF contracts and the Sanders

Re 2014-2 contract, all contracts provide reinsurance for qualifying losses to personal lines property arising out of multiple perils in addition to hurricanes. The Mandatory FHCF Reimbursement contracts reinsure qualifying personal lines property losses caused by storms the National Hurricane Center declares to be hurricanes, and the Sanders Re 2014-2 contract reinsures qualifying losses to personal lines property caused by a Named Storm Event, a Severe Thunderstorm Event, or an Earthquake Event. These Events are defined in the Sanders Re 2014-2 contract as Events declared by various reporting agencies, including PCS, and in the case of a Severe Thunderstorm Event, should PCS cease to report on Severe Thunderstorms, then such event will be deemed a Severe Thunderstorm if the Companies have assigned a catastrophe code to such Severe Thunderstorm.

The Mandatory FHCF contracts include an estimated maximum provisional limit of 90% of \$190 million or \$171 million, in excess of a provisional retention of \$71 million, and also include reimbursement of up to 5% of eligible loss adjustment expenses. The limit and retention of the Mandatory FHCF contracts are subject to re-measurement based on June 30, 2014 exposure data. In addition, the FHCF s retention is subject to adjustment upward or downward to an actual retention based on submitted exposures to the FHCF by all participants. For each of the two largest hurricanes, the provisional retention is \$71 million and a retention equal to one third of that amount, or approximately \$24 million, is applicable to all other hurricanes for the season beginning June 1, 2014. All the contracts comprising the Florida agreement are listed and described below:

- Below FHCF contract provides limits of \$56 million in excess of \$15 million and is 100% placed. The first reinstatement of limits is prepaid and the second and final reinstatement requires additional premium.
- Mandatory FHCF contracts provide 90% of \$190 million excess of a provisional retention of \$71 million with no reinstatement of limits. For each of the two largest hurricanes, the provisional retention is \$71 million and retention equal to one third of that amount, or approximately \$24 million, is applicable to all other hurricanes for the season beginning June 1, 2014.
- FHCF Sliver contract provides limits for the 10% co-participation of the mandatory FHCF coverage up to \$19 million with no reinstatement of limits.
- Excess contract provides limits of \$286 million in excess of \$71 million (the FHCF retention), and in excess of an estimated \$190 million limit (100% of the FHCF Sliver contract limit as opposed to its actual 10% placed limit of \$19 million). This contract is 100% placed with no reinstatement of limits. This contract s retention adjusts downward when qualifying losses consume the FHCF Sliver contract limit of \$190 million which is deemed to have been placed, and thereafter further adjusts downward upon the exhaustion of any portion of the Below FHCF contract limit and once the Below the FHCF contract s limits and the two reinstatements of these limits have been expended by qualifying losses. When applying the dropdown adjustment, the qualifying losses are deemed to be those reinsured pursuant to the multiple perils coverage provided by the FHCF Sliver contract.
- Sanders Re 2014-2 contract provides limits of \$200 million in excess of \$71 million and in excess of Stated Reinsurance, as defined in the contract and, for the first annual period, consists of the Mandatory FHCF contracts as if each contract were 100% placed and the Excess contract. Under the Sanders Re contract, Stated Reinsurance is deemed to be provided on a multiple perils basis pursuant to the terms of the non-FHCF contracts. Further, the Stated Reinsurance includes an erosion feature which provides that upon the exhaustion of a portion of the Stated Reinsurance, coverage under the Sanders Re contract shall be concurrently placed above and contiguous to the unexhausted portion of the Stated Reinsurance, if any.

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The total cost of our property catastrophe reinsurance programs during the first and second quarters of 2014 was \$113 million and \$112 million, respectively. The total cost of our catastrophe reinsurance programs during 2013 was \$133 million in the first quarter, \$131 million in the second quarter, \$110 million in the third quarter and \$113 million in the fourth quarter. These quarterly costs reflect premium re-measurements recognized in the quarter.

**Reserve reestimates** The tables below show Allstate Protection net reserves representing the estimated cost of outstanding claims as they were recorded at the beginning of years 2014 and 2013, and the effect of reestimates in each year.

| (\$ in millions)          | January 1 reserves |        |      |        |
|---------------------------|--------------------|--------|------|--------|
|                           | 2014               |        | 2013 |        |
| Auto                      | \$                 | 11,616 | \$   | 11,383 |
| Homeowners                |                    | 1,821  |      | 2,008  |
| Other personal lines      |                    | 1,512  |      | 1,596  |
| Commercial lines          |                    | 576    |      | 627    |
| Other business lines      |                    | 22     |      | 27     |
| Total Allstate Protection | \$                 | 15,547 | \$   | 15,641 |

| (\$ in millions, except ratios) | Three months ended |         |                    |       |         | Six months ended |       |                    |      |  |
|---------------------------------|--------------------|---------|--------------------|-------|---------|------------------|-------|--------------------|------|--|
|                                 | June 30,           |         |                    |       |         | June 30,         |       |                    |      |  |
|                                 | Reserve            |         | Effect on          |       |         | Reserve          |       | Effect on          |      |  |
|                                 | reestimate (1)     |         | combined ratio (2) |       |         | reestimate (1)   |       | combined ratio (2) |      |  |
|                                 | 2014               | 2013    | 2014               | 2013  |         | 2014             | 2013  | 2014               | 2013 |  |
| Auto                            | \$ (36)            | \$ (79) | (0.5)              | (1.2) | \$ (84) | \$ (149)         | (0.6) | (1.1)              |      |  |
| Homeowners                      | 41                 | 15      | 0.6                | 0.2   | 59      | 56               | 0.4   | 0.4                |      |  |
| Other personal lines            | (12)               | 18      | (0.2)              | 0.3   | 3       | 22               | --    | 0.2                |      |  |
| Commercial lines                | (1)                | (14)    | --                 | (0.2) | (2)     | (24)             | --    | (0.2)              |      |  |
| Other business lines            | --                 | (1)     | --                 | --    | --      | (4)              | --    | --                 |      |  |
| Total Allstate Protection (3)   | \$ (8)             | \$ (61) | (0.1)              | (0.9) | \$ (24) | \$ (99)          | (0.2) | (0.7)              |      |  |
| Allstate brand                  | \$ (6)             | \$ (57) | (0.1)              | (0.8) | \$ (17) | \$ (93)          | (0.1) | (0.7)              |      |  |
| Encompass brand                 | 3                  | (4)     | 0.1                | (0.1) | 1       | (6)              | --    | --                 |      |  |
| Esurance brand                  | (5)                | --      | (0.1)              | --    | (8)     | --               | (0.1) | --                 |      |  |
| Total Allstate Protection       | \$ (8)             | \$ (61) | (0.1)              | (0.9) | \$ (24) | \$ (99)          | (0.2) | (0.7)              |      |  |

(1) Favorable reserve reestimates are shown in parentheses.

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

(3) Prior year reserve reestimates included in catastrophe losses totaled \$36 million and \$38 million unfavorable in the three months and six months ended June 30, 2014, respectively, compared to \$18 million and \$50 million favorable in the three months and six months ended June 30, 2013, respectively. The effect of catastrophe losses included in prior year reserve reestimates on the combined ratio totaled 0.5 and 0.3 unfavorable in the three months and six months ended June 30, 2014, respectively, compared to 0.3 and 0.4 favorable in the three months and six months ended June 30, 2013, respectively.

## DISCONTINUED LINES AND COVERAGES SEGMENT

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

Summarized underwriting results are presented in the following table.

(\$ in millions)

|                              | Three months ended |     |      |     | Six months ended |     |      |     |
|------------------------------|--------------------|-----|------|-----|------------------|-----|------|-----|
|                              | June 30,           |     |      |     | June 30,         |     |      |     |
|                              | 2014               |     | 2013 |     | 2014             |     | 2013 |     |
| Premiums written             | \$                 | --  | \$   | --  | \$               | --  | \$   | --  |
| Premiums earned              | \$                 | --  | \$   | --  | \$               | --  | \$   | --  |
| Claims and claims expense    |                    | (2) |      | (3) |                  | (5) |      | (6) |
| Operating costs and expenses |                    | (1) |      | (1) |                  | (1) |      | (2) |
| Underwriting loss            | \$                 | (3) | \$   | (4) | \$               | (6) | \$   | (8) |

**PROPERTY-LIABILITY INVESTMENT RESULTS**

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

| (\$ in millions)                  | Three months ended |        | Six months ended |        |
|-----------------------------------|--------------------|--------|------------------|--------|
|                                   | June 30,           |        | June 30,         |        |
|                                   | 2014               | 2013   | 2014             | 2013   |
| Fixed income securities           | \$ 212             | \$ 231 | \$ 427           | \$ 480 |
| Equity securities                 | 29                 | 36     | 52               | 59     |
| Mortgage loans                    | 4                  | 5      | 9                | 10     |
| Limited partnership interests     | 102                | 89     | 177              | 166    |
| Short-term investments            | 2                  | --     | 3                | 1      |
| Other                             | 19                 | 8      | 33               | 16     |
| Investment income, before expense | 368                | 369    | 701              | 732    |
| Investment expense                | (17)               | (26)   | (38)             | (48)   |
| Net investment income             | \$ 351             | \$ 343 | \$ 663           | \$ 684 |

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

|                                                | Three months ended |      | Six months ended |      |
|------------------------------------------------|--------------------|------|------------------|------|
|                                                | June 30,           |      | June 30,         |      |
|                                                | 2014               | 2013 | 2014             | 2013 |
| Fixed income securities: tax-exempt            | 2.7%               | 3.6% | 2.7%             | 3.6% |
| Fixed income securities: tax-exempt equivalent | 3.9                | 5.2  | 3.9              | 5.2  |
| Fixed income securities: taxable               | 3.0                | 3.3  | 3.0              | 3.4  |
| Equity securities                              | 3.2                | 4.0  | 2.8              | 3.4  |
| Mortgage loans                                 | 4.9                | 4.2  | 4.6              | 4.2  |
| Limited partnership interests                  | 15.3               | 11.8 | 12.9             | 11.1 |
| Total portfolio                                | 3.9                | 4.0  | 3.7              | 4.0  |

Net investment income increased 2.3% or \$8 million to \$351 million in the second quarter of 2014 from \$343 million in the second quarter of 2013, primarily due to higher limited partnership income. Net investment income decreased 3.1% or \$21 million to \$663 million in the first six months of 2014 from \$684 million in the first six months of 2013, primarily due to lower fixed income yields, partially offset by higher average investment balances and higher limited partnership income. The decrease in fixed income yields is primarily due to actions taken in 2013 to reduce interest rate risk.

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

| (\$ in millions)       | Three months ended |         | Six months ended |         |
|------------------------|--------------------|---------|------------------|---------|
|                        | June 30,           |         | June 30,         |         |
|                        | 2014               | 2013    | 2014             | 2013    |
| Impairment write-downs | \$ (6)             | \$ (17) | \$ (18)          | \$ (25) |

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|                                                                   |        |        |        |        |
|-------------------------------------------------------------------|--------|--------|--------|--------|
| Change in intent write-downs                                      | (25)   | (26)   | (85)   | (46)   |
| Net other-than-temporary impairment losses recognized in earnings | (31)   | (43)   | (103)  | (71)   |
| Sales                                                             | 289    | 346    | 428    | 497    |
| Valuation and settlements of derivative instruments               | (8)    | 2      | (22)   | (9)    |
| Realized capital gains and losses, pre-tax                        | 250    | 305    | 303    | 417    |
| Income tax expense                                                | (89)   | (108)  | (108)  | (147)  |
| Realized capital gains and losses, after-tax                      | \$ 161 | \$ 197 | \$ 195 | \$ 270 |

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

# ALLSTATE FINANCIAL HIGHLIGHTS

- Net income available to common shareholders was \$145 million and \$307 million in the second quarter and first six months of 2014, respectively, compared to \$190 million and \$336 million in the second quarter and first six months of 2013, respectively.
- Premiums and contract charges on underwritten products, including traditional life, interest-sensitive life and accident and health insurance, totaled \$514 million in the second quarter of 2014, a decrease of 9.2% from \$566 million in the second quarter of 2013, and \$1.11 billion in the first six months of 2014, a decrease of 2.2% from \$1.14 billion in the first six months of 2013.
- Investments totaled \$39.53 billion as of June 30, 2014, reflecting an increase of \$429 million from \$39.11 billion as of December 31, 2013. Investments as of December 31, 2013 excluded investments classified as held for sale. Net investment income decreased 15.0% to \$538 million in the second quarter of 2014 and 7.1% to \$1.18 billion in the first six months of 2014 from \$633 million and \$1.27 billion in the second quarter and first six months of 2013, respectively.
- Net realized capital losses totaled \$10 million and \$9 million in the second quarter and first six months of 2014, respectively, compared to net realized capital gains of \$57 million and \$76 million in the second quarter and first six months of 2013, respectively.
- Contractholder funds totaled \$23.47 billion as of June 30, 2014, reflecting a decrease of \$832 million from \$24.30 billion as of December 31, 2013.
- On April 1, 2014, we closed the sale of 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 to Resolution Life Holdings, Inc. The loss on disposition increased by \$13 million, after-tax, and \$31 million, after-tax, in the three months and six months ended June 30, 2014, respectively.

# ALLSTATE FINANCIAL SEGMENT

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

| (\$ in millions)                               | Three months ended<br>June 30, |        | Six months ended<br>June 30, |          |
|------------------------------------------------|--------------------------------|--------|------------------------------|----------|
|                                                | 2014                           | 2013   | 2014                         | 2013     |
| <b>Revenues</b>                                |                                |        |                              |          |
| Life and annuity premiums and contract charges | \$ 518                         | \$ 579 | \$ 1,125                     | \$ 1,158 |
| Net investment income                          | 538                            | 633    | 1,178                        | 1,268    |
| Realized capital gains and losses              | (10)                           | 57     | (9)                          | 76       |
| Total revenues                                 | 1,046                          | 1,269  | 2,294                        | 2,502    |
| <b>Costs and expenses</b>                      |                                |        |                              |          |
| Life and annuity contract benefits             | (413)                          | (471)  | (901)                        | (929)    |
| Interest credited to contractholder funds      | (212)                          | (311)  | (519)                        | (656)    |
| Amortization of DAC                            | (66)                           | (71)   | (140)                        | (146)    |
| Operating costs and expenses                   | (112)                          | (140)  | (230)                        | (288)    |
| Restructuring and related charges              | (1)                            | (1)    | (3)                          | (3)      |
| Total costs and expenses                       | (804)                          | (994)  | (1,793)                      | (2,022)  |
| (Loss) gain on disposition of operations       | (8)                            | 1      | (67)                         | 3        |

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|                                             |    |      |    |      |    |        |    |        |
|---------------------------------------------|----|------|----|------|----|--------|----|--------|
| Income tax expense                          |    | (89) |    | (86) |    | (127)  |    | (147)  |
| Net income available to common shareholders | \$ | 145  | \$ | 190  | \$ | 307    | \$ | 336    |
| Life insurance                              | \$ | 59   | \$ | 70   | \$ | 130    | \$ | 133    |
| Accident and health insurance               |    | 27   |    | 25   |    | 54     |    | 49     |
| Annuities and institutional products        |    | 59   |    | 95   |    | 123    |    | 154    |
| Net income available to common shareholders | \$ | 145  | \$ | 190  | \$ | 307    | \$ | 336    |
| Allstate Life and Retirement                | \$ | 114  | \$ | 162  | \$ | 249    | \$ | 283    |
| Allstate Benefits                           |    | 31   |    | 28   |    | 58     |    | 53     |
| Net income available to common shareholders | \$ | 145  | \$ | 190  | \$ | 307    | \$ | 336    |
| Investments as of June 30                   |    |      |    |      | \$ | 39,534 | \$ | 52,581 |

*Net income available to common shareholders* was \$145 million in the second quarter of 2014 compared to \$190 million in the second quarter of 2013. The decline primarily relates to the reduction in business due to the sale of LBL on April 1, 2014. Excluding results of the LBL business for second quarter 2013 of \$28 million, net income available to common shareholders decreased \$17 million in the second quarter of 2014 compared to the second quarter of 2013, primarily due to higher net investment income, higher life and annuity premiums and contract charges and lower operating costs and expenses being more than offset by net realized capital losses in second quarter 2014 compared to net realized capital gains in second quarter 2013 and the increase in the loss on disposition related to the LBL sale.

Net income available to common shareholders was \$307 million in the first six months of 2014 compared to \$336 million in the first six months of 2013. The decline primarily relates to the reduction in business due to the sale of LBL on April 1, 2014. Excluding results of the LBL business for second quarter 2013 of \$28 million, net income available to common shareholders decreased \$1 million in the first six months of 2014 compared to the first six months of 2013, primarily due to higher life and annuity premiums and contract charges, lower interest credited to contractholder funds, higher net investment income and lower operating costs and expenses being more than offset by net realized capital losses in first six months of 2014 compared to net realized capital gains in first six months of 2013, the increase in the loss on disposition related to the LBL sale and higher life and annuity contract benefits.

**Analysis of revenues** Total revenues decreased 17.6% or \$223 million and 8.3% or \$208 million in the second quarter and first six months of 2014, respectively, compared to the same periods of 2013. Excluding results of the LBL business for second quarter 2013 of \$218 million, total revenues decreased \$5 million in the second quarter of 2014 compared to the second quarter of 2013, primarily due to net realized capital losses in second quarter 2014 compared to net realized capital gains in second quarter 2013, partially offset by higher net investment income and higher life and annuity premiums and contract charges. Excluding results of the LBL business for second quarter 2013 of \$218 million, total revenues increased \$10 million in the first six months of 2014 compared to the first six months of 2013, primarily due to higher life and annuity premiums and contract charges and higher net investment income, partially offset by realized capital losses in first six months of 2014 compared to net realized capital gains in first six months of 2013.

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

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

| (\$ in millions)                                          | Three months ended<br>June 30, |               | Six months ended<br>June 30, |                 |
|-----------------------------------------------------------|--------------------------------|---------------|------------------------------|-----------------|
|                                                           | 2014                           | 2013          | 2014                         | 2013            |
| <b>Underwritten products</b>                              |                                |               |                              |                 |
| Traditional life insurance premiums                       | \$ 117                         | \$ 111        | \$ 237                       | \$ 220          |
| Accident and health insurance premiums                    | --                             | 6             | 6                            | 12              |
| Interest-sensitive life insurance contract charges        | 177                            | 245           | 427                          | 495             |
| Subtotal Allstate Life and Retirement                     | 294                            | 362           | 670                          | 727             |
| Traditional life insurance premiums                       | 8                              | 8             | 15                           | 15              |
| Accident and health insurance premiums                    | 187                            | 173           | 376                          | 347             |
| Interest-sensitive life insurance contract charges        | 25                             | 23            | 49                           | 46              |
| Subtotal Allstate Benefits                                | 220                            | 204           | 440                          | 408             |
| Total underwritten products                               | 514                            | 566           | 1,110                        | 1,135           |
| <b>Annuities</b>                                          |                                |               |                              |                 |
| Immediate annuities with life contingencies premiums      | --                             | 9             | 5                            | 16              |
| Other fixed annuity contract charges                      | 4                              | 4             | 10                           | 7               |
| Total annuities                                           | 4                              | 13            | 15                           | 23              |
| <b>Life and annuity premiums and contract charges (1)</b> | <b>\$ 518</b>                  | <b>\$ 579</b> | <b>\$ 1,125</b>              | <b>\$ 1,158</b> |

(1) Contract charges related to the cost of insurance totaled \$135 million and \$179 million for the second quarter of 2014 and 2013, respectively, and \$322 million and \$359 million in the first six months of 2014 and 2013, respectively.

Total premiums and contract charges decreased 10.5% or \$61 million and 2.8% or \$33 million in the second quarter and first six months of 2014, respectively, compared to the same periods of 2013. Excluding results of the LBL business for second quarter 2013 of \$82 million, premiums and contract charges increased \$21 million and \$49 million in the second quarter and first six months of 2014, respectively, compared to the same periods of 2013, primarily due to growth in Allstate Benefits accident and health insurance business and increased traditional life insurance premiums due to higher renewals and sales through Allstate agencies, partially offset by lower premiums on immediate annuities with life contingencies due to discontinuing new sales January 1, 2014.

Allstate agencies and exclusive financial specialists continue to sell LBL life products until Allstate Financial transitions these products to an Allstate company. LBL life business sold through the Allstate agency channel and all LBL payout annuity business continues to be reinsured and serviced by Allstate Life Insurance Company ( ALIC ). Following the closing of the sale, LBL was rated A- from A.M. Best and BBB+ from

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Standard & Poor's (S&P). ALIC is rated A+ by A.M. Best, A+ by S&P and A1 by Moody's.

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

| (\$ in millions)                                                               | Three months ended<br>June 30, |           | Six months ended<br>June 30, |           |
|--------------------------------------------------------------------------------|--------------------------------|-----------|------------------------------|-----------|
|                                                                                | 2014                           | 2013      | 2014                         | 2013      |
| <b>Contractholder funds, beginning balance</b>                                 | \$ 23,989                      | \$ 38,807 | \$ 24,304                    | \$ 39,319 |
| <b>Contractholder funds classified as held for sale, beginning balance</b>     | 10,661                         | --        | 10,945                       | --        |
| <b>Total contractholder funds, including those classified as held for sale</b> | 34,650                         | 38,807    | 35,249                       | 39,319    |
| <b>Deposits</b>                                                                |                                |           |                              |           |
| Interest-sensitive life insurance                                              | 246                            | 328       | 564                          | 714       |
| Fixed annuities                                                                | 56                             | 281       | 183                          | 568       |
| Total deposits                                                                 | 302                            | 609       | 747                          | 1,282     |
| <b>Interest credited</b>                                                       | 212                            | 314       | 520                          | 664       |
| <b>Benefits, withdrawals, maturities and other adjustments</b>                 |                                |           |                              |           |
| Benefits                                                                       | (289)                          | (399)     | (669)                        | (794)     |
| Surrenders and partial withdrawals                                             | (554)                          | (845)     | (1,266)                      | (1,736)   |
| Maturities of and interest payments on institutional products                  | --                             | (1,797)   | --                           | (1,798)   |
| Contract charges                                                               | (199)                          | (274)     | (480)                        | (551)     |
| Net transfers from separate accounts                                           | 1                              | 5         | 4                            | 6         |
| Other adjustments (1)                                                          | 11                             | (63)      | 29                           | (35)      |
| Total benefits, withdrawals, maturities and other adjustments                  | (1,030)                        | (3,373)   | (2,382)                      | (4,908)   |
| <b>Contractholder funds sold in LBL disposition</b>                            | (10,662)                       | --        | (10,662)                     | --        |
| <b>Contractholder funds, ending balance</b>                                    | \$ 23,472                      | \$ 36,357 | \$ 23,472                    | \$ 36,357 |

(1) The table above illustrates the changes in contractholder funds, which are presented gross of reinsurance recoverables on the Condensed Consolidated Statements of Financial Position. The table above is intended to supplement our discussion and analysis of revenues, which are presented net of reinsurance on the Condensed Consolidated Statements of Operations. As a result, the net change in contractholder funds associated with products reinsured to third parties is reflected as a component of the other adjustments line.

Contractholder funds decreased 2.2% and 3.4% in the second quarter and first six months of 2014, respectively, compared to decreases of 6.3% and 7.5% in the same periods of 2013, respectively. The decreases in the 2014 periods reflect no longer offering fixed annuity products beginning January 1, 2014.

Contractholder deposits decreased 50.4% and 41.7% in the second quarter and first six months of 2014, respectively, compared to the same periods of 2013, primarily due to no longer offering fixed annuity products beginning January 1, 2014, as well as lower deposits on

interest-sensitive life insurance due to the LBL sale.

Surrenders and partial withdrawals on deferred fixed annuities and interest-sensitive life insurance products decreased 34.4% to \$554 million in the second quarter of 2014 and 27.1% to \$1.27 billion in the first six months of 2014 from \$845 million and \$1.74 billion in the second quarter and first six months of 2013, respectively. The annualized surrender and partial withdrawal rate on deferred fixed annuities and interest-sensitive life insurance products, based on the beginning of year contractholder funds, was 9.5% in the first six months of 2014 compared to 10.7% in the same period of 2013.

Maturities of and interest payments on institutional products included a \$1.75 billion maturity in second quarter 2013.

*Net investment income* decreased 15.0% or \$95 million to \$538 million in the second quarter of 2014 and 7.1% or \$90 million to \$1.18 billion in the first six months of 2014 from \$633 million and \$1.27 billion in the second quarter and first six months of 2013, respectively. Excluding results of the LBL business for second quarter 2013 of \$136 million, net investment income increased \$41 million and \$46 million in the second quarter and first six months of 2014, respectively, compared to the same periods of 2013, primarily due to higher limited partnership income, partially offset by lower average investment balances.

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

| (\$ in millions)                                                  | Three months ended<br>June 30, |         | Six months ended<br>June 30, |         |
|-------------------------------------------------------------------|--------------------------------|---------|------------------------------|---------|
|                                                                   | 2014                           | 2013    | 2014                         | 2013    |
| Impairment write-downs                                            | \$ --                          | \$ (16) | \$ (4)                       | \$ (18) |
| Change in intent write-downs                                      | (14)                           | (1)     | (19)                         | (8)     |
| Net other-than-temporary impairment losses recognized in earnings | (14)                           | (17)    | (23)                         | (26)    |
| Sales                                                             | 1                              | 62      | 9                            | 83      |
| Valuation and settlements of derivative instruments               | 3                              | 12      | 5                            | 19      |
| Realized capital gains and losses, pre-tax                        | (10)                           | 57      | (9)                          | 76      |
| Income tax benefit (expense)                                      | 4                              | (20)    | 3                            | (27)    |
| Realized capital gains and losses, after-tax                      | \$ (6)                         | \$ 37   | \$ (6)                       | \$ 49   |

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

**Analysis of costs and expenses** Total costs and expenses decreased 19.1% or \$190 million in the second quarter of 2014 and 11.3% or \$229 million in the first six months of 2014 compared to the same periods of 2013. Excluding results of the LBL business for second quarter 2013 of \$176 million, total costs and expenses decreased \$14 million and \$53 million in the second quarter and first six months of 2014, respectively, compared to the same periods of 2013, primarily due to lower interest credited to contractholder funds and lower operating costs and expenses, partially offset by higher life and annuity contract benefits.

*Life and annuity contract benefits* decreased 12.3% or \$58 million in the second quarter of 2014 and 3.0% or \$28 million in the first six months of 2014 compared to the same periods of 2013. Excluding results of the LBL business for second quarter 2013 of \$62 million, life and annuity contract benefits increased \$4 million and \$34 million in the second quarter and first six months of 2014, respectively, compared to the same periods of 2013, primarily due to growth at Allstate Benefits and worse mortality experience on life insurance in the first quarter of 2014.

We analyze our mortality and morbidity results using the difference between premiums and contract charges earned for the cost of insurance and life and annuity contract benefits excluding the portion related to the implied interest on immediate annuities with life contingencies (benefit spread). This implied interest totaled \$130 million and \$260 million in the second quarter and first six months of 2014, respectively, compared to \$130 million and \$263 million in the second quarter and first six months of 2013, respectively.

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

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(\$ in millions)

|                                       | Three months ended |        | Six months ended |        |
|---------------------------------------|--------------------|--------|------------------|--------|
|                                       | June 30,           |        | June 30,         |        |
|                                       | 2014               | 2013   | 2014             | 2013   |
| Life insurance                        | \$ 82              | \$ 68  | \$ 153           | \$ 152 |
| Accident and health insurance         | (3)                | (5)    | (4)              | (7)    |
| Annuities                             | (19)               | (16)   | (39)             | (33)   |
| Subtotal Allstate Life and Retirement | 60                 | 47     | 110              | 112    |
| Life insurance                        | 4                  | 7      | 7                | 9      |
| Accident and health insurance         | 100                | 91     | 203              | 182    |
| Subtotal Allstate Benefits            | 104                | 98     | 210              | 191    |
| Total benefit spread                  | \$ 164             | \$ 145 | \$ 320           | \$ 303 |

Benefit spread increased 13.1% or \$19 million in the second quarter of 2014 compared to the same period of 2013, primarily due to higher life insurance premiums, better mortality experience on life insurance and growth in Allstate Benefits accident and health insurance. Benefit spread increased 5.6% or \$17 million in the first six months of 2014 compared to the same periods of 2013, primarily due to premium growth in Allstate Benefits accident and health insurance.

*Interest credited to contractholder funds* decreased 31.8% or \$99 million in the second quarter of 2014 and 20.9% or \$137 million in the first six months of 2014 compared to the same periods of 2013. Excluding results of the LBL business for second quarter 2013 of \$89 million, interest credited to contractholder funds decreased \$10 million and \$48 million in the second quarter and first six months of 2014, respectively, compared to the same periods of 2013, primarily due to lower average contractholder funds and lower interest crediting rates. Valuation changes on derivatives embedded in equity-indexed annuity contracts that are not hedged increased interest credited to contractholder funds by \$4 million and \$21 million in the second quarter and first six months of 2014, respectively, compared to a \$5 million decrease and a \$4 million increase in the second quarter and first six months of 2013, respectively.

In order to analyze the impact of net investment income and interest credited to contractholders on net income, we monitor the difference between net investment income and the sum of interest credited to contractholder funds and the implied interest on immediate annuities with life contingencies, which is included as a component of life and annuity contract benefits on the Condensed Consolidated Statements of Operations ( investment spread ).

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

| (\$ in millions)                                                                                  | Three months ended<br>June 30, |        | Six months ended<br>June 30, |        |
|---------------------------------------------------------------------------------------------------|--------------------------------|--------|------------------------------|--------|
|                                                                                                   | 2014                           | 2013   | 2014                         | 2013   |
| Annuities and institutional products                                                              | \$ 98                          | \$ 88  | \$ 208                       | \$ 147 |
| Life insurance                                                                                    | 23                             | 23     | 51                           | 46     |
| Accident and health insurance                                                                     | 2                              | 4      | 6                            | 7      |
| Net investment income on investments supporting capital                                           | 68                             | 64     | 137                          | 135    |
| Subtotal Allstate Life and Retirement                                                             | 191                            | 179    | 402                          | 335    |
| Life insurance                                                                                    | 3                              | 2      | 5                            | 6      |
| Accident and health insurance                                                                     | 2                              | 3      | 5                            | 6      |
| Net investment income on investments supporting capital                                           | 4                              | 3      | 8                            | 6      |
| Subtotal Allstate Benefits                                                                        | 9                              | 8      | 18                           | 18     |
| Investment spread before valuation changes on embedded derivatives that are not hedged            | 200                            | 187    | 420                          | 353    |
| Valuation changes on derivatives embedded in equity-indexed annuity contracts that are not hedged | (4)                            | 5      | (21)                         | (4)    |
| Total investment spread                                                                           | \$ 196                         | \$ 192 | \$ 399                       | \$ 349 |

Investment spread before valuation changes on embedded derivatives that are not hedged increased 7.0% or \$13 million in the second quarter of 2014 and 19.0% or \$67 million in the first six months of 2014 compared to the same periods of 2013. Excluding results of the LBL business for second quarter 2013 of \$51 million, investment spread before valuation changes on embedded derivatives that are not hedged increased \$64 million in the second quarter of 2014 and \$118 million in the first six months of 2014 compared to the same periods of 2013, primarily due to higher limited partnership income and lower crediting rates, partially offset by the continued managed reduction in our spread-based business in force.



To further analyze investment spreads, the following table summarizes the weighted average investment yield on assets supporting product liabilities and capital, interest crediting rates and investment spreads. For purposes of these calculations, investments, reserves and contractholder funds classified as held for sale were included for periods prior to April 1, 2014.

|                                                                     | Three months ended June 30,       |      |                                          |      |                                     |      |
|---------------------------------------------------------------------|-----------------------------------|------|------------------------------------------|------|-------------------------------------|------|
|                                                                     | Weighted average investment yield |      | Weighted average interest crediting rate |      | Weighted average investment spreads |      |
|                                                                     | 2014                              | 2013 | 2014                                     | 2013 | 2014                                | 2013 |
| Interest-sensitive life insurance                                   | 5.3%                              | 5.1% | 4.0%                                     | 3.8% | 1.3%                                | 1.3% |
| Deferred fixed annuities and institutional products                 | 4.4                               | 4.7  | 2.8                                      | 2.9  | 1.6                                 | 1.8  |
| Immediate fixed annuities with and without life contingencies       | 8.0                               | 6.8  | 5.9                                      | 6.0  | 2.1                                 | 0.8  |
| Investments supporting capital, traditional life and other products | 4.8                               | 3.8  | n/a                                      | n/a  | n/a                                 | n/a  |
|                                                                     | Six months ended June 30,         |      |                                          |      |                                     |      |
|                                                                     | Weighted average investment yield |      | Weighted average interest crediting rate |      | Weighted average investment spreads |      |
|                                                                     | 2014                              | 2013 | 2014                                     | 2013 | 2014                                | 2013 |
| Interest-sensitive life insurance                                   | 5.3%                              | 5.2% | 3.9%                                     | 3.9% | 1.4%                                | 1.3% |
| Deferred fixed annuities and institutional products                 | 4.4                               | 4.6  | 2.9                                      | 3.0  | 1.5                                 | 1.6  |
| Immediate fixed annuities with and without life contingencies       | 7.8                               | 6.5  | 6.0                                      | 6.0  | 1.8                                 | 0.5  |
| Investments supporting capital, traditional life and other products | 4.4                               | 4.0  | n/a                                      | n/a  | n/a                                 | n/a  |

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

| (\$ in millions)                                     | June 30,  |           |
|------------------------------------------------------|-----------|-----------|
|                                                      | 2014      | 2013      |
| Immediate fixed annuities with life contingencies    | \$ 8,916  | \$ 8,895  |
| Other life contingent contracts and other            | 3,772     | 5,347     |
| Reserve for life-contingent contract benefits        | \$ 12,688 | \$ 14,242 |
| Interest-sensitive life insurance                    | \$ 7,812  | \$ 11,121 |
| Deferred fixed annuities                             | 11,778    | 20,878    |
| Immediate fixed annuities without life contingencies | 3,559     | 3,773     |
| Institutional products                               | 85        | 85        |
| Other                                                | 238       | 500       |
| Contractholder funds                                 | \$ 23,472 | \$ 36,357 |

*Amortization of DAC* The components of amortization of DAC are summarized in the following table.

| (\$ in millions)                                                                                                                                                                | Three months ended |       | Six months ended |        |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------|-------|------------------|--------|
|                                                                                                                                                                                 | June 30,           |       | June 30,         |        |
|                                                                                                                                                                                 | 2014               | 2013  | 2014             | 2013   |
| Amortization of DAC before amortization relating to realized capital gains and losses, valuation changes on embedded derivatives that are not hedged and changes in assumptions | \$ 65              | \$ 65 | \$ 139           | \$ 141 |
| Amortization relating to realized capital gains and losses (1) and valuation changes on embedded derivatives that are not hedged                                                | 1                  | 6     | 1                | 5      |
| Amortization acceleration for changes in assumptions ( DAC unlocking )                                                                                                          | --                 | --    | --               | --     |
| Total amortization of DAC                                                                                                                                                       | \$ 66              | \$ 71 | \$ 140           | \$ 146 |

(1) The impact of realized capital gains and losses on amortization of DAC is dependent upon the relationship between the assets that give rise to the gain or loss and the product liability supported by the assets. Fluctuations result from changes in the impact of realized capital gains and losses on actual and expected gross profits.

Amortization of DAC decreased 7.0% or \$5 million in the second quarter of 2014 and 4.1% or \$6 million in the first six months of 2014 compared to the same periods of 2013. Excluding results of the LBL business for second quarter 2013 of \$12 million, amortization of DAC increased \$7 million and \$6 million in the second quarter and first six months of 2014, respectively, compared to the same periods of 2013. The increase in the second quarter was primarily due to higher amortization on interest-sensitive life insurance resulting from increased gross profits. The increase in the six month period was primarily due to higher amortization on accident and health insurance resulting from growth.

*Operating costs and expenses* decreased 20.0% or \$28 million in the second quarter of 2014 and 20.1% or \$58 million in the first six months of 2014 compared to the same periods of 2013. Excluding results of the LBL business for second quarter 2013 of \$13 million, operating costs and expenses decreased \$15 million and \$45 million in the second quarter and first six months of 2014, respectively, compared to the same periods of 2013. The following table summarizes operating costs and expenses.

| (\$ in millions)                    | Three months ended |        | Six months ended |        |
|-------------------------------------|--------------------|--------|------------------|--------|
|                                     | June 30,           |        | June 30,         |        |
|                                     | 2014               | 2013   | 2014             | 2013   |
| Non-deferrable commissions          | \$ 22              | \$ 25  | \$ 53            | \$ 51  |
| General and administrative expenses | 77                 | 100    | 148              | 206    |
| Taxes and licenses                  | 13                 | 15     | 29               | 31     |
| Total operating costs and expenses  | \$ 112             | \$ 140 | \$ 230           | \$ 288 |
| Restructuring and related charges   | \$ 1               | \$ 1   | \$ 3             | \$ 3   |

General and administrative expenses decreased 23.0% or \$23 million in the second quarter of 2014 and 28.2% or \$58 million in the first six months of 2014 compared to the same periods of 2013, primarily due to the sale of LBL on April 1, 2014, lower employee related expenses, lower net Allstate agencies distribution channel expenses reflecting increased fees from sales of third party financial products, and lower technology and marketing costs.



**INVESTMENTS HIGHLIGHTS**

- Investments totaled \$82.56 billion as of June 30, 2014, increasing from \$81.16 billion as of December 31, 2013.
- Unrealized net capital gains totaled \$3.90 billion as of June 30, 2014, increasing from \$2.70 billion as of December 31, 2013.
- Net investment income was \$898 million in the second quarter of 2014, a decrease of 8.7% from \$984 million in the second quarter of 2013, and \$1.86 billion in the first six months of 2014, a decrease of 5.6% from \$1.97 billion in the first six months of 2013.
- Net realized capital gains were \$240 million in the second quarter of 2014 compared to \$362 million in the second quarter of 2013, and \$294 million in the first six months of 2014 compared to \$493 million in the first six months of 2013.

**INVESTMENTS**

The composition of the investment portfolios as of June 30, 2014 is presented in the following table.

| (\$ in millions)              |                        |                     |                        |                     |          | Corporate<br>and Other (5) |           | Total |                     |
|-------------------------------|------------------------|---------------------|------------------------|---------------------|----------|----------------------------|-----------|-------|---------------------|
|                               | Property-Liability (5) |                     | Allstate Financial (5) |                     |          |                            |           |       |                     |
|                               |                        | Percent<br>to total |                        | Percent<br>to total |          | Percent<br>to total        |           |       | Percent<br>to total |
| Fixed income securities (1)   | \$ 30,444              | 76.7%               | \$ 29,900              | 75.6%               | \$ 2,290 | 68.2%                      | \$ 62,634 |       | 75.9%               |
| Equity securities (2)         | 4,072                  | 10.3                | 1,322                  | 3.4                 | --       | --                         | 5,394     |       | 6.5                 |
| Mortgage loans                | 373                    | 0.9                 | 3,801                  | 9.6                 | --       | --                         | 4,174     |       | 5.1                 |
| Limited partnership interests |                        |                     |                        |                     |          |                            |           |       |                     |
| (3)                           | 2,438                  | 6.2                 | 1,866                  | 4.7                 | 5        | 0.1                        | 4,309     |       | 5.2                 |
| Short-term investments(4)     | 812                    | 2.0                 | 1,038                  | 2.6                 | 1,064    | 31.7                       | 2,914     |       | 3.5                 |
| Other                         | 1,531                  | 3.9                 | 1,607                  | 4.1                 | --       | --                         | 3,138     |       | 3.8                 |
| Total                         | \$ 39,670              | 100.0%              | \$ 39,534              | 100.0%              | \$ 3,359 | 100.0%                     | \$ 82,563 |       | 100.0%              |

(1) Fixed income securities are carried at fair value. Amortized cost basis for these securities was \$29.72 billion, \$27.47 billion, \$2.26 billion and \$59.45 billion for Property-Liability, Allstate Financial, Corporate and Other, and in Total, respectively.

(2) Equity securities are carried at fair value. Cost basis for these securities was \$3.49 billion, \$1.17 billion and \$4.66 billion for Property-Liability, Allstate Financial and in Total, respectively.

(3) We have commitments to invest in additional limited partnership interests totaling \$1.25 billion, \$1.28 billion and \$2.53 billion for Property-Liability, Allstate Financial and in Total, respectively.

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(4) Short-term investments are carried at fair value. Amortized cost basis for these investments was \$812 million, \$1.04 billion, \$1.06 billion and \$2.91 billion for Property-Liability, Allstate Financial, Corporate and Other, and in Total, respectively.

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

Total investments increased to \$82.56 billion as of June 30, 2014, from \$81.16 billion as of December 31, 2013, primarily due to favorable fixed income valuations resulting from a decrease in risk-free interest rates and tightening credit spreads and proceeds from the issuance of preferred stock, partially offset by common share repurchases and the reclassification of tax credit funds from limited partnership interests to other assets.

The Property-Liability investment portfolio increased to \$39.67 billion as of June 30, 2014, from \$39.64 billion as of December 31, 2013, primarily due to favorable fixed income valuations and a \$700 million return of capital paid by ALIC to Allstate Insurance Company ( AIC ), partially offset by dividends paid by AIC to The Allstate Corporation (the Corporation ) and the reclassification of tax credit funds from limited partnership interests to other assets.

The Allstate Financial investment portfolio increased to \$39.53 billion as of June 30, 2014, from \$39.11 billion as of December 31, 2013, primarily due to higher fixed income valuations, partially offset by a \$700 million return of capital paid by ALIC to AIC and the reclassification of tax credit funds from limited partnership interests to other assets.

The Corporate and Other investment portfolio increased to \$3.36 billion as of June 30, 2014, from \$2.41 billion as of December 31, 2013, primarily due to dividends paid by AIC to the Corporation and proceeds from the issuance of preferred stock, partially offset by common share repurchases and dividends paid to shareholders.

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

| (\$ in millions)                                |                  |             |                   |             |  |
|-------------------------------------------------|------------------|-------------|-------------------|-------------|--|
|                                                 | Fair value as of | Percent to  | Fair value as of  | Percent to  |  |
|                                                 | June 30, 2014    | total       | December 31, 2013 | total       |  |
|                                                 |                  | investments |                   | investments |  |
| U.S. government and agencies                    | \$ 4,853         | 5.9%        | \$ 2,913          | 3.6%        |  |
| Municipal                                       | 8,561            | 10.4        | 8,723             | 10.8        |  |
| Corporate                                       | 41,467           | 50.2        | 40,603            | 50.0        |  |
| Foreign government                              | 1,676            | 2.0         | 1,824             | 2.2         |  |
| Asset-backed securities ( ABS )                 | 3,943            | 4.8         | 4,518             | 5.6         |  |
| Residential mortgage-backed securities ( RMBS ) | 1,362            | 1.7         | 1,474             | 1.8         |  |
| Commercial mortgage-backed securities ( CMBS )  | 746              | 0.9         | 829               | 1.0         |  |
| Redeemable preferred stock                      | 26               | --          | 26                | 0.1         |  |
| Total fixed income securities                   | \$ 62,634        | 75.9%       | \$ 60,910         | 75.1%       |  |

As of June 30, 2014, 88.4% of the consolidated fixed income securities portfolio was rated investment grade, which is defined as a security having a rating of Aaa, Aa, A or Baa from Moody's, a rating of AAA, AA, A or BBB from S&P, Fitch, Dominion, Kroll or Realpoint, a rating of aaa, aa, a or bbb from A.M. Best, or a comparable internal rating if an externally provided rating is not available. All of our fixed income securities are rated by third party credit rating agencies, the National Association of Insurance Commissioners, and/or are internally rated. Our initial investment decisions and ongoing monitoring procedures for fixed income securities are based on a thorough due diligence process which includes, but is not limited to, an assessment of the credit quality, sector, structure, and liquidity risks of each issue.

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The following table summarizes the fair value and unrealized net capital gains and losses for fixed income securities by credit rating as of June 30, 2014.

| (\$ in millions)                                                      | Investment grade |                        | Below investment grade |                        | Total      |                        |
|-----------------------------------------------------------------------|------------------|------------------------|------------------------|------------------------|------------|------------------------|
|                                                                       | Fair value       | Unrealized gain/(loss) | Fair value             | Unrealized gain/(loss) | Fair value | Unrealized gain/(loss) |
| U.S. government and agencies                                          | \$ 4,853         | \$ 146                 | \$ --                  | \$ --                  | \$ 4,853   | \$ 146                 |
| Municipal                                                             |                  |                        |                        |                        |            |                        |
| Tax exempt                                                            | 4,813            | 133                    | 107                    | 6                      | 4,920      | 139                    |
| Taxable                                                               | 3,578            | 416                    | 63                     | (3)                    | 3,641      | 413                    |
| Corporate                                                             |                  |                        |                        |                        |            |                        |
| Public                                                                | 26,561           | 1,428                  | 4,073                  | 165                    | 30,634     | 1,593                  |
| Privately placed                                                      | 9,176            | 550                    | 1,657                  | 42                     | 10,833     | 592                    |
| Foreign government                                                    | 1,676            | 107                    | --                     | --                     | 1,676      | 107                    |
| ABS                                                                   |                  |                        |                        |                        |            |                        |
| Collateralized debt obligations ( CDO )                               | 1,129            | 3                      | 189                    | (7)                    | 1,318      | (4)                    |
| Consumer and other asset-backed securities ( Consumer and other ABS ) | 2,600            | 43                     | 25                     | 1                      | 2,625      | 44                     |
| RMBS                                                                  |                  |                        |                        |                        |            |                        |
| U.S. government sponsored entities ( U.S. Agency )                    | 343              | 14                     | --                     | --                     | 343        | 14                     |
| Prime residential mortgage-backed securities ( Prime )                | 108              | 2                      | 322                    | 38                     | 430        | 40                     |
| Alt-A residential mortgage-backed securities ( Alt-A )                | 15               | 1                      | 333                    | 34                     | 348        | 35                     |
| Subprime residential mortgage-backed securities ( Subprime )          | 6                | --                     | 235                    | 10                     | 241        | 10                     |
| CMBS                                                                  | 489              | 24                     | 257                    | 30                     | 746        | 54                     |
| Redeemable preferred stock                                            | 26               | 4                      | --                     | --                     | 26         | 4                      |
| Total fixed income securities                                         | \$ 55,373        | \$ 2,871               | \$ 7,261               | \$ 316                 | \$ 62,634  | \$ 3,187               |

*Municipal bonds*, including tax exempt and taxable securities, totaled \$8.56 billion as of June 30, 2014 with an unrealized net capital gain of \$552 million. The municipal bond portfolio includes general obligations of state and local issuers and revenue bonds (including pre-refunded bonds, which are bonds for which an irrevocable trust has been established to fund the remaining payments of principal and interest).

*Corporate bonds*, including publicly traded and privately placed, totaled \$41.47 billion as of June 30, 2014, with an unrealized net capital gain of \$2.19 billion. Privately placed securities primarily consist of corporate issued senior debt securities that are directly negotiated with the borrower or are in unregistered form.

*ABS, RMBS and CMBS* are structured securities that are primarily collateralized by consumer or corporate borrowings and residential and commercial real estate loans. The cash flows from the underlying collateral paid to the securitization trust are generally applied in a pre-determined order and are designed so that each security issued by the trust, typically referred to as a class, qualifies for a specific original rating. For example, the senior portion or top of the capital structure, or rating class, which would originally qualify for a rating of Aaa typically has priority in receiving principal repayments on the underlying collateral and retains this priority until the class is paid in full. In a sequential structure, underlying collateral principal repayments are directed to the most senior rated Aaa class in the structure until paid in full, after which

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principal repayments are directed to the next most senior Aaa class in the structure until it is paid in full. Senior Aaa classes generally share any losses from the underlying collateral on a pro-rata basis after losses are absorbed by classes with lower original ratings. The payment priority and class subordination included in these securities serves as credit enhancement for holders of the senior or top portions of the structures. These securities continue to retain the payment priority features that existed at the origination of the securitization trust. Other forms of credit enhancement may include structural features embedded in the securitization trust, such as overcollateralization, excess spread and bond insurance. The underlying collateral

can have fixed interest rates, variable interest rates (such as adjustable rate mortgages) or may contain features of both fixed and variable rate mortgages.

*ABS*, including CDO and Consumer and other ABS, totaled \$3.94 billion as of June 30, 2014, with 94.6% rated investment grade and an unrealized net capital gain of \$40 million. Credit risk is managed by monitoring the performance of the underlying collateral. Many of the securities in the ABS portfolio have credit enhancement with features such as overcollateralization, subordinated structures, reserve funds, guarantees and/or insurance.

CDO totaled \$1.32 billion as of June 30, 2014, with 85.7% rated investment grade and an unrealized net capital loss of \$4 million. CDO consist of obligations collateralized by cash flow CDO, which are structures collateralized primarily by below investment grade senior secured corporate loans.

Consumer and other ABS totaled \$2.63 billion as of June 30, 2014, with 99.0% rated investment grade. Consumer and other ABS consists of \$967 million of consumer auto, \$688 million of credit card and \$970 million of other ABS with unrealized net capital gains of \$7 million, \$5 million and \$32 million, respectively.

*RMBS* totaled \$1.36 billion as of June 30, 2014, with 34.7% rated investment grade and an unrealized net capital gain of \$99 million. The RMBS portfolio is subject to interest rate risk, but unlike other fixed income securities, is additionally subject to significant prepayment risk from the underlying residential mortgage loans. RMBS consists of a U.S. Agency portfolio having collateral issued or guaranteed by U.S. government agencies and a non-agency portfolio consisting of securities collateralized by Prime, Alt-A and Subprime loans. The non-agency portfolio totaled \$1.02 billion as of June 30, 2014, with 12.7% rated investment grade and an unrealized net capital gain of \$85 million.

*CMBS* totaled \$746 million as of June 30, 2014, with 65.5% rated investment grade and an unrealized net capital gain of \$54 million. The CMBS portfolio is subject to credit risk and has a sequential paydown structure. Of the CMBS investments, 93.0% are traditional conduit transactions collateralized by commercial mortgage loans, broadly diversified across property types and geographical area. The remainder consists of non-traditional CMBS such as small balance transactions, large loan pools and single borrower transactions.

**Mortgage loans** Our mortgage loan portfolio, which is primarily held in the Allstate Financial portfolio, totaled \$4.17 billion as of June 30, 2014 and primarily comprises loans secured by first mortgages on developed commercial real estate. Key considerations used to manage our exposure include property type and geographic diversification. For further detail on our mortgage loan portfolio, see Note 5 of the condensed consolidated financial statements.

**Limited partnership interests** consist of investments in private equity/debt funds, real estate funds and other funds. The limited partnership interests portfolio is well diversified across a number of characteristics including fund managers, vintage years, strategies, geography (including international), and company/property types. Tax credit funds were reclassified from limited partnership interests to other assets as of June 30, 2014 since the return on these funds is in the form of tax credits rather than investment income. These tax credit funds totaled \$592 million as of June 30, 2014. The following table presents information about our limited partnership interests as of June 30, 2014.

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(\$ in millions)

|                                     | Private<br>equity/debt<br>funds (1) |       | Real estate<br>funds |       | Other<br>funds |     | Total    |
|-------------------------------------|-------------------------------------|-------|----------------------|-------|----------------|-----|----------|
| Cost method of accounting ( Cost )  | \$                                  | 871   | \$                   | 286   | \$             | --  | \$ 1,157 |
| Equity method of accounting ( EMA ) |                                     | 1,760 |                      | 1,231 |                | 161 | 3,152    |
| Total                               | \$                                  | 2,631 | \$                   | 1,517 | \$             | 161 | \$ 4,309 |
| Number of managers                  |                                     | 99    |                      | 45    |                | 13  |          |
| Number of individual funds          |                                     | 174   |                      | 95    |                | 18  |          |
| Largest exposure to single fund     | \$                                  | 107   | \$                   | 278   | \$             | 89  |          |

(1) Includes \$520 million of infrastructure and real asset funds.

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

(\$ in millions)

|                           |       | Three months ended<br>June 30, |              |                        |       |       |              |                        |  |
|---------------------------|-------|--------------------------------|--------------|------------------------|-------|-------|--------------|------------------------|--|
|                           |       | 2014                           |              |                        |       | 2013  |              |                        |  |
|                           | Cost  | EMA                            | Total income | Impairment write-downs | Cost  | EMA   | Total income | Impairment write-downs |  |
| Private equity/debt funds | \$ 50 | \$ 73                          | \$ 123       | \$ (2)                 | \$ 35 | \$ 23 | \$ 58        | \$ (7)                 |  |
| Real estate funds         | 14    | 41                             | 55           | (4)                    | 10    | 67    | 77           | (1)                    |  |
| Tax credit funds          | --    | 4                              | 4            | --                     | --    | (12)  | (12)         | --                     |  |
| Other funds               | 2     | 11                             | 13           | --                     | --    | 3     | 3            | --                     |  |
| Total                     | \$ 66 | \$ 129                         | \$ 195       | \$ (6)                 | \$ 45 | \$ 81 | \$ 126       | \$ (8)                 |  |

|                           |        | Six months ended<br>June 30, |              |                        |       |        |              |                        |  |
|---------------------------|--------|------------------------------|--------------|------------------------|-------|--------|--------------|------------------------|--|
|                           |        | 2014                         |              |                        |       | 2013   |              |                        |  |
|                           | Cost   | EMA                          | Total income | Impairment write-downs | Cost  | EMA    | Total income | Impairment write-downs |  |
| Private equity/debt funds | \$ 86  | \$ 143                       | \$ 229       | \$ (12)                | \$ 55 | \$ 71  | \$ 126       | \$ (7)                 |  |
| Real estate funds         | 28     | 65                           | 93           | (7)                    | 16    | 95     | 111          | (1)                    |  |
| Tax credit funds          | --     | --                           | --           | --                     | --    | (16)   | (16)         | --                     |  |
| Other funds               | 2      | 13                           | 15           | --                     | --    | 12     | 12           | --                     |  |
| Total                     | \$ 116 | \$ 221                       | \$ 337       | \$ (19)                | \$ 71 | \$ 162 | \$ 233       | \$ (8)                 |  |

Limited partnership interests produced income, excluding impairment write-downs, of \$195 million and \$337 million in the three months and six months ended June 30, 2014, respectively, compared to \$126 million and \$233 million in the three months and six months ended June 30, 2013, respectively. Higher EMA limited partnership income resulted from favorable equity valuations which increased the carrying value of the partnerships, while cost method limited partnerships experienced an increase in earnings distributed by the partnerships. Income on EMA limited partnerships is recognized on a delay due to the availability of the related financial statements. The recognition of income on private equity/debt funds and real estate funds are generally on a three month delay and the income recognition on other funds is primarily on a one month delay. Income on cost method limited partnerships is recognized only upon receipt of amounts distributed by the partnerships.

**Unrealized net capital gains** totaled \$3.90 billion as of June 30, 2014 compared to \$2.70 billion as of December 31, 2013. The increase for fixed income securities was primarily due to a decrease in risk-free interest rates and tightening credit spreads, partially offset by the realization of unrealized net capital gains through sales. The increase for equity securities was primarily due to positive equity market performance, partially offset by the realization of unrealized net capital gains through sales. The following table presents unrealized net capital gains and losses.

(\$ in millions)

|                              | June 30, 2014 | December 31, 2013 |
|------------------------------|---------------|-------------------|
| U.S. government and agencies | \$ 146        | \$ 122            |
| Municipal                    | 552           | 277               |
| Corporate                    | 2,185         | 1,272             |
| Foreign government           | 107           | 88                |
| ABS                          | 40            | 27                |
| RMBS                         | 99            | 71                |
| CMBS                         | 54            | 41                |
| Redeemable preferred stock   | 4             | 4                 |
| Fixed income securities      | 3,187         | 1,902             |

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|                                                  |    |       |          |
|--------------------------------------------------|----|-------|----------|
| Equity securities                                |    | 736   | 624      |
| Derivatives                                      |    | (19)  | (18)     |
| EMA limited partnerships                         |    | (5)   | (3)      |
| Investments classified as held for sale          |    | --    | 190      |
| Unrealized net capital gains and losses, pre-tax | \$ | 3,899 | \$ 2,695 |

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The unrealized net capital gain for the fixed income portfolio totaled \$3.19 billion and comprised \$3.36 billion of gross unrealized gains and \$169 million of gross unrealized losses as of June 30, 2014. This is compared to an unrealized net capital gain for the fixed income portfolio totaling \$1.90 billion, comprised of \$2.48 billion of gross unrealized gains and \$573 million of gross unrealized losses as of December 31, 2013.

Gross unrealized gains and losses on fixed income securities by type and sector as of June 30, 2014 are provided in the following table.

| (\$ in millions)                           | Amortized<br>cost | Gross unrealized<br>Gains | Gross unrealized<br>Losses | Fair<br>value |
|--------------------------------------------|-------------------|---------------------------|----------------------------|---------------|
| Corporate:                                 |                   |                           |                            |               |
| Banking                                    | \$ 3,404          | \$ 93                     | \$ (29)                    | \$ 3,468      |
| Consumer goods (cyclical and non-cyclical) | 9,344             | 435                       | (15)                       | 9,764         |
| Capital goods                              | 3,959             | 244                       | (14)                       | 4,189         |
| Utilities                                  | 5,026             | 516                       | (13)                       | 5,529         |
| Basic industry                             | 2,215             | 114                       | (6)                        | 2,323         |
| Technology                                 | 2,439             | 85                        | (6)                        | 2,518         |
| Energy                                     | 4,818             | 301                       | (4)                        | 5,115         |
| Financial services                         | 2,915             | 145                       | (4)                        | 3,056         |
| Communications                             | 2,933             | 173                       | (3)                        | 3,103         |
| Transportation                             | 1,508             | 129                       | (3)                        | 1,634         |
| Other                                      | 721               | 48                        | (1)                        | 768           |
| Total corporate fixed income portfolio     | 39,282            | 2,283                     | (98)                       | 41,467        |
| U.S. government and agencies               | 4,707             | 147                       | (1)                        | 4,853         |
| Municipal                                  | 8,009             | 572                       | (20)                       | 8,561         |
| Foreign government                         | 1,569             | 108                       | (1)                        | 1,676         |
| ABS                                        | 3,903             | 68                        | (28)                       | 3,943         |
| RMBS                                       | 1,263             | 117                       | (18)                       | 1,362         |
| CMBS                                       | 692               | 57                        | (3)                        | 746           |
| Redeemable preferred stock                 | 22                | 4                         | --                         | 26            |
| Total fixed income securities              | \$ 59,447         | \$ 3,356                  | \$ (169)                   | \$ 62,634     |

The banking, consumer goods, capital goods and utilities sectors had the highest concentration of gross unrealized losses in our corporate fixed income securities portfolio as of June 30, 2014. In general, the gross unrealized losses are principally related to increasing risk-free interest rates or widening credit spreads since the time of initial purchase.

The unrealized net capital gain for the equity portfolio totaled \$736 million and comprised \$745 million of gross unrealized gains and \$9 million of gross unrealized losses as of June 30, 2014. This is compared to an unrealized net capital gain for the equity portfolio totaling \$624 million, comprised of \$658 million of gross unrealized gains and \$34 million of gross unrealized losses as of December 31, 2013.

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

| (\$ in millions)        | Three months ended |        | Six months ended |          |
|-------------------------|--------------------|--------|------------------|----------|
|                         | June 30,           |        | June 30,         |          |
|                         | 2014               | 2013   | 2014             | 2013     |
| Fixed income securities | \$ 584             | \$ 740 | \$ 1,289         | \$ 1,502 |

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|                                   |        |        |          |          |
|-----------------------------------|--------|--------|----------|----------|
| Equity securities                 | 35     | 39     | 63       | 64       |
| Mortgage loans                    | 71     | 93     | 152      | 191      |
| Limited partnership interests     | 195    | 126    | 337      | 233      |
| Short-term investments            | 3      | 1      | 4        | 3        |
| Other                             | 44     | 39     | 86       | 76       |
| Investment income, before expense | 932    | 1,038  | 1,931    | 2,069    |
| Investment expense                | (34)   | (54)   | (74)     | (102)    |
| Net investment income             | \$ 898 | \$ 984 | \$ 1,857 | \$ 1,967 |

Net investment income decreased 8.7% or \$86 million in the second quarter of 2014 and 5.6% or \$110 million in the first six months of 2014 compared to the same periods of 2013, primarily due to lower average investment balances relating to the sale of LBL on April 1, 2014 and lower fixed income yields, partially offset by higher limited partnership income. Net investment income in the second quarter and first six months of 2014 includes \$36 million and \$77 million, respectively, related to prepayment fee income and litigation proceeds compared to \$37 million and \$79 million in the second quarter and first six months of 2013, respectively. These items may vary significantly from period to period and may not recur. Higher EMA limited partnership income resulted from favorable equity valuations which increased the carrying value of the partnerships, while cost method limited partnerships experienced an increase in earnings distributed by the partnerships.

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

| (\$ in millions)                                                  | Three months ended |         | Six months ended |         |
|-------------------------------------------------------------------|--------------------|---------|------------------|---------|
|                                                                   | June 30,           |         | June 30,         |         |
|                                                                   | 2014               | 2013    | 2014             | 2013    |
| Impairment write-downs                                            | \$ (6)             | \$ (33) | \$ (22)          | \$ (43) |
| Change in intent write-downs                                      | (39)               | (27)    | (104)            | (54)    |
| Net other-than-temporary impairment losses recognized in earnings | (45)               | (60)    | (126)            | (97)    |
| Sales                                                             | 290                | 408     | 437              | 580     |
| Valuations and settlements of derivative instruments              | (5)                | 14      | (17)             | 10      |
| Realized capital gains and losses, pre-tax                        | 240                | 362     | 294              | 493     |
| Income tax expense                                                | (86)               | (128)   | (105)            | (174)   |
| Realized capital gains and losses, after-tax                      | \$ 154             | \$ 234  | \$ 189           | \$ 319  |

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

| (\$ in millions)              | Three months ended |         | Six months ended |         |
|-------------------------------|--------------------|---------|------------------|---------|
|                               | June 30,           |         | June 30,         |         |
|                               | 2014               | 2013    | 2014             | 2013    |
| Fixed income securities       | \$ 2               | \$ (11) | \$ (4)           | \$ (41) |
| Equity securities             | (2)                | (5)     | (3)              | (9)     |
| Mortgage loans                | --                 | (9)     | 4                | 17      |
| Limited partnership interests | (6)                | (8)     | (19)             | (8)     |
| Other investments             | --                 | --      | --               | (2)     |
| Impairment write-downs        | \$ (6)             | \$ (33) | \$ (22)          | \$ (43) |

Impairment write-downs on fixed income securities for the six months ended June 30, 2014 were primarily driven by municipal bonds impacted by issuer specific circumstances. Limited partnership write-downs primarily related to cost method limited partnerships that experienced declines in portfolio valuations deemed to be other than temporary.

*Change in intent write-downs* totaling \$39 million and \$104 million in the three months and six months ended June 30, 2014, respectively, were primarily related to ongoing portfolio management of our equity securities and the decision to sell certain limited partnership investments for which the transactions are anticipated to be completed in 2014.

*Sales* generated \$290 million and \$437 million of net realized capital gains in the three months and six months ended June 30, 2014, respectively, primarily related to equity and fixed income securities in connection with ongoing portfolio management.

*Valuation and settlements of derivative instruments* generated net realized capital losses of \$5 million and \$17 million for the three months and six months ended June 30, 2014, respectively, primarily composed of losses on equity futures used for risk management due to increases in equity indices.

## CAPITAL RESOURCES AND LIQUIDITY HIGHLIGHTS

- Shareholders' equity as of June 30, 2014 was \$22.87 billion, an increase of 6.5% from \$21.48 billion as of December 31, 2013.
- On January 2, 2014 and April 1, 2014, we paid common shareholder dividends of \$0.25 and \$0.28, respectively. On May 20, 2014, we declared a common shareholder dividend of \$0.28 to be payable on July 1, 2014, and on July 22, 2014, we declared a common shareholder dividend of \$0.28 to be payable on October 1, 2014.
- In June 2014, we issued 10,000 shares of 6.25% Noncumulative Perpetual Preferred Stock for gross proceeds of \$250 million.
- On March 21, 2014, we entered into an accelerated share repurchase agreement ( ASR ) with Barclays Bank PLC ( Barclays ) and Barclays Capital Inc., as Barclays' agent, to purchase \$750 million of our outstanding common stock. The ASR settled on July 29, 2014.
- As of June 30, 2014, there was \$1.51 billion remaining on our common share repurchase program prior to the settlement of the ASR. During the first six months of 2014, we repurchased 8.9 million common shares for \$490 million in the market and 11.37 million shares under an ASR, pursuant to which we paid a prepayment amount of \$750 million. We received 1.77 million shares at the settlement of the ASR on July 29, 2014.

## CAPITAL RESOURCES AND LIQUIDITY

**Capital resources** consist of shareholders' equity and debt, representing funds deployed or available to be deployed to support business operations or for general corporate purposes. The following table summarizes our capital resources.

| (\$ in millions)                                                                    | June 30,  | December 31, |
|-------------------------------------------------------------------------------------|-----------|--------------|
|                                                                                     | 2014      | 2013         |
| Preferred stock, common stock, retained income and other shareholders' equity items | \$ 21,306 | \$ 20,434    |
| Accumulated other comprehensive income                                              | 1,566     | 1,046        |
| Total shareholders' equity                                                          | 22,872    | 21,480       |
| Debt                                                                                | 5,846     | 6,201        |
| Total capital resources                                                             | \$ 28,718 | \$ 27,681    |
| Ratio of debt to shareholders' equity                                               | 25.6%     | 28.9%        |
| Ratio of debt to capital resources                                                  | 20.4%     | 22.4%        |

*Shareholders' equity* increased in the first six months of 2014, primarily due to net income, the issuance of preferred stock and increased unrealized net capital gains on investments, partially offset by common share repurchases and dividends paid to shareholders.

*Preferred stock* In March 2014, we issued 29,900 shares of 6.625% Noncumulative Perpetual Preferred Stock for gross proceeds of \$747.5 million. The proceeds of this issuance were used for general corporate purposes.

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In June 2014, we issued 10,000 shares of 6.25% Noncumulative Perpetual Preferred Stock for gross proceeds of \$250 million. The proceeds of this issuance will be used for general corporate purposes.

On January 15, 2014, we paid a dividend on our 5.625% preferred stock for the dividend period from October 15, 2013 through January 14, 2014 and on our 6.75% preferred stock for the dividend period from September 30, 2013 through January 14, 2014. On April 15, 2014, we paid dividends on our 5.625% and 6.75% preferred stock for the dividend period from January 15, 2014 through April 14, 2014 and on our 6.625% (series D) preferred stock for the dividend period from December 16, 2013 through April 14, 2014. On May 20, 2014, we declared dividends on our 5.625%, 6.75% and 6.625% (series D) preferred stock for the dividend period from April 15, 2014 through July 14, 2014 to be payable on July 15, 2014 and on our 6.625% (series E) preferred stock for the dividend period from March 3, 2014 through July 14, 2014 to be payable on July 15, 2014.

*Debt* The next debt maturity is on August 15, 2014 when \$650 million of 5.00% Senior Notes are due. This is expected to be paid from available funds.

*Capital resources* comprise an increasing mix of preferred stock and subordinated debt due to issuances in 2013 and 2014 and the completion of a tender offer to repurchase debt in 2013. As of June 30, 2014, capital resources

includes \$1.75 billion or 6.1% of preferred stock and \$2.05 billion or 7.1% of subordinated debt, a total of 13.2% compared to 10.2% as of December 31, 2013 and 3.8% as of December 31, 2012. This increases our strategic flexibility by decreasing our debt to shareholders' equity ratio, which is one determinant of borrowing capacity.

*Common share repurchases* As of June 30, 2014, our \$2.5 billion common share repurchase program that commenced in February 2014 had \$1.51 billion remaining and is expected to be completed by August 31, 2015. On March 21, 2014, we entered into an ASR with Barclays and Barclays Capital Inc., as Barclays' agent, to purchase \$750 million of our outstanding common stock. During the first six months of 2014, we repurchased 8.9 million common shares for \$490 million in the market and 11.37 million shares under the ASR, pursuant to which we paid a prepayment amount of \$750 million. We received 1.77 million shares at the settlement of the ASR on July 29, 2014.

**Financial ratings and strength** Our ratings are influenced by many factors including our operating and financial performance, asset quality, liquidity, asset/liability management, overall portfolio mix, financial leverage (i.e., debt), exposure to risks such as catastrophes and the current level of operating leverage. Rating agencies continue to give favorable treatment in capitalization to preferred stock and subordinated debt, of which Allstate had \$3.80 billion as of June 30, 2014 compared to \$2.83 billion as of December 31, 2013 and \$1.00 billion as of December 31, 2012. In January 2014, A.M. Best affirmed The Allstate Corporation's debt and commercial paper ratings of a- and AMB-1, respectively, and our insurance entities financial strength ratings of A+ for AIC and ALIC. The outlook for AIC and ALIC remained stable. In June 2014, S&P affirmed The Allstate Corporation's debt and commercial paper ratings of A- and A-2, respectively, and our insurance entities financial strength ratings of AA- for AIC and A+ for ALIC. The outlook for all entities remained stable. There have been no changes to our debt, commercial paper and insurance financial strength ratings from Moody's since December 31, 2013.

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

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

**Liquidity sources and uses** We actively manage our financial position and liquidity levels in light of changing market, economic, and business conditions. Liquidity is managed at both the entity and enterprise level across the Company, and is assessed on both base and stressed level liquidity needs. We believe we have sufficient liquidity to meet these needs. Additionally, we have existing intercompany agreements in place that facilitate liquidity management across the Company to enhance flexibility.

*Parent company capital capacity* At the parent holding company level, we have deployable assets totaling \$3.61 billion as of June 30, 2014 comprising cash and investments that are generally saleable within one quarter. The substantial earnings capacity of the operating subsidiaries is the primary source of capital generation for the Corporation. This provides funds for the parent company's fixed charges and other corporate purposes.

In the first six months of 2014, AIC paid dividends totaling \$1.85 billion to its parent, Allstate Insurance Holdings, LLC ( AIH ), who then paid the same amount of dividends to the Corporation. In the second quarter of 2014, ALIC paid a \$700 million return of capital to AIC.

Dividends may not be paid or declared on our common stock and shares of common stock may not be repurchased unless the full dividends for the latest completed dividend period on our preferred stock have been declared and paid or provided for. We are prohibited from declaring or paying dividends on our preferred stock if we fail to meet specified capital adequacy, net income or shareholders' equity levels, except out of the net proceeds of common stock issued during the 90 days prior to the date of declaration. As of June 30, 2014, we satisfied all of the tests with no current restrictions on the payment of preferred stock dividends.

The terms of our outstanding subordinated debentures also prohibit us from declaring or paying any dividends or distributions on our common or preferred stock or redeeming, purchasing, acquiring, or making liquidation payments on our common stock or preferred stock if we have elected to defer interest payments on the subordinated debentures, subject to certain limited exceptions. In the first six months of 2014, we did not defer interest payments on the subordinated debentures.

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

- A commercial paper facility with a borrowing limit of \$1.00 billion to cover short-term cash needs. As of June 30, 2014, there were no balances outstanding and therefore the remaining borrowing capacity was \$1.00 billion; however, the outstanding balance can fluctuate daily.
- Our \$1.00 billion unsecured revolving credit facility is available for short-term liquidity requirements and backs our commercial paper facility. In April 2014, we amended the maturity date of this facility to April 2019 and also amended our option to extend the expiration by one year to the first and second anniversary of the amendment, upon approval of existing or replacement lenders. The facility is fully subscribed among 12 lenders with the largest commitment being \$115 million. The commitments of the lenders are several and no lender is responsible for any other lender's commitment if such lender fails to make a loan under the facility. This facility contains an increase provision that would allow up to an additional \$500 million of borrowing. This facility has a financial covenant requiring that we not exceed a 37.5% debt to capitalization ratio as defined in the agreement. This ratio was 13.8% as of June 30, 2014. Although the right to borrow under the facility is not subject to a minimum rating requirement, the costs of maintaining the facility and borrowing under it are based on the ratings of our senior unsecured, unguaranteed long-term debt. There were no borrowings under the credit facility during the second quarter and first six months of 2014. The total amount outstanding at any point in time under the combination of the commercial paper program and the credit facility cannot exceed the amount that can be borrowed under the credit facility.
- A universal shelf registration statement was filed with the Securities and Exchange Commission on April 30, 2012. We can use this shelf registration to issue an unspecified amount of debt securities, common stock (including 466 million shares of treasury stock as of June 30, 2014), preferred stock, depositary shares, warrants, stock purchase contracts, stock purchase units and securities of trust subsidiaries. The specific terms of any securities we issue under this registration statement will be provided in the applicable prospectus supplements.

*Liquidity exposure* Contractholder funds were \$23.47 billion as of June 30, 2014. The following table summarizes contractholder funds by their contractual withdrawal provisions as of June 30, 2014.

| (\$ in millions)                                            |           | Percent<br>to total |
|-------------------------------------------------------------|-----------|---------------------|
| Not subject to discretionary withdrawal                     | \$ 3,737  | 15.9%               |
| Subject to discretionary withdrawal with adjustments:       |           |                     |
| Specified surrender charges (1)                             | 6,518     | 27.8                |
| Market value adjustments (2)                                | 2,846     | 12.1                |
| Subject to discretionary withdrawal without adjustments (3) | 10,371    | 44.2                |
| Total contractholder funds (4)                              | \$ 23,472 | 100.0%              |

(1) Includes \$2.77 billion of liabilities with a contractual surrender charge of less than 5% of the account balance.

(2) \$2.11 billion of the contracts with market value adjusted surrenders have a 30-45 day period at the end of their initial and subsequent interest rate guarantee periods (which are typically 5, 6, 7 or 10 years) during which there is no surrender charge or market value adjustment.

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(3) 83% of these contracts have a minimum interest crediting rate guarantee of 3% or higher.

(4) Includes \$874 million of contractholder funds on variable annuities reinsured to The Prudential Insurance Company of America, a subsidiary of Prudential Financial Inc., in 2006.

Retail life and annuity products may be surrendered by customers for a variety of reasons. Reasons unique to individual customers include a current or unexpected need for cash or a change in life insurance coverage needs. Other key factors that may impact the likelihood of customer surrender include the level of the contract surrender charge, the length of time the contract has been in force, distribution channel, market interest rates, equity market conditions and potential tax implications. In addition, the propensity for retail life insurance policies to lapse is lower than it is for fixed annuities because of the need for the insured to be re-underwritten upon policy

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replacement. Surrenders and partial withdrawals for our retail annuities decreased 36.3% and 49.6% in the second quarter and first six months of 2014, respectively, compared to the same periods of 2013. The annualized surrender and partial withdrawal rate on deferred fixed annuities and interest-sensitive life insurance products, based on the beginning of year contractholder funds, was 9.5% and 10.7% in the first six months of 2014 and 2013, respectively. Allstate Financial strives to promptly pay customers who request cash surrenders; however, statutory regulations generally provide up to six months in most states to fulfill surrender requests.

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

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

| (\$ in millions)                             | Property-Liability (1) |        | Allstate Financial (1) |         | Corporate and Other (1) |         | Consolidated |          |
|----------------------------------------------|------------------------|--------|------------------------|---------|-------------------------|---------|--------------|----------|
|                                              | 2014                   | 2013   | 2014                   | 2013    | 2014                    | 2013    | 2014         | 2013     |
| Net cash provided by (used in):              |                        |        |                        |         |                         |         |              |          |
| Operating activities                         | \$ 954                 | \$ 865 | \$ 355                 | \$ 463  | \$ (108)                | \$ 225  | \$ 1,201     | \$ 1,553 |
| Investing activities                         | 342                    | 184    | 1,602                  | 2,642   | (923)                   | (174)   | 1,021        | 2,652    |
| Financing activities                         | (26)                   | 29     | (1,263)                | (3,168) | (719)                   | (1,238) | (2,008)      | (4,377)  |
| Net increase (decrease) in consolidated cash |                        |        |                        |         |                         |         | \$ 214       | \$ (172) |

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

*Property-Liability* Higher cash provided by operating activities in the first six months of 2014 compared to the first six months of 2013 was primarily due to increased premiums and lower contributions to benefit plans, partially offset by higher claim payments and the proceeds received in 2013 from the surrender of company owned life insurance.

Higher cash provided by investing activities in the first six months of 2014 compared to the first six months of 2013 was the result of increased sales of securities and a decrease in short-term investments which exceeded cash used for purchases of securities and lower investment collections. Increased sales and purchases of securities resulted from more active portfolio management.

*Allstate Financial* Lower cash provided by operating activities in the first six months of 2014 compared to the first six months of 2013 was primarily due to lower net investment income and higher income tax payments, partially offset by higher premiums on accident and health and traditional life insurance products.

Lower cash was provided by investing activities in the first six months of 2014 compared to the first six months of 2013 as proceeds from the sale of LBL were more than offset by lower collections resulting from the funding of a large institutional product maturity in 2013.

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Lower cash used in financing activities in the first six months of 2014 compared to the first six months of 2013 was primarily due to a \$1.75 billion institutional product maturity in 2013 and lower contractholder benefits and withdrawals on fixed annuities and interest-sensitive life insurance, partially offset by lower deposits.

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

**Item 4. Controls and Procedures**

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

*Changes in Internal Control over Financial Reporting.* During the fiscal quarter ended June 30, 2014, there have been no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## **PART II. OTHER INFORMATION**

### **Item 1. Legal Proceedings**

Information required for Part II, Item 1 is incorporated by reference to the discussion under the heading "Regulation and Compliance" and under the heading "Legal and regulatory proceedings and inquiries" in Note 12 of the condensed consolidated financial statements in Part I, Item 1 of this Form 10-Q.

### **Item 1A. Risk Factors**

This document contains forward-looking statements that anticipate results based on our estimates, assumptions and plans that are subject to uncertainty. These statements are made subject to the safe-harbor provisions of the Private Securities Litigation Reform Act of 1995. We assume no obligation to update any forward-looking statements as a result of new information or future events or developments.

These forward-looking statements do not relate strictly to historical or current facts and may be identified by their use of words like "plans," "seeks," "expects," "will," "should," "anticipates," "estimates," "intends," "believes," "likely," "targets" and other words with similar meanings. These statements address, among other things, our strategy for growth, catastrophe exposure management, product development, investment results, regulatory approvals, market position, expenses, financial results, litigation and reserves. We believe that these statements are based on reasonable estimates, assumptions and plans. However, if the estimates, assumptions or plans underlying the forward-looking statements prove inaccurate or if other risks or uncertainties arise, actual results could differ materially from those communicated in these forward-looking statements. Risk factors which could cause actual results to differ materially from those suggested by such forward-looking statements include but are not limited to those discussed or identified in this document (including the risks below), in our public filings with the Securities and Exchange Commission, and those incorporated by reference in Part I, Item 1A of The Allstate Corporation Annual Report on Form 10-K for 2013.

### **The financial strength ratings of LBL could have an adverse effect on the marketability of product offerings**

Following the closing of the sale, LBL was rated A- from A. M. Best and BBB+ from S&P as an independent company. It is no longer a subsidiary of The Allstate Corporation consolidated group and as a result, its ratings are not made on the same basis and may not be considered by policyholders in the same manner when purchasing or surrendering policies.

### **The LBL sale price is subject to re-estimate**

As is typical in dispositions of businesses, the final calculation of the ultimate proceeds of the LBL disposition is determined by the closing balance sheet of the disposed business which is prepared in accordance with the terms of the sale agreement and subject to review and approval by the buyer. As a result, the ultimate loss on disposition is subject to re-estimate upon completion of review and approval by the buyer and the Company and, accordingly, such loss on disposition may exceed the amount which has previously been disclosed.



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

### Issuer Purchases of Equity Securities

| <b>Period</b>                  | <b>Total number<br/>of shares<br/>(or units)<br/>purchased (1)</b> | <b>Average price<br/>paid per share<br/>(or unit)</b> | <b>Total number<br/>of shares (or units)<br/>purchased<br/>as part of publicly<br/>announced plans or<br/>programs (2)</b> | <b>Maximum number<br/>(or approximate dollar<br/>value) of shares<br/>(or units) that may yet be<br/>purchased under the<br/>plans or programs (3)</b> |
|--------------------------------|--------------------------------------------------------------------|-------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------|
| April 1, 2014 - April 30, 2014 | 864,303                                                            | \$ 56.1535                                            | 847,023                                                                                                                    | \$1.6 billion                                                                                                                                          |
| May 1, 2014 - May 31, 2014     | 807,531                                                            | \$ 57.9342                                            | 802,736                                                                                                                    | \$1.6 billion                                                                                                                                          |
| June 1, 2014- June 30, 2014    | 809,202                                                            | \$ 58.9218                                            | 808,689                                                                                                                    | \$1.5 billion                                                                                                                                          |
| Total                          | 2,481,036                                                          | \$ 57.6360                                            | 2,458,448                                                                                                                  |                                                                                                                                                        |

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

April: 17,280

May: 4,795

June: 513

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

(3) On February 19, 2014, we announced the approval of a share repurchase program for \$2.50 billion, to be completed by August 31, 2015.

## Item 6. Exhibits

(a) Exhibits

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



**SIGNATURE**

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

The Allstate Corporation  
(Registrant)

July 30, 2014

By

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

| Exhibit Number | Exhibit Description                                                                                                                                                                                       | Incorporated by Reference |  |  |                |  |  |         |  |  |               | Filed or<br>Furnished<br>Herewith |
|----------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------|--|--|----------------|--|--|---------|--|--|---------------|-----------------------------------|
|                |                                                                                                                                                                                                           | Form                      |  |  | File<br>Number |  |  | Exhibit |  |  | Filing Date   |                                   |
| 3.1            | Certificate of Designations with respect to the Preferred Stock, Series F of the Registrant, dated June 11, 2014                                                                                          | 8-K                       |  |  | 1-11840        |  |  | 3.1     |  |  | June 12, 2014 |                                   |
| 4.1            | The Allstate Corporation hereby agrees to furnish to the Commission, upon request, the instruments defining the rights of holders of each issue of long-term debt of it and its consolidated subsidiaries |                           |  |  |                |  |  |         |  |  |               |                                   |
| 4.2            | Deposit Agreement, dated June 12, 2014, among the Registrant, Wells Fargo Bank, N.A., as depositary, and the holders from time to time of the depositary receipts described therein (Series F)            | 8-K                       |  |  | 1-11840        |  |  | 4.1     |  |  | June 12, 2014 |                                   |
| 4.3            | Form of Preferred Stock Certificate, Series F (included as Exhibit A to Exhibit 3.1 above)                                                                                                                | 8-K                       |  |  | 1-11840        |  |  | 4.2     |  |  | June 12, 2014 |                                   |
| 4.4            | Form of Depositary Receipt, Series F (included as Exhibit A to 4.2 above)                                                                                                                                 | 8-K                       |  |  | 1-11840        |  |  | 4.3     |  |  | June 12, 2014 |                                   |
| 10.1           | The Allstate Corporation Annual Executive Incentive Plan                                                                                                                                                  | Proxy                     |  |  | 1-11840        |  |  | App. B  |  |  | April 7, 2014 |                                   |
| 15             | Acknowledgment of awareness from Deloitte & Touche LLP, dated July 30, 2014, concerning unaudited interim financial information                                                                           |                           |  |  |                |  |  |         |  |  |               | X                                 |
| 31(i)          | Rule 13a-14(a) Certification of Principal Executive Officer                                                                                                                                               |                           |  |  |                |  |  |         |  |  |               | X                                 |
| 31(i)          | Rule 13a-14(a) Certification of Principal Financial Officer                                                                                                                                               |                           |  |  |                |  |  |         |  |  |               | X                                 |
| 32             | Section 1350 Certifications                                                                                                                                                                               |                           |  |  |                |  |  |         |  |  |               | X                                 |
| 101.INS        | XBRL Instance Document                                                                                                                                                                                    |                           |  |  |                |  |  |         |  |  |               | X                                 |
| 101.SCH        | XBRL Taxonomy Extension Schema                                                                                                                                                                            |                           |  |  |                |  |  |         |  |  |               | X                                 |
| 101.CAL        | XBRL Taxonomy Extension Calculation Linkbase                                                                                                                                                              |                           |  |  |                |  |  |         |  |  |               | X                                 |
| 101.DEF        | XBRL Taxonomy Extension Definition Linkbase                                                                                                                                                               |                           |  |  |                |  |  |         |  |  |               | X                                 |
| 101.LAB        | XBRL Taxonomy Extension Label Linkbase                                                                                                                                                                    |                           |  |  |                |  |  |         |  |  |               | X                                 |
| 101.PRE        | XBRL Taxonomy Extension Presentation Linkbase                                                                                                                                                             |                           |  |  |                |  |  |         |  |  |               | X                                 |