ALLSTATE CORP
Form 10-Q
October 29, 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 September 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	**36-3871531**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

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

(847) 402-5000

(Registrant s telephone number, including area code)

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

Yes _X_ No ___

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes _X_ No ___

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

Large accelerated filer	_X_	Accelerated filer	____
Non-accelerated filer	___ (Do not check if a smaller reporting company)	Smaller reporting company	____

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

Yes ___ No _X_

As of October 15, 2014, the registrant had 419,433,284 common shares, $.01 par value, outstanding.

THE ALLSTATE CORPORATION

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September 30, 2014

PART I. FINANCIAL INFORMATION

ITEM I. FINANCIAL INFORMATION

THE ALLSTATE CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

($ in millions, except per share data)	Three months ended September 30, 2014	Three months ended September 30, 2013	Nine months ended September 30, 2014	Nine months ended September 30, 2013
	(unaudited)		(unaudited)	
Revenues				
Property-liability insurance premiums	$ 7,307	$ 6,972	$ 21,575	$ 20,604
Life and annuity premiums and contract charges	512	584	1,637	1,742
Net investment income	823	950	2,680	2,917
Realized capital gains and losses:				
Total other-than-temporary impairment losses	(53)	(96)	(177)	(178)
Portion of loss recognized in other comprehensive income	--	8	(2)	(7)
Net other-than-temporary impairment losses recognized in earnings	(53)	(88)	(179)	(185)
Sales and other realized capital gains and losses	347	47	767	637
Total realized capital gains and losses	294	(41)	588	452
	8,936	8,465	26,480	25,715
Costs and expenses				
Property-liability insurance claims and claims expense	4,909	4,427	14,810	13,628
Life and annuity contract benefits	433	498	1,334	1,427
Interest credited to contractholder funds	198	317	717	973
Amortization of deferred policy acquisition costs	1,030	1,026	3,100	2,933
Operating costs and expenses	1,068	937	3,185	3,129
Restructuring and related charges	3	13	13	59
Loss on extinguishment of debt	--	9	1	489
Interest expense	78	83	249	280
	7,719	7,310	23,409	22,918
Loss on disposition of operations	(27)	(646)	(77)	(644)
Income from operations before income tax expense	1,190	509	2,994	2,153
Income tax expense	409	193	968	694
Net income	781	316	2,026	1,459
Preferred stock dividends	31	6	75	6
Net income available to common shareholders	$ 750	$ 310	$ 1,951	$ 1,453
Earnings per common share:				
Net income available to common shareholders per common share - Basic	$ 1.77	$ 0.67	$ 4.49	$ 3.10
Weighted average common shares - Basic	424.5	461.1	435.0	468.2

Net income available to common shareholders per common share - Diluted	$	1.74	$	0.66	$	4.42	$	3.07
Weighted average common shares - Diluted		431.2		467.1		441.6		473.8
Cash dividends declared per common share	$	0.28	$	0.25	$	0.84	$	0.75

See notes to condensed consolidated financial statements.

THE ALLSTATE CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

($ in millions)	Three months ended September 30, 2014	Three months ended September 30, 2013	Nine months ended September 30, 2014	Nine months ended September 30, 2013
	(unaudited)		(unaudited)	
Net income	$ 781	$ 316	$ 2,026	$ 1,459
Other comprehensive income (loss), after-tax				
Changes in:				
Unrealized net capital gains and losses	(323)	63	181	(1,120)
Unrealized foreign currency translation adjustments	(17)	13	(20)	(20)
Unrecognized pension and other postretirement benefit cost	12	684	31	775
Other comprehensive income (loss), after-tax	(328)	760	192	(365)
Comprehensive income	$ 453	$ 1,076	$ 2,218	$ 1,094

See notes to condensed consolidated financial statements.

THE ALLSTATE CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

($ in millions, except par value data)	September 30, 2014	December 31, 2013
Assets	(unaudited)	
Investments		
Fixed income securities, at fair value (amortized cost $59,616 and $59,008)	$ 62,313	$ 60,910
Equity securities, at fair value (cost $3,877 and $4,473)	4,335	5,097
Mortgage loans	4,143	4,721
Limited partnership interests	4,348	4,967
Short-term, at fair value (amortized cost $2,463 and $2,393)	2,463	2,393
Other	3,119	3,067
Total investments	80,721	81,155
Cash	885	675
Premium installment receivables, net	5,604	5,237
Deferred policy acquisition costs	3,516	3,372
Reinsurance recoverables, net	7,555	7,621
Accrued investment income	595	624
Property and equipment, net	1,012	1,024
Goodwill	1,219	1,243
Other assets	2,682	1,937
Separate Accounts	4,521	5,039
Assets held for sale	--	15,593
Total assets	$ 108,310	$ 123,520
Liabilities		
Reserve for property-liability insurance claims and claims expense	$ 22,350	$ 21,857
Reserve for life-contingent contract benefits	12,482	12,386
Contractholder funds	22,848	24,304
Unearned premiums	11,728	10,932
Claim payments outstanding	814	631
Deferred income taxes	1,076	635
Other liabilities and accrued expenses	4,967	5,156
Long-term debt	5,195	6,201
Separate Accounts	4,521	5,039
Liabilities held for sale	--	14,899
Total liabilities	85,981	102,040
Commitments and Contingent Liabilities (Note 12)		
Equity		
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, 419 million and 449 million shares outstanding	9	9
Additional capital paid-in	3,059	3,143
Retained income	37,164	35,580
Deferred ESOP expense	(31)	(31)
Treasury stock, at cost (481 million and 451 million shares)	(20,856)	(19,047)
Accumulated other comprehensive income:		
Unrealized net capital gains and losses:		
Unrealized net capital gains and losses on fixed income securities with OTTI	70	50
Other unrealized net capital gains and losses	1,970	1,698
Unrealized adjustment to DAC, DSI and insurance reserves	(213)	(102)
Total unrealized net capital gains and losses	1,827	1,646

Unrealized foreign currency translation adjustments		18		38
Unrecognized pension and other postretirement benefit cost		(607)		(638)
Total accumulated other comprehensive income		1,238		1,046
Total shareholders equity		22,329		21,480
Total liabilities and shareholders equity	$	108,310	$	123,520

See notes to condensed consolidated financial statements.

THE ALLSTATE CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

($ in millions)	Nine months ended September 30, 2014	2013
	(unaudited)	
Preferred stock par value		
Balance, beginning of period	$ --	$ --
Preferred stock issuance	--	--
Balance, end of period	--	--
Preferred stock additional capital paid-in		
Balance, beginning of period	780	--
Preferred stock issuance	966	650
Balance, end of period	1,746	650
Common stock	9	9
Additional capital paid-in		
Balance, beginning of period	3,143	3,162
Forward contract on accelerated share repurchase agreement	(113)	--
Equity incentive plans activity	29	(35)
Balance, end of period	3,059	3,127
Retained income		
Balance, beginning of period	35,580	33,783
Net income	2,026	1,459
Dividends on common stock	(367)	(351)
Dividends on preferred stock	(75)	(6)
Balance, end of period	37,164	34,885
Deferred ESOP expense		
Balance, beginning of period	(31)	(41)
Payments	--	2
Balance, end of period	(31)	(39)
Treasury stock		
Balance, beginning of period	(19,047)	(17,508)
Shares acquired	(2,054)	(1,395)
Shares reissued under equity incentive plans, net	245	241
Balance, end of period	(20,856)	(18,662)
Accumulated other comprehensive income		
Balance, beginning of period	1,046	1,175
Change in unrealized net capital gains and losses	181	(1,120)
Change in unrealized foreign currency translation adjustments	(20)	(20)
Change in unrecognized pension and other postretirement benefit cost	31	775
Balance, end of period	1,238	810
Total shareholders equity	$ 22,329	$ 20,780

See notes to condensed consolidated financial statements.

THE ALLSTATE CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

($ in millions)	Nine months ended September 30,	
	2014	2013
	(unaudited)	
Cash flows from operating activities		
Net income	$ 2,026	$ 1,459
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and other non-cash items	277	246
Realized capital gains and losses	(588)	(452)
Loss on extinguishment of debt	1	489
Loss on disposition of operations	77	644
Interest credited to contractholder funds	717	973
Changes in:		
Policy benefits and other insurance reserves	50	(787)
Unearned premiums	822	670
Deferred policy acquisition costs	(189)	(208)
Premium installment receivables, net	(386)	(300)
Reinsurance recoverables, net	(110)	294
Income taxes	175	455
Other operating assets and liabilities	(307)	(412)
Net cash provided by operating activities	2,565	3,071
Cash flows from investing activities		
Proceeds from sales		
Fixed income securities	27,648	15,354
Equity securities	5,263	2,231
Limited partnership interests	1,084	676
Mortgage loans	10	20
Other investments	292	93
Investment collections		
Fixed income securities	2,787	4,879
Mortgage loans	868	783
Other investments	158	213
Investment purchases		
Fixed income securities	(30,650)	(16,645)
Equity securities	(4,208)	(2,565)
Limited partnership interests	(892)	(911)
Mortgage loans	(218)	(423)
Other investments	(652)	(880)
Change in short-term investments, net	265	(544)
Change in other investments, net	58	92
Purchases of property and equipment, net	(207)	(116)
Disposition (acquisition) of operations	378	(24)
Net cash provided by investing activities	1,984	2,233
Cash flows from financing activities		
Proceeds from issuance of long-term debt	--	2,267
Repayments of long-term debt	(1,006)	(2,605)
Proceeds from issuance of preferred stock	965	651
Contractholder fund deposits	926	1,608
Contractholder fund withdrawals	(2,831)	(5,458)
Dividends paid on common stock	(360)	(237)
Dividends paid on preferred stock	(56)	--
Treasury stock purchases	(2,189)	(1,385)
Shares reissued under equity incentive plans, net	204	108
Excess tax benefits on share-based payment arrangements	22	33
Other	(14)	(10)
Net cash used in financing activities	(4,339)	(5,028)
Cash classified as held for sale	--	(13)

Net increase in cash		210		263
Cash at beginning of period		675		806
Cash at end of period	$	885	$	1,069

See notes to condensed consolidated financial statements.

THE ALLSTATE CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. General

Basis of presentation

The accompanying condensed consolidated financial statements include the accounts of The Allstate Corporation (the Corporation) and its wholly owned subsidiaries, primarily Allstate Insurance Company (AIC), a property-liability insurance company with various property-liability and life and investment subsidiaries, including Allstate Life Insurance Company (ALIC) (collectively referred to as the Company or Allstate).

The condensed consolidated financial statements and notes as of September 30, 2014 and for the three-month and nine-month periods ended September 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. 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

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. 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 September 30,**		**Nine months ended September 30,**	
	2014	**2013**	**2014**	**2013**
Numerator:				
Net income	$ 781	$ 316	$ 2,026	$ 1,459
Less: Preferred stock dividends	31	6	75	6
Net income available to common shareholders	$ 750	$ 310	$ 1,951	$ 1,453
Denominator:				
Weighted average common shares outstanding	424.5	461.1	435.0	468.2
Effect of dilutive potential common shares:				
Stock options	4.8	4.2	4.7	3.9
Restricted stock units (non-participating) and performance stock awards	1.9	1.8	1.9	1.7
Weighted average common and dilutive potential common shares outstanding	431.2	467.1	441.6	473.8
Earnings per common share - Basic	$ 1.77	$ 0.67	$ 4.49	$ 3.10
Earnings per common share - Diluted	$ 1.74	$ 0.66	$ 4.42	$ 3.07

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 3.3 million and 8.4 million Allstate common shares, with exercise prices ranging from $49.96 to $62.42 and $41.16 to $62.42, were outstanding for the three-month periods ended September 30, 2014 and 2013, respectively, but were not included in the computation of diluted earnings per common share in those periods. Options to purchase 4.5 million and 13.0 million Allstate common shares, with exercise prices ranging from $45.61 to $62.42 and $39.05 to $62.42, were outstanding for the nine-month periods ended September 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 $28 million, pre-tax, ($29 million, after-tax) and $100 million, pre-tax, ($60 million, after-tax) in the three months and nine months ended September 30, 2014, respectively. The loss on disposition in the three months ended September 30, 2014 included the finalization of certain tax balances and other adjustments. The loss on disposition in the nine months ended September 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 September 30, 2014, the trust holds $5.08 billion of investments, which are reported in the statement of financial position.

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 $105 million and $271 million for the nine months ended September 30, 2014 and 2013, respectively. Non-cash financing activities include $46 million and $93 million related to the issuance of Allstate common shares for vested restricted stock units for the nine months ended September 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)	Nine months ended September 30, 2014	2013
Net change in proceeds managed		
Net change in short-term investments	$ (162)	$ 156
Operating cash flow (used) provided	(162)	156
Net change in cash	7	(3)
Net change in proceeds managed	$ (155)	$ 153
Net change in liabilities		
Liabilities for collateral, beginning of period	$ (624)	$ (808)
Liabilities for collateral, end of period	(779)	(655)
Operating cash flow provided (used)	$ 155	$ (153)

5. Investments

Fair values

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

($ in millions)	Amortized cost	Gross unrealized Gains	Losses	Fair value
September 30, 2014				
U.S. government and agencies	$ 4,181	$ 132	$ (4)	$ 4,309
Municipal	7,978	580	(23)	8,535
Corporate	39,329	1,930	(188)	41,071
Foreign government	1,597	97	(1)	1,693
Asset-backed securities (ABS)	4,691	50	(32)	4,709
Residential mortgage-backed securities (RMBS)	1,185	118	(14)	1,289
Commercial mortgage-backed securities (CMBS)	633	51	(3)	681
Redeemable preferred stock	22	4	--	26
Total fixed income securities	$ 59,616	$ 2,962	$ (265)	$ 62,313
December 31, 2013				
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 September 30, 2014:

($ in millions)	Amortized cost	Fair value
Due in one year or less	$ 3,440	$ 3,482
Due after one year through five years	25,684	26,410
Due after five years through ten years	15,629	16,319
Due after ten years	8,354	9,423
	53,107	55,634
ABS, RMBS and CMBS	6,509	6,679
Total	$ 59,616	$ 62,313

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 September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Fixed income securities	$ 581	$ 721	$ 1,870	$ 2,223
Equity securities	28	30	91	94
Mortgage loans	54	99	206	290
Limited partnership interests	162	106	499	339
Short-term investments	1	1	5	4
Other	41	44	127	120
Investment income, before expense	867	1,001	2,798	3,070
Investment expense	(44)	(51)	(118)	(153)
Net investment income	$ 823	$ 950	$ 2,680	$ 2,917

Realized capital gains and losses

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

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

	2014	2013	2014	2013
Fixed income securities	$ 23	$ 24	$ 121	$ 175
Equity securities	213	(51)	474	261
Mortgage loans	2	(6)	3	19
Limited partnership interests	59	2	10	(1)
Derivatives	(8)	(12)	(27)	(2)
Other	5	2	7	--
Realized capital gains and losses	$ 294	$ (41)	$ 588	$ 452

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

($ in millions)	Three months ended September 30, 2014	Three months ended September 30, 2013	Nine months ended September 30, 2014	Nine months ended September 30, 2013
Impairment write-downs	$ 10	$ (18)	$ (12)	$ (61)
Change in intent write-downs	(63)	(70)	(167)	(124)
Net other-than-temporary impairment losses recognized in earnings	(53)	(88)	(179)	(185)
Sales	355	59	792	639
Valuation and settlements of derivative instruments	(8)	(12)	(25)	(2)
Realized capital gains and losses	$ 294	$ (41)	$ 588	$ 452

Gross gains of $353 million and $109 million and gross losses of $48 million and $58 million were realized on sales of fixed income and equity securities during the three months ended September 30, 2014 and 2013, respectively. Gross gains of $866 million and $760 million and gross losses of $111 million and $142 million were realized on sales of fixed income and equity securities during the nine months ended September 30, 2014 and 2013, respectively.

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

($ in millions)	Three months ended September 30, 2014			Nine months ended September 30, 2014		
	Gross	Included in OCI	Net	Gross	Included in OCI	Net
Fixed income securities:						
Municipal	$ (3)	$ --	$ (3)	$ (9)	$ --	$ (9)
Corporate	(6)	1	(5)	(6)	1	(5)
ABS	--	--	--	(3)	--	(3)
RMBS	3	(1)	2	9	(3)	6
Total fixed income securities	(6)	--	(6)	(9)	(2)	(11)
Equity securities	(63)	--	(63)	(149)	--	(149)
Mortgage loans	2	--	2	6	--	6
Limited partnership interests	14	--	14	(25)	--	(25)
Other-than-temporary impairment losses	$ (53)	$ --	$ (53)	$ (177)	$ (2)	$ (179)

	Three months ended September 30, 2013			Nine months ended September 30, 2013		
	Gross	Included in OCI	Net	Gross	Included in OCI	Net
Fixed income securities:						
Municipal	$ (6)	$ --	$ (6)	$ (23)	$ (5)	$ (28)
ABS	--	--	--	--	(1)	(1)
RMBS	(4)	4	--	(5)	2	(3)
CMBS	(9)	4	(5)	(29)	(3)	(32)
Total fixed income securities	(19)	8	(11)	(57)	(7)	(64)
Equity securities	(67)	--	(67)	(118)	--	(118)
Mortgage loans	(6)	--	(6)	11	--	11
Limited partnership interests	(2)	--	(2)	(10)	--	(10)

Other	(2)	--	(2)	(4)	--	(4)
Other-than-temporary impairment losses	$ (96)	$ 8	$ (88)	$ (178)	$ (7)	$ (185)

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 $239 million and $260 million as of September 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)	**September 30, 2014**	**December 31, 2013**
Municipal	$ (9)	$ (9)
Corporate	(1)	--
ABS	(6)	(10)
RMBS	(111)	(152)
CMBS	(5)	(12)
Total	$ (132)	$ (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 September 30,**		**Nine months ended September 30,**	
	2014	**2013**	**2014**	**2013**
Beginning balance	$ (424)	$ (564)	$ (513)	$ (617)
Additional credit loss for securities previously other-than-temporarily impaired	(1)	(6)	(2)	(30)
Additional credit loss for securities not previously other-than-temporarily impaired	(5)	(2)	(8)	(19)
Reduction in credit loss for securities disposed or collected	28	43	61	136
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	--	2	1
Reduction in credit loss for securities sold in LBL disposition	--	--	59	--
Ending balance	$ (401)	$ (529)	$ (401)	$ (529)

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

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Unrealized net capital gains and losses

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

($ in millions)	Fair	Gross unrealized		Unrealized net
September 30, 2014	**value**	**Gains**	**Losses**	**gains (losses)**
Fixed income securities	$ 62,313	$ 2,962	$ (265)	$ 2,697
Equity securities	4,335	477	(19)	458
Short-term investments	2,463	--	--	--
Derivative instruments (1)	(4)	1	(9)	(8)
Equity method (EMA) limited partnerships (2)				(5)
Unrealized net capital gains and losses, pre-tax				3,142
Amounts recognized for:				
Insurance reserves (3)				(169)
DAC and DSI (4)				(158)
Amounts recognized				(327)
Deferred income taxes				(988)
Unrealized net capital gains and losses, after-tax				$ 1,827

(1) Included in the fair value of derivative instruments are $1 million classified as assets and $5 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

(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 nine months ended September 30, 2014 is as follows:

($ in millions)		
Fixed income securities	$	795
Equity securities		(166)
Derivative instruments		10
EMA limited partnerships		(2)
Investments classified as held for sale		(190)
Total		447
Amounts recognized for:		
Insurance reserves		(169)
DAC and DSI		--
Amounts recognized		(169)
Deferred income taxes		(97)
Increase in unrealized net capital gains and losses, after-tax	$	181

Portfolio monitoring

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

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

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

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

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

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

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

($ in millions)	Less than 12 months			12 months or more			Total
	Number of issues	Fair value	Unrealized losses	Number of issues	Fair value	Unrealized losses	unrealized losses
September 30, 2014							
Fixed income securities							
U.S. government and agencies	18	$ 1,761	$ (4)	3	$ 22	$ --	$ (4)
Municipal	86	359	(7)	38	227	(16)	(23)
Corporate	535	6,974	(89)	163	1,767	(99)	(188)
Foreign government	7	90	--	1	19	(1)	(1)
ABS	83	2,055	(9)	28	393	(23)	(32)
RMBS	68	53	(1)	200	189	(13)	(14)
CMBS	5	4	--	4	42	(3)	(3)
Total fixed income securities	802	11,296	(110)	437	2,659	(155)	(265)
Equity securities	353	932	(18)	1	12	(1)	(19)
Total fixed income and equity securities	1,155	$ 12,228	$ (128)	438	$ 2,671	$ (156)	$ (284)
Investment grade fixed income securities	532	$ 9,199	$ (50)	353	$ 2,219	$ (102)	$ (152)
Below investment grade fixed income securities	270	2,097	(60)	84	440	(53)	(113)
Total fixed income securities	802	$ 11,296	$ (110)	437	$ 2,659	$ (155)	$ (265)
December 31, 2013							
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 September 30, 2014, $237 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 $237 million, $128 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 September 30, 2014, the remaining $47 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 $24 million of these unrealized losses were evaluated based on factors such as discounted cash flows and the financial condition and near-term and long-term prospects of the issue or issuer and were determined to have adequate resources to fulfill contractual obligations. Of the $47 million, $22 million are related to below investment grade fixed income securities and $1 million are related to equity securities. Of these amounts, $11 million are related to below investment grade fixed income securities that had been in an unrealized loss position greater than or equal to 20% of amortized cost for a period of twelve or more consecutive months as of September 30, 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 September 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 September 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 September 30, 2014 and December 31, 2013, the carrying value of equity method limited partnerships totaled $3.20 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.

As of September 30, 2014 and December 31, 2013, the carrying value for cost method limited partnerships was $1.14 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.

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 $576 million as of September 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 or the present value of the loan s expected future repayment cash flows discounted at the loan s original effective interest rate. Impaired mortgage loans may not have a valuation allowance when the fair value of the collateral less costs to sell is higher than the carrying value. Valuation allowances are adjusted for subsequent changes in the fair value of the collateral less costs to sell. Mortgage loans are charged off against their corresponding valuation allowances when there is no reasonable expectation of recovery. The impairment evaluation is non-statistical in respect to the aggregate portfolio but considers facts and circumstances attributable to each loan. It is not considered probable that additional impairment losses, beyond those identified on a specific loan basis, have been incurred as of September 30, 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)	September 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	$ 186	$ --	$ 186	$ 153	$ --	$ 153
1.0 - 1.25	379	--	379	613	--	613
1.26 - 1.50	1,241	2	1,243	1,233	2	1,235
Above 1.50	2,304	21	2,325	2,562	77	2,639
Total non-impaired mortgage loans	$ 4,110	$ 23	$ 4,133	$ 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)	September 30, 2014	December 31, 2013
Impaired mortgage loans with a valuation allowance	$ 10	$ 81
Impaired mortgage loans without a valuation allowance	--	--
Total impaired mortgage loans	$ 10	$ 81
Valuation allowance on impaired mortgage loans	$ 7	$ 21

The average balance of impaired loans was $30 million and $90 million for the nine months ended September 30, 2014 and 2013, respectively.

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

($ in millions)	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013

Beginning balance	$ 9	$ 21	$ 21	$ 42
Net (decrease) increase in valuation allowance	(2)	6	(6)	(11)
Charge offs	--	--	(8)	(4)
Mortgage loans classified as held for sale	--	(2)	--	(2)
Ending balance	$ 7	$ 25	$ 7	$ 25

Payments on all mortgage loans were current as of September 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:

Level 1: Assets and liabilities whose values are based on unadjusted quoted prices for identical assets or liabilities in an active market that the Company can access.

Level 2: Assets and liabilities whose values are based on the following:

(a) Quoted prices for similar assets or liabilities in active markets;

(b) Quoted prices for identical or similar assets or liabilities in markets that are not active; or

(c) Valuation models whose inputs are observable, directly or indirectly, for substantially the full term of the asset or liability.

Level 3: Assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. Unobservable inputs reflect the Company s estimates of the assumptions that market participants would use in valuing the assets and liabilities.

The availability of observable inputs varies by instrument. In situations where fair value is based on internally developed pricing models or inputs that are unobservable in the market, the determination of fair value requires more judgment. The degree of judgment exercised by the Company in determining fair value is typically greatest for instruments categorized in Level 3. In many instances, valuation inputs used to measure fair value fall into different levels of the fair value hierarchy. The category level in the fair value hierarchy is determined based on the lowest level input that is significant to the fair value measurement in its entirety. The Company uses prices and inputs that are current as of the measurement date, including during periods of market disruption. In periods of market disruption, the ability to observe prices and inputs may be reduced for many instruments.

The Company is responsible for the determination of fair value and the supporting assumptions and methodologies. The Company gains assurance that assets and liabilities are appropriately valued through the execution of various processes and controls designed to ensure the overall reasonableness and consistent application of valuation methodologies, including inputs and assumptions, and compliance with accounting standards. For fair values received from third parties or internally estimated, the Company s processes and controls are designed to ensure that the valuation methodologies are appropriate and consistently applied, the inputs and assumptions are reasonable and consistent with the objective of determining fair value, and the fair values are accurately recorded. For example, on a continuing basis, the Company assesses the reasonableness of individual fair values that have stale security prices or that exceed certain thresholds as compared to previous fair values received from valuation service providers or brokers or derived from internal models. The Company performs procedures to understand and assess the methodologies, processes and controls of valuation service providers. In addition, the Company may validate the reasonableness of fair values by comparing information obtained from valuation service providers or brokers to other third party valuation sources for selected securities. The Company performs ongoing price validation procedures such as back-testing of actual sales, which corroborate the various inputs used in internal models to market observable data. When fair value determinations are expected to be more variable, the Company validates them through reviews by members of management who have relevant expertise and who are independent of those charged with executing investment transactions.

The Company has two types of situations where investments are classified as Level 3 in the fair value hierarchy. The first is where quotes continue to be received from independent third-party valuation service providers and all significant inputs are market observable; however, there has been a significant decrease in the volume and level of activity for the asset when compared to normal market activity such that the degree of market observability has declined to a point where categorization as a Level 3 measurement is considered appropriate. The indicators considered in determining whether a significant decrease in the volume and level of activity for a specific asset has occurred include the level of new issuances in the primary market, trading volume in the secondary market, the level of credit spreads over historical levels, applicable bid-ask spreads, and price consensus among market participants and other pricing sources.

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

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

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

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

Level 1 measurements

- Fixed income securities: Comprise certain U.S. 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:

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.

- Equity securities: The primary inputs to the valuation include quoted prices or quoted net asset values for identical or similar assets in markets that exhibit less liquidity relative to those markets supporting Level 2 fair value measurements.

- Other investments: Certain OTC derivatives, such as interest rate caps, certain credit default swaps and certain options (including swaptions), are valued using models that are widely accepted in the financial services industry. These are categorized as Level 3 as a result of the significance of non-market observable inputs such as volatility. Other primary inputs include interest rate yield curves and credit spreads.

- Assets held for sale: Comprise municipal, corporate, ABS and CMBS fixed income securities. The valuation is based on the respective asset type as described above.

- Contractholder funds: Derivatives embedded in certain life and annuity contracts are valued internally using models widely accepted in the financial services industry that determine a single best estimate of fair value for the embedded derivatives within a block of contractholder liabilities. The models primarily use stochastically determined cash flows based on the contractual elements of embedded derivatives, projected option cost and applicable market data, such as interest rate yield curves and equity index volatility assumptions. These are categorized as Level 3 as a result of the significance of non-market observable inputs.

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

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

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

The following table summarizes the Company s assets and liabilities measured at fair value on a recurring and non-recurring basis as of September 30, 2014.

($ in millions)	**Quoted prices in active markets for identical assets (Level 1)**	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Counterparty and cash collateral netting**	**Balance as of September 30, 2014**
Assets					
Fixed income securities:					
U.S. government and agencies	$ 3,245	$ 1,058	$ 6		$ 4,309
Municipal	--	8,245	290		8,535
Corporate	--	40,135	936		41,071
Foreign government	--	1,693	--		1,693
ABS	--	4,535	174		4,709
RMBS	--	1,288	1		1,289
CMBS	--	627	54		681
Redeemable preferred stock	--	26	--		26
Total fixed income securities	3,245	57,607	1,461		62,313
Equity securities	3,959	293	83		4,335
Short-term investments	584	1,879	--		2,463
Other investments: Free-standing derivatives	--	82	3	$ (12)	73
Separate account assets	4,521	--	--		4,521
Other assets	--	--	1		1
Total recurring basis assets	12,309	59,861	1,548	(12)	73,706
Non-recurring basis (1)	--	--	28		28
Total assets at fair value	$ 12,309	$ 59,861	$ 1,576	$ (12)	$ 73,734
% of total assets at fair value	16.7 %	81.2 %	2.1 %	-- %	100.0 %
Liabilities					
Contractholder funds: Derivatives embedded in life and annuity contracts	$ --	$ --	$ (321)		$ (321)
Other liabilities: Free-standing derivatives	(1)	(52)	(9)	$ 19	(43)
Total liabilities at fair value	$ (1)	$ (52)	$ (330)	$ 19	$ (364)
% of total liabilities at fair value	0.3 %	14.3 %	90.6 %	(5.2) %	100.0 %

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(1) Includes $28 million of limited partnership interests written-down to fair value in connection with recognizing other-than-temporary impairments.

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 in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Counterparty and cash collateral netting	Balance as of December 31, 2013
Assets					
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
Total recurring basis assets	13,715	69,831	2,215	(24)	85,737
Non-recurring basis (1)	--	--	24		24
Total assets at fair value	$ 13,715	$ 69,831	$ 2,239	$ (24)	$ 85,761
% of total assets at fair value	16.0 %	81.4 %	2.6 %	-- %	100.0 %
Liabilities					
Contractholder funds: Derivatives embedded in life and annuity contracts	$ --	$ --	$ (307)		$ (307)
Other liabilities: Free-standing derivatives	--	(194)	(14)	$ 11	(197)
Liabilities held for sale	--	--	(246)		(246)
Total recurring basis liabilities	--	(194)	(567)	11	(750)
Non-recurring basis (2)	--	--	(11,088)		(11,088)
Total liabilities at fair value	$ --	$ (194)	$ (11,655)	$ 11	$ (11,838)
% of total liabilities at fair value	-- %	1.6 %	98.5 %	(0.1) %	100.0 %

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(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.

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

($ in millions)	Fair value		Valuation technique	Unobservable input	Range	Weighted average
September 30, 2014						
Derivatives embedded in life and annuity contracts Equity-indexed and forward starting options	$	(269)	Stochastic cash flow model	Projected option cost	1.0 - 2.0 %	1.76 %
December 31, 2013						
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 September 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 $182 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.

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

($ in millions)	Balance as of June 30, 2014	Total gains (losses) included in: Net income (1)	OCI	Transfers into Level 3	Transfers out of Level 3
Assets					
Fixed income securities:					
U.S. government and agencies	$ 6	$ --	$ --	$ --	$ --
Municipal	302	--	(7)	--	--
Corporate	965	4	(14)	23	--
ABS	142	1	1	--	(20)
RMBS	1	--	--	--	--
CMBS	55	(1)	--	--	--
Total fixed income securities	1,471	4	(20)	23	(20)
Equity securities	19	--	--	--	--
Free-standing derivatives, net	(5)	--	--	--	--
Other assets	1	--	--	--	--
Total recurring Level 3 assets	$ 1,486	$ 4	$ (20)	$ 23	$ (20)
Liabilities					
Contractholder funds: Derivatives embedded in life and annuity contracts	$ (331)	$ 9	$ --	$ --	$ --
Total recurring Level 3 liabilities	$ (331)	$ 9	$ --	$ --	$ --

	Purchases	Sales	Issues	Settlements	Balance as of September 30, 2014
Assets					
Fixed income securities:					
U.S. government and agencies	$ --	$ --	$ --	$ --	$ 6
Municipal	5	(15)	--	5	290
Corporate	24	(12)	--	(54)	936
ABS	55	--	--	(5)	174
RMBS	--	--	--	--	1
CMBS	3	--	--	(3)	54
Total fixed income securities	87	(27)	--	(57)	1,461
Equity securities	64	--	--	--	83
Free-standing derivatives, net	--	--	--	(1)	(6)(2)
Other assets	--	--	--	--	1
Total recurring Level 3 assets	$ 151	$ (27)	$ --	$ (58)	$ 1,539
Liabilities					
Contractholder funds: Derivatives embedded in life and annuity contracts	$ --	$ --	$ --	$ 1	$ (321)
Total recurring Level 3 liabilities	$ --	$ --	$ --	$ 1	$ (321)

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(1) The effect to net income totals $13 million and is reported in the Condensed Consolidated Statements of Operations as follows: $4 million in net investment income, $5 million in interest credited to contractholder funds and $4 million in life and annuity contract benefits.

(2) Comprises $3 million of assets and $9 million of liabilities.

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

($ in millions)	Balance as of December 31, 2013	Total gains (losses) included in: Net income (1)	OCI	Transfers into Level 3	Transfers out of Level 3
Assets					
Fixed income securities:					
U.S. government and agencies	$ 7	$ --	$ --	$ --	$ --
Municipal	343	(4)	4	--	(17)
Corporate	1,109	17	(4)	23	(37)
ABS	192	1	1	--	(121)
RMBS	2	--	--	--	--
CMBS	43	(1)	--	5	--
Redeemable preferred stock	1	--	--	--	--
Total fixed income securities	1,697	13	1	28	(175)
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)
Total recurring Level 3 assets	$ 2,186	$ 36	$ (12)	$ 32	$ (177)
Liabilities					
Contractholder funds: Derivatives embedded in life and annuity contracts	$ (307)	$ (5)	$ --	$ --	$ --
Liabilities held for sale	(246)	17	--	--	--
Total recurring Level 3 liabilities	$ (553)	$ 12	$ --	$ --	$ --

	Sold in LBL disposition (3)	Purchases/ Issues (4)	Sales	Settlements	Balance as of September 30, 2014
Assets					
Fixed income securities:					
U.S. government and agencies	$ --	$ --	$ --	$ (1)	$ 6
Municipal	--	6	(41)	(1)	290
Corporate	--	56	(123)	(105)	936
ABS	--	119	--	(18)	174
RMBS	--	--	--	(1)	1
CMBS	4	8	(1)	(4)	54
Redeemable preferred stock	--	--	(1)	--	--
Total fixed income securities	4	189	(166)	(130)	1,461
Equity securities	--	67	(123)	--	83
Short-term investments	--	40	(40)	--	--
Free-standing derivatives, net	--	2	--	(4)	(6)(2)
Other assets	--	--	--	--	1
Assets held for sale	(351)	--	(8)	(6)	--
Total recurring Level 3 assets	$ (347)	$ 298	$ (337)	$ (140)	$ 1,539
Liabilities					
Contractholder funds: Derivatives embedded in life and annuity contracts	$ --	$ (13)	$ --	$ 4	$ (321)
Liabilities held for sale	230	(4)	--	3	--
Total recurring Level 3 liabilities	$ 230	$ (17)	$ --	$ 7	$ (321)

(1) The effect to net income totals $48 million and is reported in the Condensed Consolidated Statements of Operations as follows: $29 million in realized capital gains and losses, $10 million in net investment income, $5 million in interest credited to contractholder funds $8 million in life and annuity contract benefits and $(4) million in loss on disposition of operations.

(2) Comprises $3 million of assets and $9 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.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

There were no transfers between Level 1 and Level 2 during the three months and nine months ended September 30, 2014 or 2013.

Transfers into Level 3 during the three months and nine months ended September 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 nine months ended September 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 September 30.

($ in millions)	**Three months ended September 30,**		**Nine months ended September 30,**	
	2014	**2013**	**2014**	**2013**
Assets				
Fixed income securities:				
Municipal	$ (3)	$ (6)	$ (8)	$ (22)
Corporate	3	3	8	9
ABS	--	--	--	(1)
RMBS	--	--	(1)	(1)
CMBS	(1)	--	(1)	(1)
Total fixed income securities	(1)	(3)	(2)	(16)
Free-standing derivatives, net	--	(2)	6	14
Other assets	--	--	1	--
Assets held for sale	--	(1)	(1)	(1)
Total recurring Level 3 assets	$ (1)	$ (6)	$ 4	$ (3)
Liabilities				
Contractholder funds: Derivatives embedded in life and annuity contracts	$ 9	$ 8	$ (5)	$ 77
Liabilities held for sale	--	16	17	16
Total recurring Level 3 liabilities	$ 9	$ 24	$ 12	$ 93

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 $8 million for the three months ended September 30, 2014 and are reported as follows: $(3) million in realized capital gains and losses, $2 million in net investment income, $5 million in interest credited to contractholder funds and $4 million in life and annuity contract benefits. These gains and losses total $18 million for the three months ended September 30, 2013 and are reported as follows: $(8) million in realized capital gains and losses, $2 million in net investment income, $14 million in interest credited to contractholder funds and $10 million in life and annuity contract benefits. These gains and losses total $16 million for the nine months ended September 30, 2014 and are reported as follows: $(3) million in realized capital gains and losses, $6 million in net investment income, $5 million in interest credited to contractholder funds and $8 million in life and annuity contract benefits. These gains and losses total $90 million for the nine months ended September 30, 2013 and are reported as follows: $(12) million in realized capital gains and losses, $9 million in net investment income, $37 million in interest credited to contractholder funds and $56 million in life and annuity contract benefits.

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

Financial assets

($ in millions)	**September 30, 2014**		**December 31, 2013**	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**

[redacted]

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

Financial liabilities

($ in millions)	**September 30, 2014**		**December 31, 2013**	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**

[redacted]

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 September 30, 2014, the Company pledged $43 million of cash and securities in the form of margin deposits.

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

Non-hedge accounting is generally used for portfolio level hedging strategies where the terms of the individual hedged items do not meet the strict homogeneity requirements to permit the application of hedge accounting. For non-hedge derivatives, net income includes changes in fair value and accrued periodic settlements, when applicable. With the exception of non-hedge derivatives used for asset replication and non-hedge embedded derivatives, all of the Company s derivatives are evaluated for their ongoing effectiveness as either accounting hedge or non-hedge derivative financial instruments on at least a quarterly basis.

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

($ in millions, except number of contracts)		**Volume (1)**				
	Balance sheet location	**Notional amount**	**Number of contracts**	**Fair value, net**	**Gross asset**	**Gross liability**
Asset derivatives						
Derivatives designated as accounting hedging instruments						
Foreign currency swap agreements	Other investments	$ 16	n/a	$ 2	$ 2	$ --
Derivatives not designated as accounting hedging instruments						
Interest rate contracts						
Interest rate cap agreements	Other investments	95	n/a	--	--	--
Financial futures contracts	Other assets	--	50	--	--	--
Equity and index contracts						
Options and warrants (2)	Other investments	--	2,932	65	65	--
Financial futures contracts	Other assets	--	1,779	--	--	--
Foreign currency contracts						
Foreign currency forwards	Other investments	82	n/a	6	6	--
Embedded derivative financial instruments						
Other embedded derivative financial instruments	Other investments	1,000	n/a	--	--	--
Credit default contracts						
Credit default swaps - buying protection	Other investments	33	n/a	--	--	--
Credit default swaps - selling protection	Other investments	115	n/a	2	2	--
Other contracts						
Other contracts	Other assets	3	n/a	1	1	--
Subtotal		1,328	4,761	74	74	--
Total asset derivatives		$ 1,344	4,761	$ 76	$ 76	$ --
Liability derivatives						
Derivatives designated as accounting hedging instruments						
Foreign currency swap agreements	Other liabilities & accrued expenses	$ 119	n/a	$ (6)	$ --	$ (6)
Derivatives not designated as accounting hedging instruments						
Interest rate contracts						
Interest rate swap agreements	Other liabilities & accrued expenses	85	n/a	3	3	--
Interest rate cap agreements	Other liabilities & accrued expenses	90	n/a	2	2	--
Equity and index contracts						
Options and futures	Other liabilities & accrued expenses	--	4,136	(21)	--	(21)
Foreign currency contracts						
Foreign currency forwards	Other liabilities & accrued expenses	608	n/a	(13)	3	(16)
Embedded derivative financial instruments						
Guaranteed accumulation benefits	Contractholder funds	650	n/a	(36)	--	(36)
Guaranteed withdrawal benefits	Contractholder funds	453	n/a	(13)	--	(13)
Equity-indexed and forward starting options in life and annuity product contracts	Contractholder funds	1,773	n/a	(269)	--	(269)
Other embedded derivative financial instruments	Contractholder funds	85	n/a	(3)	--	(3)
Credit default contracts						
Credit default swaps buying protection	Other liabilities & accrued expenses	500	n/a	(9)	1	(10)
Credit default swaps selling protection	Other liabilities & accrued expenses	190	n/a	(8)	1	(9)
Subtotal		4,434	4,136	(367)	10	(377)
Total liability derivatives		4,553	4,136	(373)	$ 10	$ (383)

Total derivatives	$	5,897	8,897	$	(297)

(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 220 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.

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)	Balance sheet location	Volume (1) Notional amount	Volume (1) Number of contracts	Fair value, net	Gross asset	Gross liability
Asset derivatives						
Derivatives designated as accounting hedging instruments						
Foreign currency swap agreements	Other investments	$ 16	n/a	$ 1	$ 1	$ --
Derivatives not designated as accounting hedging instruments						
Interest rate contracts						
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	--	--	--
Equity and index contracts						
Options and warrants (2)	Other investments	3	10,035	263	263	--
Financial futures contracts	Other assets	--	1,432	1	1	--
Foreign currency contracts						
Foreign currency forwards	Other investments	161	n/a	10	10	--
Embedded derivative financial instruments						
Credit default swaps	Fixed income securities	12	n/a	(12)	--	(12)
Other embedded derivative financial instruments	Other investments	1,000	n/a	--	--	--
Credit default contracts						
Credit default swaps - buying protection	Other investments	2	n/a	--	--	--
Credit default swaps - selling protection	Other investments	105	n/a	2	2	--
Other contracts						
Other contracts	Other assets	4	n/a	--	--	--
Subtotal		2,768	12,017	266	278	(12)
Total asset derivatives		$ 2,784	12,017	$ 267	$ 279	$ (12)
Liability derivatives						
Derivatives designated as accounting hedging instruments						
Foreign currency swap agreements	Other liabilities & accrued expenses	$ 132	n/a	$ (15)	$ --	$ (15)
Derivatives not designated as accounting hedging instruments						
Interest rate contracts						
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	--
Equity and index contracts						
Options	Other liabilities & accrued expenses	55	10,035	(165)	2	(167)
Foreign currency contracts						
Foreign currency forwards	Other liabilities & accrued expenses	148	n/a	(3)	2	(5)
Embedded derivative financial instruments						
Guaranteed accumulation benefits	Contractholder funds	738	n/a	(43)	--	(43)
Guaranteed withdrawal benefits	Contractholder funds	506	n/a	(13)	--	(13)
Equity-indexed and forward starting options in life and annuity product contracts	Contractholder funds	1,693	n/a	(247)	--	(247)
	Liabilities held for sale	2,363	n/a	(246)	--	(246)
Other embedded derivative financial instruments	Contractholder funds	85	n/a	(4)	--	(4)
Credit default contracts						
Credit default swaps buying protection		397	n/a	(6)	--	(6)

	Other liabilities & accrued expenses							
Credit default swaps selling protection	Other liabilities & accrued expenses		185	n/a		(13)	2	(15)
Subtotal			11,087	10,035		(731)	15	(746)
Total liability derivatives			11,219	10,035		(746)	$ 15	$ (761)
Total derivatives		$	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.

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

($ in millions)		Offsets				
	Gross amount	Counter-party netting	Cash collateral (received) pledged	Net amount on balance sheet	Securities collateral (received) pledged	Net amount
September 30, 2014						
Asset derivatives	$ 19	$ (10)	$ (2)	$ 7	$ (2)	$ 5
Liability derivatives	(36)	10	9	(17)	15	(2)
December 31, 2013						
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 $1 million during the next twelve months. There was no hedge ineffectiveness reported in realized gains and losses for the three months and nine months ended September 30, 2014 or 2013.

($ in millions)	Three months ended		Nine months ended	
	September 30,		September 30,	
	2014	2013	2014	2013
Gain (loss) recognized in OCI on derivatives during the period	$ 10	$ (7)	$ 6	$ 2
Loss recognized in OCI on derivatives during the term of the hedging relationship	(8)	(19)	(8)	(19)
Loss reclassified from AOCI into income (net investment income)	(1)	--	(2)	(1)
Loss reclassified from AOCI into income (realized capital gains and losses)	--	--	(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 nine months ended September 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
Three months ended September 30, 2014						
Interest rate contracts	$ --	$ --	$ --	$ --	$ --	$ --
Equity and index contracts	(2)	--	4	(4)	--	(2)
Embedded derivative financial instruments	--	4	6	--	--	10
Foreign currency contracts	(7)	--	--	(5)	--	(12)
Credit default contracts	1	--	--	--	--	1
Other contracts	--	--	(1)	--	--	(1)
Total	$ (8)	$ 4	$ 9	$ (9)	$ --	$ (4)
Nine months ended September 30, 2014						
Interest rate contracts	$ (8)	$ --	$ --	$ --	$ (4)	$ (12)

Equity and index contracts	(13)	--	25	3	--	15
Embedded derivative financial instruments	--	8	(5)	--	--	3
Foreign currency contracts	(8)	--	--	(2)	--	(10)
Credit default contracts	4	--	--	--	--	4
Total	$ (25)	$ 8	$ 20	$ 1	$ (4)	$ --

	Realized capital gains and losses	Life and annuity contract benefits	Interest credited to contractholder funds	Operating costs and expenses	Total gain (loss) recognized in net income on derivatives
Three months ended September 30, 2013					
Interest rate contracts	$ (1)	$ --	$ --	$ --	$ (1)
Equity and index contracts	(4)	--	16	10	22
Embedded derivative financial instruments	--	10	(9)	--	1
Foreign currency contracts	--	--	--	11	11
Credit default contracts	(7)	--	--	--	(7)
Other contracts	--	--	--	--	--
Total	$ (12)	$ 10	$ 7	$ 21	$ 26
Nine months ended September 30, 2013					
Interest rate contracts	$ 2	$ --	$ --	$ --	$ 2
Equity and index contracts	(9)	--	63	23	77
Embedded derivative financial instruments	(1)	56	(35)	--	20
Foreign currency contracts	(4)	--	--	4	--
Credit default contracts	10	--	--	--	10
Other contracts	--	--	(3)	--	(3)
Total	$ (2)	$ 56	$ 25	$ 27	$ 106

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 September 30, 2014, counterparties pledged $4 million in cash and securities to the Company, and the Company pledged $24 million in cash and securities to counterparties which includes $6 million of collateral posted under MNAs for contracts containing credit-risk-contingent provisions that are in a liability position and $18 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)	**September 30, 2014**				**December 31, 2013**			
Rating (1)	**Number of counter-parties**	**Notional amount** (2)	**Credit exposure** (2)	**Exposure, net of collateral** (2)	**Number of counter-parties**	**Notional amount** (2)	**Credit exposure** (2)	**Exposure, net of collateral** (2)
A+	1	$ 16	$ --	$ --	1	$ 22	$ 1	$ 1
A	4	163	8	3	5	1,628	9	2
A-	1	8	1	1	1	24	1	--
BBB+	1	11	--	--	1	33	3	--
BBB	1	62	--	--	1	76	1	--
Total	8	$ 260	$ 9	$ 4	9	$ 1,783	$ 15	$ 3

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

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

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

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

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

($ in millions)		**September 30, 2014**		**December 31, 2013**
Gross liability fair value of contracts containing credit-risk-contingent features	$	16	$	28
Gross asset fair value of contracts containing credit-risk-contingent features and subject to MNAs		(6)		(11)
Collateral posted under MNAs for contracts containing credit-risk-contingent features		(6)		(14)
Maximum amount of additional exposure for contracts with credit-risk-contingent features if all features were triggered concurrently	$	4	$	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**						
		AA		**A**		**BBB**		**BB and lower**		**Total**	**Fair value**
September 30, 2014											
Single name											
Corporate debt	$	20	$	15	$	65	$	25	$	125 $	1
First-to-default Basket											
Municipal		--		100		--		--		100	(9)
Index											
Corporate debt		1		26		50		3		80	2
Total	$	21	$	141	$	115	$	28	$	305 $	(6)
December 31, 2013											
Single name											
Corporate debt	$	20	$	25	$	65	$	--	$	110 $	2

First-to-default Basket						
Municipal	--	100	--	--	100	(15)
Index						
Corporate debt	1	20	55	4	80	2
Total	$ 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 September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Property-liability insurance premiums earned	$ 258	$ 254	$ 778	$ 801
Life and annuity premiums and contract charges	89	160	326	482

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

($ in millions)	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Property-liability insurance claims and claims expense	$ 155	$ 154	$ 373	$ 596
Life and annuity contract benefits	81	117	286	288
Interest credited to contractholder funds	5	8	20	22

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 were used for general corporate purposes.

11. Company Restructuring

The Company undertakes various programs to reduce expenses. These programs generally involve a reduction in staffing levels, and in certain cases, office closures. Restructuring and related charges include employee termination and relocation benefits, and post-exit rent expenses in connection with these programs, and non-cash charges resulting from pension benefit payments made to agents in connection with the 1999 reorganization of Allstate s multiple agency programs to a single exclusive agency program. The expenses related to these activities are included in the Condensed Consolidated Statements of Operations as restructuring and related charges, and totaled $3 million and $13 million during the three months ended September 30, 2014 and 2013, respectively, and $13 million and $59 million during the nine months ended September 30, 2014 and 2013, respectively.

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

($ in millions)	**Employee costs**	**Exit costs**	**Total liability**
Balance as of December 31, 2013	$ 21	$ 3	$ 24
Expense incurred	3	1	4
Adjustments to liability	(5)	1	(4)
Payments applied against liability	(12)	(3)	(15)
Balance as of September 30, 2014	$ 7	$ 2	$ 9

The payments applied against the liability for employee costs primarily reflect severance costs, and the payments for exit costs generally consist of post-exit rent expenses and contract termination penalties. As of September 30, 2014, the cumulative amount incurred to date for active programs totaled $93 million for employee costs and $56 million for exit costs.

12. Guarantees and Contingent Liabilities

Shared markets and state facility assessments

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

Guarantees

The Company provides residual value guarantees on Company leased automobiles. If all outstanding leases were terminated effective September 30, 2014, the Company s maximum obligation pursuant to these guarantees, assuming the automobiles have no residual value, would be $36 million as of September 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 investments 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 investments, as measured by the amount of the aggregate initial investment, was $4 million as of September 30, 2014. The obligations associated with these investments 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 representations and warranties, taxes and certain other liabilities, such as third party lawsuits. The indemnification clauses are often standard contractual terms and are entered into in the normal course of business based on an assessment that the risk of loss would be remote. The terms of the indemnifications vary in duration and nature. In many cases, the maximum obligation is not explicitly stated and the contingencies triggering the obligation to indemnify have not occurred and are not expected to occur. Consequently, the maximum amount of the obligation under such indemnifications is not determinable. Historically, the Company has not made any material payments pursuant to these obligations.

The aggregate liability balance related to all guarantees was not material as of September 30, 2014.

Regulation and Compliance

The Company is subject to extensive laws, regulations, administrative directives, and regulatory actions. From time to time, regulatory authorities or legislative bodies seek to influence and restrict premium rates, require premium refunds to policyholders, require reinstatement of terminated policies, 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, impose fines and penalties for unintended errors or mistakes, and otherwise expand overall regulation of insurance products and the insurance industry. In addition, the Company is subject to laws and regulations administered and enforced by federal agencies and other organizations, including but not limited to the SEC, the FINRA, the EEOC, and the U.S. Department of Justice. The Company has established procedures and policies to facilitate compliance with laws and regulations, to foster prudent business operations, and to support financial reporting. The Company routinely reviews its practices to validate compliance with laws and regulations and with internal procedures and policies. As a result of these reviews, from time to time the Company may decide to modify some of its procedures and policies. Such modifications, and the reviews that led to them, may be accompanied by payments being made and costs being incurred. The ultimate changes and eventual effects of these actions on the Company s business, if any, are uncertain.

Legal and regulatory proceedings and inquiries

The Company and certain subsidiaries are involved in a number of lawsuits, regulatory inquiries, and other legal proceedings arising out of various aspects of its business.

Background

These matters raise difficult and complicated factual and legal issues and are subject to many uncertainties and complexities, including the underlying facts of each matter; novel legal issues; variations between jurisdictions in which matters are being litigated, heard, or investigated; 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.

The Company currently estimates that the aggregate range of reasonably possible loss in excess of the amount accrued, if any, for the disclosed matters where such an estimate is possible is zero to $685 million, pre-tax. This disclosure is not an indication of expected loss, if any. Under accounting guidance, an event is reasonably possible if the chance of the future event or events occurring is more than remote but less than likely and an event is remote if the chance of the future event or events occurring is slight. This estimate is based upon currently available information and is subject to significant judgment and a variety of assumptions, and known and unknown uncertainties. The matters underlying the estimate will change from time to time, and actual results may vary significantly from the current estimate. The estimate does not include matters or losses for which an estimate is not possible. Therefore, this estimate represents an estimate of possible loss only for certain matters meeting these criteria. It does not represent the Company s maximum possible loss exposure. Information is provided below regarding the nature of all of the disclosed matters and, where specified, the amount, if any, of plaintiff claims associated with these loss contingencies.

Due to the complexity and scope of the matters disclosed in the Claims related proceedings and Other proceedings subsections below and the many uncertainties that exist, the ultimate outcome of these matters cannot be predicted. In the event of an unfavorable outcome in one or more of these matters, the ultimate liability may be in excess of amounts currently accrued, if any, and may be material to the Company s operating results or cash flows for a particular quarterly or annual period. However, based on information currently known to it, management believes that the ultimate outcome of all matters described below, as they are resolved over time, is not likely to have a material effect on the financial position of the Company.

Claims related proceedings

Allstate is vigorously defending a class action lawsuit in Montana state court challenging aspects of its claim handling practices in Montana. The plaintiff alleges that the Company adjusts claims made by individuals who do not have attorneys in a manner that unfairly resulted in lower payments compared to claimants who were represented by attorneys. In January 2012, the court certified a class of Montana claimants who were not represented by attorneys with respect to the resolution of auto accident claims. The court certified the class to cover an indefinite period that commences in the mid-1990 s. The certified claims include claims for declaratory judgment, injunctive relief and punitive damages in an unspecified amount. Injunctive relief may include a claim process by which unrepresented claimants could request that their claims be readjusted. No compensatory damages are sought on behalf of the class. The Company appealed the order certifying the class. In August 2013, the Montana Supreme Court affirmed in part, and reversed in part, the lower court s order granting plaintiff s motion for class certification and remanded the case for trial. The Company petitioned for rehearing of the Montana Supreme Court s decision, which the Court denied. 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. In April 2012, the trial court certified the class, and Allstate appealed to the Ninth Circuit Court of Appeals. On September 3, 2014, the Ninth Circuit affirmed the trial court s decision to certify the class, and Allstate filed a motion for rehearing en banc. In addition to off-the-clock claims, the plaintiffs in this case allege other California Labor Code violations resulting from purported unpaid overtime. The class in this case 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 addition to the California class actions, a case was filed in the U.S. District Court for the Eastern District of New York alleging that no-fault claim adjusters have been improperly classified as exempt employees under New York Labor Law and the Fair Labor Standards Act. The case was filed in April 2011, and the plaintiffs are seeking unpaid wages, liquidated damages, injunctive relief, compensatory and punitive damages, and attorneys fees. On September 16, 2014, the court certified a class of no-fault adjusters under New York Labor Law and refused to decertify a Fair Labor Standards Act class of no-fault adjusters. 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. The current focus in these matters relates to a release of claims signed by the vast majority of agents who were participants in the reorganization program. These matters include the following:

- In 2001, the U.S. Equal Employment Opportunity Commission (EEOC) filed suit alleging retaliation under federal civil rights laws (EEOC I), and a putative class action was filed 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. In June 2007, the court vacated its prior ruling that the release was voidable and granted the Company s motions for summary judgment on all claims. Plaintiffs appealed and in July 2009, the U.S. Court of Appeals for 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. The Third Circuit held that if the release is held to be valid, then all of the claims in Romero I and EEOC I are barred. Thus, if the release is upheld, then only the claims in Romero I asserted by the small group of employee agents who did not sign the release 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, on behalf of a putative class of approximately 6,300 former employee agents, 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.

Discovery limited to the validity of the release was completed and the parties filed cross motions for summary judgment with respect to the validity of the release. On February 28, 2014, the trial court denied plaintiffs and Allstate s motions for summary judgment in Romero I and held 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 a class as to certain issues relating to the validity of the release. On October 6, 2014, the court denied class certification and stated, among other things, that multiple individual factors must be considered to determine whether the release was signed knowingly and voluntarily under a totality of circumstances test. The time has expired for plaintiffs to seek an interlocutory appeal of the Court s October 6, 2014 order denying class certification. Trial proceedings are scheduled to commence in the second quarter of 2015 for individual plaintiffs to determine the question of whether their releases were knowingly and voluntarily signed. 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. Individual damage claims are subject to variation dependent upon retirement dates, participation in employee benefit programs, and years of service and are also subject to reduction by amounts and benefits received by plaintiffs and putative class members subsequent to their employment termination.

• A putative nationwide class action has also been filed by former employee agents alleging various violations of ERISA (Romero II). These plaintiffs, most of whom are also plaintiffs in Romero I, are challenging certain amendments to the Agents Pension Plan and seek to have service as exclusive agent independent contractors count toward eligibility for benefits under the Agents Pension Plan. 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 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. 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 loss of benefits as a result of their conversion to exclusive agent independent contractor status or retirement 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. As in Romero I and EEOC I, no discovery related to the damages of the putative class has occurred, and discovery limited to issues relating to the validity of the release has been completed. The parties filed cross motions for summary judgment with respect to the validity of the release. On February 28, 2014, the trial court denied plaintiffs and Allstate s motions for summary judgment in Romero I and II and held 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 May 23, 2014, plaintiffs moved to certify a class as to certain issues relating to the validity of the release. On October 6, 2014, the court denied class certification and stated, among other things, that multiple individual factors must be considered to determine whether the release was signed knowingly and voluntarily under a totality of circumstances test. The time has expired for plaintiffs to seek an interlocutory appeal of the Court s October 6, 2014 order denying class certification. Trial proceedings are scheduled to commence in the second quarter of 2015 for individual plaintiffs to determine the question of whether their releases were knowingly and voluntarily signed.

In these matters, the threshold issue of the validity and scope of the 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. The final resolution of these matters is subject to various uncertainties and complexities including how individual trials and possible appeals with respect to the validity of the release will be resolved and how the EEOC s appeal from summary judgment in the Company s favor will be resolved. Depending upon how these issues are resolved, the Company may or may not have to address the merits of plaintiffs claims relating to the reorganization discussed herein. In the Company s judgment a loss is not probable. Allstate has been vigorously defending these lawsuits and other matters related to its agency program reorganization.

Asbestos and environmental

Allstate s reserves for asbestos claims were $1.05 billion and $1.02 billion, net of reinsurance recoverables of $494 million and $478 million, as of September 30, 2014 and December 31, 2013, respectively. Reserves for environmental claims were $211 million and $208 million, net of reinsurance recoverables of $66 million and $60 million, as of September 30, 2014 and December 31, 2013, respectively. Approximately 57% and 55% of the total net asbestos and environmental reserves as of September 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 September 30, 2014	Three months ended September 30, 2013	Nine months ended September 30, 2014	Nine months ended September 30, 2013
Pension benefits				
Service cost	$ 24	$ 32	$ 72	$ 111
Interest cost	63	66	191	198
Expected return on plan assets	(99)	(100)	(298)	(293)
Amortization of:				
Prior service credit	(14)	(12)	(43)	(13)
Net actuarial loss	29	54	86	184
Settlement loss	11	85	33	104
Net periodic pension cost	$ 14	$ 125	$ 41	$ 291
Postretirement benefits				
Service cost	$ 3	$ 3	$ 8	$ 10
Interest cost	6	6	17	23
Amortization of:				
Prior service credit	(6)	(5)	(17)	(17)
Net actuarial gain	(6)	(5)	(17)	(11)
Curtailment gain	--	(181)	--	(181)
Net periodic postretirement credit	$ (3)	$ (182)	$ (9)	$ (176)

14. Reporting Segments

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

($ in millions)	**Three months ended September 30,**		**Nine months ended September 30,**	
	2014	**2013**	**2014**	**2013**
Revenues				
Property-Liability				
Property-liability insurance premiums				
Auto	$ 4,890	$ 4,645	$ 14,426	$ 13,774
Homeowners	1,740	1,679	5,151	4,925
Other personal lines	418	410	1,244	1,219
Commercial lines	120	114	351	341
Other business lines	138	124	402	345
Allstate Protection	7,306	6,972	21,574	20,604
Discontinued Lines and Coverages	1	--	1	--
Total property-liability insurance premiums	7,307	6,972	21,575	20,604
Net investment income	344	309	1,007	993
Realized capital gains and losses	266	(26)	569	391
Total Property-Liability	7,917	7,255	23,151	21,988
Allstate Financial				
Life and annuity premiums and contract charges				
Traditional life insurance	126	120	378	355
Immediate annuities with life contingencies	--	6	5	22
Accident and health insurance	182	180	564	539
Total life and annuity premiums	308	306	947	916
Interest-sensitive life insurance	200	272	676	813
Fixed annuities	4	6	14	13
Total contract charges	204	278	690	826
Total life and annuity premiums and contract charges	512	584	1,637	1,742
Net investment income	473	633	1,651	1,901
Realized capital gains and losses	28	(16)	19	60
Total Allstate Financial	1,013	1,201	3,307	3,703
Corporate and Other				
Service fees	1	3	4	6
Net investment income	6	8	22	23
Realized capital gains and losses	--	1	--	1
Total Corporate and Other before reclassification of service fees	7	12	26	30
Reclassification of service fees (1)	(1)	(3)	(4)	(6)
Total Corporate and Other	6	9	22	24
Consolidated revenues	$ 8,936	$ 8,465	$ 26,480	$ 25,715

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

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

($ in millions)	Three months ended September 30, 2014	Three months ended September 30, 2013	Nine months ended September 30, 2014	Nine months ended September 30, 2013
Net income				
Property-Liability				
Underwriting income				
Allstate Protection	$ 579	$ 831	$ 1,146	$ 1,566
Discontinued Lines and Coverages	(105)	(134)	(111)	(142)
Total underwriting income	474	697	1,035	1,424
Net investment income	344	309	1,007	993
Income tax expense on operations	(276)	(333)	(686)	(780)
Realized capital gains and losses, after-tax	173	(17)	368	253
(Loss) gain on disposition of operations, after-tax	(1)	--	37	(1)
Property-Liability net income available to common shareholders	714	656	1,761	1,889
Allstate Financial				
Life and annuity premiums and contract charges	512	584	1,637	1,742
Net investment income	473	633	1,651	1,901
Periodic settlements and accruals on non-hedge derivative instruments	--	2	(1)	17
Contract benefits and interest credited to contractholder funds	(633)	(800)	(2,033)	(2,380)
Operating costs and expenses and amortization of deferred policy acquisition costs	(171)	(241)	(540)	(670)
Restructuring and related charges	1	(4)	(2)	(7)
Income tax expense on operations	(57)	(47)	(233)	(175)
Operating income	125	127	479	428
Realized capital gains and losses, after-tax	19	(12)	13	37
Valuation changes on embedded derivatives that are not hedged, after-tax	2	(10)	(12)	(13)
DAC and DSI amortization related to realized capital gains and losses and valuation changes on embedded derivatives that are not hedged, after-tax	(3)	1	(3)	(2)
DAC and DSI unlocking related to realized capital gains and losses, after-tax	--	7	--	7
Reclassification of periodic settlements and accruals on non-hedge derivative instruments, after-tax	--	(1)	1	(11)
Loss on disposition of operations, after-tax	(27)	(472)	(55)	(470)
Allstate Financial net income (loss) available to common shareholders	116	(360)	423	(24)
Corporate and Other				
Service fees (1)	1	3	4	6
Net investment income	6	8	22	23
Operating costs and expenses (1)	(84)	(162)	(276)	(366)
Income tax benefit on operations	28	58	92	130
Preferred stock dividends	(31)	(6)	(75)	(6)
Operating loss	(80)	(99)	(233)	(213)
Realized capital gains and losses, after-tax	--	1	--	1
Loss on extinguishment of debt, after-tax	--	(6)	--	(318)
Postretirement benefits curtailment gain, after-tax	--	118	--	118
Corporate and Other net (loss) income available to common shareholders	(80)	14	(233)	(412)
Consolidated net income available to common shareholders	$ 750	$ 310	$ 1,951	$ 1,453

(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 September 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	$ (203)	$ 70	$ (133)	$ 68	$ (23)	$ 45
Less: reclassification adjustment of realized capital gains and losses	293	(103)	190	(28)	10	(18)
Unrealized net capital gains and losses	(496)	173	(323)	96	(33)	63
Unrecognized pension and other postretirement benefit cost arising during the period	4	(2)	2	934	(327)	607
Less: reclassification adjustment of net periodic cost recognized in operating costs and expenses	(14)	4	(10)	(117)	40	(77)
Unrecognized pension and other postretirement benefit cost	18	(6)	12	1,051	(367)	684
Unrealized foreign currency translation adjustments	(26)	9	(17)	20	(7)	13
Other comprehensive (loss) income	$ (504)	$ 176	(328)	$ 1,167	$ (407)	760
Net income			781			316
Comprehensive income			$ 453			$ 1,076

	Nine months ended September 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	$ 777	$ (272)	$ 505	$ (1,285)	$ 450	$ (835)
Less: reclassification adjustment of realized capital gains and losses	499	(175)	324	438	(153)	285
Unrealized net capital gains and losses	278	(97)	181	(1,723)	603	(1,120)
Unrecognized pension and other postretirement benefit cost arising during the period	4	(1)	3	943	(329)	614
Less: reclassification adjustment of net periodic cost recognized in operating costs and expenses	(42)	14	(28)	(247)	86	(161)
Unrecognized pension and other postretirement benefit cost	46	(15)	31	1,190	(415)	775
Unrealized foreign currency translation adjustments	(31)	11	(20)	(31)	11	(20)
Other comprehensive income (loss)	$ 293	$ (101)	192	$ (564)	$ 199	(365)
Net income			2,026			1,459
Comprehensive income			$ 2,218			$ 1,094

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 September 30, 2014, and the related condensed consolidated statements of operations and comprehensive income for the three-month and nine-month periods ended September 30, 2014 and 2013, and of shareholders equity and cash flows for the nine-month periods ended September 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

October 29, 2014

Item 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE THREE-MONTH AND NINE-MONTH PERIODS ENDED SEPTEMBER 30, 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 $750 million in the third quarter of 2014 compared to $310 million in the third quarter of 2013, and $1.95 billion in the first nine months of 2014 compared to $1.45 billion in the first nine months of 2013. Net income available to common shareholders per diluted common share was $1.74 in the third quarter of 2014 compared to $0.66 in the third quarter of 2013, and $4.42 in the first nine months of 2014 compared to $3.07 in the first nine months of 2013. Third quarter 2013 consolidated net income included an estimated loss on disposition on Lincoln Benefit Life Company (LBL) of $475 million, after-tax, a postretirement benefits curtailment gain of $118 million, after-tax, and pension settlement losses of $49 million, after-tax. Third quarter and the first nine months of 2013 consolidated net income included a loss on extinguishment of debt of $6 million and $318 million, after-tax, respectively. These items were recorded in the Corporate and Other segment except for the LBL sale that was recorded in the Allstate Financial segment.

- Property-Liability net income available to common shareholders was $714 million in the third quarter of 2014 compared to $656 million in the third quarter of 2013, and $1.76 billion in the first nine months of 2014 compared to $1.89 billion in the first nine months of 2013.

- The Property-Liability combined ratio was 93.5 in the third quarter of 2014 compared to 90.0 in the third quarter of 2013, and 95.2 in the first nine months of 2014 compared to 93.1 in the first nine months of 2013.

- Allstate Financial net income available to common shareholders was $116 million in the third quarter of 2014 and $423 million in the first nine months of 2014 compared to net loss available to common shareholders of $360 million in the third quarter of 2013 and $24 million in the first nine months of 2013.

- Total revenues were $8.94 billion in the third quarter of 2014 compared to $8.47 billion in the third quarter of 2013, and $26.48 billion in the first nine months of 2014 compared to $25.72 billion in the first nine months of 2013.

- Property-Liability premiums earned totaled $7.31 billion in the third quarter of 2014, an increase of 4.8% from $6.97 billion in the third quarter of 2013, and $21.58 billion in the first nine months of 2014, an increase of 4.7% from $20.60 billion in the first nine months of 2013.

- Investments totaled $80.72 billion as of September 30, 2014, decreasing from $81.16 billion as of December 31, 2013. Net investment income was $823 million in the third quarter of 2014, a decrease of 13.4% from $950 million in the third quarter of 2013, and $2.68 billion in the first nine months of 2014, a decrease of 8.1% from $2.92 billion in the first nine months of 2013.

- Net realized capital gains were $294 million in the third quarter of 2014 compared to net realized capital losses of $41 million in the third quarter of 2013, and net realized capital gains were $588 million in the first nine months of 2014 compared to net realized capital gains of $452 million in the first nine months of 2013.

- Book value per diluted common share (ratio of common shareholders equity to total common shares outstanding and dilutive potential common shares outstanding) was $48.28 as of September 30, 2014, an increase of 11.0% from $43.49 as of September 30, 2013, and an increase of 6.6% from $45.31 as of December 31, 2013.

- For the twelve months ended September 30, 2014, return on the average of beginning and ending period common shareholders equity of 13.6% increased by 4.6 points from 9.0% for the twelve months ended September 30, 2013.

- As of September 30, 2014, shareholders equity was $22.33 billion. This total included $2.33 billion in deployable assets at the parent holding company level.

CONSOLIDATED NET INCOME

($ in millions)	**Three months ended September 30,**		**Nine months ended September 30,**	
	2014	**2013**	**2014**	**2013**
Revenues				
Property-liability insurance premiums	$ 7,307	$ 6,972	$ 21,575	$ 20,604
Life and annuity premiums and contract charges	512	584	1,637	1,742
Net investment income	823	950	2,680	2,917
Realized capital gains and losses:				
Total other-than-temporary impairment losses	(53)	(96)	(177)	(178)
Portion of loss recognized in other comprehensive income	--	8	(2)	(7)
Net other-than-temporary impairment losses recognized in earnings	(53)	(88)	(179)	(185)
Sales and other realized capital gains and losses	347	47	767	637
Total realized capital gains and losses	294	(41)	588	452
Total revenues	8,936	8,465	26,480	25,715
Costs and expenses				
Property-liability insurance claims and claims expense	(4,909)	(4,427)	(14,810)	(13,628)
Life and annuity contract benefits	(433)	(498)	(1,334)	(1,427)
Interest credited to contractholder funds	(198)	(317)	(717)	(973)
Amortization of deferred policy acquisition costs	(1,030)	(1,026)	(3,100)	(2,933)
Operating costs and expenses	(1,068)	(937)	(3,185)	(3,129)
Restructuring and related charges	(3)	(13)	(13)	(59)
Loss on extinguishment of debt	--	(9)	(1)	(489)
Interest expense	(78)	(83)	(249)	(280)
Total costs and expenses	(7,719)	(7,310)	(23,409)	(22,918)
Loss on disposition of operations	(27)	(646)	(77)	(644)
Income tax expense	(409)	(193)	(968)	(694)
Net income	781	316	2,026	1,459
Preferred stock dividends	(31)	(6)	(75)	(6)
Net income available to common shareholders	$ 750	$ 310	$ 1,951	$ 1,453
Property-Liability	$ 714	$ 656	$ 1,761	$ 1,889
Allstate Financial	116	(360)	423	(24)

Corporate and Other		(80)		14		(233)		(412)
Net income available to common shareholders	$	750	$	310	$	1,951	$	1,453

PROPERTY-LIABILITY HIGHLIGHTS

- Property-Liability net income available to common shareholders was $714 million in the third quarter of 2014 compared to $656 million in the third quarter of 2013, and $1.76 billion in the first nine months of 2014 compared to $1.89 billion in the first nine months of 2013.

- Property-Liability premiums written totaled $7.81 billion in the third quarter of 2014, an increase of 4.9% from $7.44 billion in the third quarter of 2013, and $22.32 billion in the first nine months of 2014, an increase of 5.2% from $21.21 billion in the first nine months of 2013.

- The Property-Liability loss ratio was 67.2 in the third quarter of 2014 compared to 63.5 in the third quarter of 2013, and 68.6 in the first nine months of 2014 compared to 66.1 in the first nine months of 2013.

- Catastrophe losses were $517 million in the third quarter of 2014 compared to $128 million in the third quarter of 2013, and $1.90 billion in the first nine months of 2014 compared to $1.13 billion in the first nine months of 2013.

- Property-Liability prior year reserve reestimates totaled $11 million unfavorable in the third quarter of 2014 compared to $34 million unfavorable in the third quarter of 2013, and $8 million favorable in the first nine months of 2014 compared to $59 million favorable in the first nine months of 2013. These amounts include $102 million unfavorable and $133 million unfavorable reestimates from our annual Discontinued Lines and Coverages reserve reviews in the third quarter of 2014 and 2013, respectively.

- Property-Liability underwriting income was $474 million in the third quarter of 2014 compared to $697 million in the third quarter of 2013, and $1.04 billion in the first nine months of 2014 compared to $1.42 billion in the first nine 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 $39.93 billion as of September 30, 2014, an increase of 0.7% from $39.64 billion as of December 31, 2013. Net investment income was $344 million in the third quarter of 2014, an increase of 11.3% from $309 million in the third quarter of 2013, and $1.01 billion in the first nine months of 2014, an increase of 1.4% from $993 million in the first nine months of 2013.

- Net realized capital gains were $266 million in the third quarter of 2014 compared to net realized capital losses of $26 million in the third quarter of 2013, and net realized capital gains of $569 million in the first nine months of 2014 compared to net realized capital gains of $391 million in the first nine 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.

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

($ in millions, except ratios)	**Three months ended September 30,**		**Nine months ended September 30,**	
	2014	**2013**	**2014**	**2013**
Premiums written	$ 7,806	$ 7,438	$ 22,322	$ 21,214
Revenues				
Premiums earned	$ 7,307	$ 6,972	$ 21,575	$ 20,604
Net investment income	344	309	1,007	993
Realized capital gains and losses	266	(26)	569	391
Total revenues	7,917	7,255	23,151	21,988
Costs and expenses				
Claims and claims expense	(4,909)	(4,427)	(14,810)	(13,628)
Amortization of DAC	(972)	(929)	(2,902)	(2,690)
Operating costs and expenses	(948)	(910)	(2,817)	(2,810)
Restructuring and related charges	(4)	(9)	(11)	(52)
Total costs and expenses	(6,833)	(6,275)	(20,540)	(19,180)
(Loss) gain on disposition of operations	(1)	--	16	(1)
Income tax expense	(369)	(324)	(866)	(918)
Net income available to common shareholders	$ 714	$ 656	$ 1,761	$ 1,889
Underwriting income	$ 474	$ 697	$ 1,035	$ 1,424
Net investment income	344	309	1,007	993
Income tax expense on operations	(276)	(333)	(686)	(780)
Realized capital gains and losses, after-tax	173	(17)	368	253
(Loss) gain on disposition of operations, after-tax	(1)	--	37	(1)
Net income available to common shareholders	$ 714	$ 656	$ 1,761	$ 1,889
Catastrophe losses (1)	$ 517	$ 128	$ 1,898	$ 1,134
GAAP operating ratios				
Claims and claims expense ratio	67.2	63.5	68.6	66.1
Expense ratio	26.3	26.5	26.6	27.0
Combined ratio	93.5	90.0	95.2	93.1
Effect of catastrophe losses on combined ratio (1)	7.1	1.8	8.8	5.5
Effect of prior year reserve reestimates on combined ratio (1)	0.1	0.5	--	(0.3)
Effect of amortization of purchased intangible assets on combined ratio	0.2	0.3	0.2	0.3
Effect of restructuring and related charges on combined ratio	0.1	0.1	0.1	0.3
Effect of Discontinued Lines and Coverages on combined ratio	1.4	1.9	0.5	0.7

(1) Prior year reserve reestimates included in catastrophe losses totaled $6 million and $44 million unfavorable in the three months and nine months ended September 30, 2014, respectively, compared to $34 million and $84 million favorable in the three months and nine months ended September 30, 2013, respectively.

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

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

($ in millions)	Three months ended September 30, 2014	Three months ended September 30, 2013	Nine months ended September 30, 2014	Nine months ended September 30, 2013
Premiums written:				
Allstate Protection	$ 7,805	$ 7,438	$ 22,321	$ 21,214
Discontinued Lines and Coverages	1	--	1	--
Property-Liability premiums written	7,806	7,438	22,322	21,214
Increase in unearned premiums	(512)	(518)	(797)	(656)
Other	13	52	50	46
Property-Liability premiums earned	$ 7,307	$ 6,972	$ 21,575	$ 20,604
Premiums earned:				
Allstate Protection	$ 7,306	$ 6,972	$ 21,574	$ 20,604
Discontinued Lines and Coverages	1	--	1	--
Property-Liability	$ 7,307	$ 6,972	$ 21,575	$ 20,604

ALLSTATE PROTECTION SEGMENT

Premiums written by brand are shown in the following table.

($ in millions)	Three months ended September 30,							
	Allstate brand		Encompass brand		Esurance brand		Allstate Protection	
	2014	2013	2014	2013	2014	2013	2014	2013
Auto	$ 4,490	$ 4,280	$ 178	$ 172	$ 403	$ 357	$ 5,071	$ 4,809
Homeowners	1,831	1,779	137	129	3	--	1,971	1,908
Other personal lines (1)	426	417	28	28	2	1	456	446
Subtotal Personal lines	6,747	6,476	343	329	408	358	7,498	7,163
Commercial lines	122	114	--	--	--	--	122	114
Other business lines (2)	185	161	--	--	--	--	185	161
Total	$7,054	$6,751	$ 343	$ 329	$ 408	$ 358	$ 7,805	$ 7,438

	Nine months ended September 30,							
	Allstate brand		Encompass brand		Esurance brand		Allstate Protection	
	2014	2013	2014	2013	2014	2013	2014	2013
Auto	$ 13,157	$ 12,605	$ 505	$ 486	$ 1,145	$ 993	$ 14,807	$ 14,084
Homeowners	4,938	4,740	383	346	5	--	5,326	5,086
Other personal lines (1)	1,193	1,171	82	79	4	2	1,279	1,252
Subtotal Personal lines	19,288	18,516	970	911	1,154	995	21,412	20,422

Commercial lines	368	347	--	--	--	--	368	347
Other business lines (2)	541	445	--	--	--	--	541	445
Total	$20,197	$19,308	$ 970	$ 911	$ 1,154	$ 995	$ 22,321	$ 21,214

(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 September 30,							
	Allstate brand		Encompass brand		Esurance brand		Allstate Protection	
	2014	2013	2014	2013	2014	2013	2014	2013
Auto	$ 4,352	$ 4,165	$ 168	$ 158	$ 370	$ 322	$ 4,890	$ 4,645
Homeowners	1,616	1,568	123	111	1	--	1,740	1,679
Other personal lines	389	384	27	26	2	--	418	410
Subtotal Personal lines	6,357	6,117	318	295	373	322	7,048	6,734
Commercial lines	120	114	--	--	--	--	120	114
Other business lines	138	124	--	--	--	--	138	124
Total	$6,615	$6,355	$ 318	$ 295	$ 373	$ 322	$ 7,306	$ 6,972

	Nine months ended September 30,							
	Allstate brand		Encompass brand		Esurance Brand		Allstate Protection	
	2014	2013	2014	2013	2014	2013	2014	2013
Auto	$ 12,858	$ 12,392	$ 491	$ 471	$ 1,077	$ 911	$ 14,426	$ 13,774
Homeowners	4,790	4,609	360	316	1	--	5,151	4,925
Other personal lines	1,161	1,143	79	75	4	1	1,244	1,219
Subtotal Personal lines	18,809	18,144	930	862	1,082	912	20,821	19,918
Commercial lines	351	341	--	--	--	--	351	341
Other business lines	402	345	--	--	--	--	402	345
Total	$19,562	$18,830	$ 930	$ 862	$ 1,082	$ 912	$ 21,574	$ 20,604

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.

Auto premiums written totaled $5.07 billion in the third quarter of 2014, a 5.4% increase from $4.81 billion in the third quarter of 2013, and $14.81 billion in the first nine months of 2014, a 5.1% increase from $14.08 billion in the first nine months of 2013.

	Allstate brand		Encompass brand		Esurance brand	
Three months ended September 30,	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**
PIF (thousands)	19,751	19,247	792	767	1,410	1,254
Average premium (2)	$ 481	$ 467	$ 898	$ 879	$ 499	$ 480
Renewal ratio (%)	88.9	88.7	79.4	79.4	78.4	79.9
Approved rate changes (3):						
# of locations	20 (7)	12	9	9	15	14
Total brand (%) (4)	0.9	0.7	0.9	1.4	0.6	1.1
Location specific (%) (5) (6)	3.7	3.1	4.1	5.7	3.1	5.2
Nine months ended September 30,						
PIF (thousands)	19,751	19,247	792	767	1,410	1,254
Average premium (2)	$ 477	$ 466	$ 893	$ 878	$ 498	$ 485
Renewal ratio (%)	89.0	88.5	79.7	78.6	79.6	80.9
Approved rate changes (3):						
# of locations	43 (7)	29	21	23	36	30
Total brand (%) (4)	1.6 (1)	1.1	3.8	3.8	4.5	3.7
Location specific (%) (5) (6)	2.4	2.3	6.0	5.5	6.5	5.0

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(1) Allstate brand (excluding Canada) rate changes in the nine months ended September 30, 2014 were 2.3%.

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

(3) 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.

(4) Represents the impact in the states and Canadian provinces where rate changes were approved during the period as a percentage of total brand prior year-end premiums written.

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

(6) Based on historical premiums written in those states and Canadian provinces, rate changes approved for auto totaled $162 million and $363 million in the three months and nine months ended September 30, 2014, respectively, compared to $133 million and $228 million in the three months and nine months ended September 30, 2013, respectively.

(7) Three months ended September 30, 2014 includes 1 Canadian province and the District of Columbia. Nine months ended September 30, 2014 includes 4 Canadian provinces and the District of Columbia.

Allstate brand auto premiums written totaled $4.49 billion in the third quarter of 2014, a 4.9% increase from $4.28 billion in the third quarter of 2013, and $13.16 billion in the first nine months of 2014, a 4.4% increase from $12.61 billion in the first nine months of 2013. Factors impacting premiums written were the following:

2.6% or 504 thousand increase in PIF as of September 30, 2014 compared to September 30, 2013.

12.4% increase in new issued applications to 809 thousand in the third quarter of 2014 from 720 thousand in the third quarter of 2013, and 10.0% increase to 2,293 thousand in the first nine months of 2014 from 2,085 thousand in the first nine months of 2013.

3.0% and 2.4% increase in average premium in the third quarter and first nine months of 2014, respectively, compared to the same periods of 2013.

0.2 point and 0.5 point increase in the renewal ratio in the third quarter and first nine 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 were 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. Management is pursuing various actions to lessen the impact of the rate decrease, a number of which are currently being implemented.

Encompass brand auto premiums written totaled $178 million in the third quarter of 2014, a 3.5% increase from $172 million in the third quarter of 2013, and $505 million in the first nine months of 2014, an increase of 3.9%

from $486 million in the first nine months of 2013. The increase was primarily due to a 3.3% or 25 thousand increase in PIF as of September 30, 2014 compared to September 30, 2013. New issued applications decreased 20.9% to 34 thousand in the third quarter of 2014 from 43 thousand in the third quarter of 2013, and decreased 10.1% to 107 thousand in the first nine months of 2014 from 119 thousand in the first nine months of 2013 primarily due to rate actions in certain states. Average premium increased 2.2% and 1.7% in the third quarter and first nine months of 2014, respectively, compared to the same periods of 2013. The renewal ratio of 79.4% in the third quarter of 2014 was comparable to the third quarter of 2013. The renewal ratio increased 1.1 points in the first nine months of 2014 compared to the same period 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 $403 million in the third quarter of 2014, a 12.9% increase from $357 million in the third quarter of 2013, and $1.15 billion in the first nine months of 2014, an increase of 15.3% from $993 million in the first nine months of 2013. The increase was primarily due to a 12.4% or 156 thousand increase in PIF as of September 30, 2014 compared to September 30, 2013. New issued applications decreased 3.7% to 181 thousand in the third quarter of 2014 from 188 thousand in the third quarter of 2013, and 1.0% to 579 thousand in the first nine months of 2014 from 585 thousand in the first nine 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. Rate actions are taken where profit margin targets are not being achieved. The rate changes in the third quarter and year to date were taken in states and segments where we identified the greatest opportunity. Average premium increased 4.0% and 2.7% in the third quarter and first nine months of 2014, respectively, compared to the same periods of 2013. The renewal ratio decreased 1.5 points and 1.3 points in the third quarter and first nine months of 2014, respectively, compared to the same periods of 2013.

Our Allstate branded Drivewise® and Esurance DriveSense offerings are usage-based insurance programs that use in-car devices or a mobile application to capture driving behaviors and reward customers for driving safely. We continue to invest in these programs and they are growing in utilization. We are also testing additional features which extend the benefits of being connected beyond more accurate pricing.

Homeowners premiums written totaled $1.97 billion in the third quarter of 2014, a 3.3% increase from $1.91 billion in the third quarter of 2013, and $5.33 billion in the first nine months of 2014, a 4.7% increase from $5.09 billion in the first nine months of 2013. Excluding the cost of catastrophe reinsurance, premiums written increased 3.1% and 3.8% in the third quarter and first nine months of 2014, respectively, compared to the same periods of 2013.

	Allstate brand		Encompass brand		Esurance brand
Three months ended September 30,	**2014**	**2013**	**2014**	**2013**	**2014**
PIF (thousands)	6,082	6,077	365	350	6
Average premium (12 months)	$ 1,144	$ 1,119	$ 1,471	$ 1,390	$ 829
Renewal ratio (%) (12 months)	88.6	88.0	84.8	87.4	N/A
Approved rate changes (1):					
# of locations	6	3	7	11	N/A
Total brand (%)	0.2	0.3	0.6	1.4	N/A
Location specific (%) (2)	6.0	6.8	6.5	6.9	N/A
Nine months ended September 30,					
PIF (thousands)	6,082	6,077	365	350	6
Average premium (12 months)	$ 1,139	$ 1,111	$ 1,450	$ 1,368	$ 821
Renewal ratio (%) (12 months)	88.4	87.6	85.8	86.7	N/A
Approved rate changes (1):					
# of locations	22(3)	25	17	26	N/A
Total brand (%)	0.8	2.1	2.2	4.7	N/A
Location specific (%) (2)	4.7	5.4	7.5	6.4	N/A

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(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 and Canadian provinces, rate changes approved for homeowners totaled $21 million and $72 million in the three months and nine months ended September 30, 2014, respectively, compared to $22 million and $150 million in the three months and nine months ended September 30, 2013, respectively.

(3) Includes 2 Canadian provinces.

N/A reflects not applicable.

Allstate brand homeowners premiums written totaled $1.83 billion in the third quarter of 2014, a 2.9% increase from $1.78 billion in the third quarter of 2013, and $4.94 billion in the first nine months of 2014, a 4.2% increase from $4.74 billion in the first nine months of 2013. Factors impacting premiums written were the following:

0.1% or 5 thousand increase in PIF as of September 30, 2014 compared to September 30, 2013 due to increases in new issued applications and retention.

11.7% increase in new issued applications to 201 thousand in the third quarter of 2014 from 180 thousand in the third quarter of 2013, and 16.9% increase to 547 thousand in the first nine months of 2014 from 468 thousand in the first nine months of 2013.

2.2% and 2.5% increase in average premium in the third quarter and first nine months of 2014, respectively, compared to the same periods of 2013 primarily due to rate changes as well as increasing insured home valuations.

0.6 point and 0.8 point increase in the renewal ratio in the third quarter and first nine months of 2014, respectively, compared to the same periods of 2013.

$1 million decrease in the cost of our catastrophe reinsurance program to $95 million in the third quarter of 2014 from $96 million in the third quarter of 2013, and $37 million decrease to $290 million in the first nine months of 2014 from $327 million in the first nine months of 2013.

Premiums written for Allstate s House and Home® product, our redesigned homeowners new business offering currently available in 30 states, totaled $280 million in the third quarter of 2014 compared to $148 million in the third quarter of 2013, and $664 million in the first nine months of 2014 compared to $317 million in the first nine 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 $137 million in the third quarter of 2014, a 6.2% increase from $129 million in the third quarter of 2013, and $383 million in the first nine months of 2014, a 10.7% increase from $346 million in the first nine months of 2013. The increase was primarily due to a 4.3% or 15 thousand increase in PIF as of September 30, 2014 compared to September 30, 2013. New issued applications decreased 18.2% to 18 thousand in the third quarter of 2014 from 22 thousand in the third quarter of 2013, and decreased 9.8% to 55 thousand in the first nine months of 2014 from 61 thousand in the first nine months of 2013 due to rate actions in certain states. Average premium increased 5.8% and 6.0% in the third quarter and first nine months of 2014, respectively, compared to the same periods of 2013. The renewal ratio decreased 2.6 points and 0.9 points in the third quarter and first nine months of 2014, respectively, compared to the same periods of 2013.

Esurance brand homeowners premiums written totaled $3 million and $5 million in the third quarter and first nine months of 2014, respectively. New issued applications totaled 5 thousand and 7 thousand in the third quarter and first nine months of 2014, respectively. As of September 30, 2014, Esurance is writing homeowners insurance in 11 states with lower hurricane risk.

Other personal lines Allstate brand other personal lines premiums written totaled $426 million in the third quarter of 2014, a 2.2% increase from $417 million in the third quarter of 2013, and $1.19 billion in the first nine months of 2014, a 1.9% increase from $1.17 billion in the first nine months of 2013. The increase primarily relates to renter and condominium insurance.

Commercial lines premiums written totaled $122 million in the third quarter of 2014, a 7.0% increase from $114 million in the third quarter of 2013, and $368 million in the first nine months of 2014, a 6.1% increase from $347 million in the first nine months of 2013. The increase was driven by higher renewals, improved pricing sophistication and increased new business resulting from a new customized package product for business owners.

Other business lines premiums written totaled $185 million in the third quarter of 2014, a 14.9% increase from $161 million in the third quarter of 2013, and $541 million in the first nine months of 2014, a 21.6% increase from $445 million in the first nine 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 September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Premiums written	$ 7,805	$ 7,438	$ 22,321	$ 21,214
Premiums earned	$ 7,306	$ 6,972	$ 21,574	$ 20,604
Claims and claims expense	(4,804)	(4,292)	(14,700)	(13,487)
Amortization of DAC	(972)	(929)	(2,902)	(2,690)
Other costs and expenses	(947)	(911)	(2,815)	(2,809)
Restructuring and related charges	(4)	(9)	(11)	(52)
Underwriting income	$ 579	$ 831	$ 1,146	$ 1,566
Catastrophe losses	$ 517	$ 128	$ 1,898	$ 1,134
Underwriting income (loss) by line of business				
Auto	$ 226	$ 185	$ 539	$ 535
Homeowners	287	558	472	866
Other personal lines	55	61	103	99
Commercial lines	10	10	13	40
Other business lines	5	22	28	41
Answer Financial	(4)	(5)	(9)	(15)
Underwriting income	$ 579	$ 831	$ 1,146	$ 1,566
Underwriting income (loss) by brand				
Allstate brand	$ 676	$ 871	$ 1,453	$ 1,737
Encompass brand	(31)	19	(98)	6
Esurance brand	(62)	(54)	(200)	(162)
Answer Financial	(4)	(5)	(9)	(15)
Underwriting income	$ 579	$ 831	$ 1,146	$ 1,566

Allstate Protection had underwriting income of $579 million in the third quarter of 2014 compared to $831 million in the third quarter of 2013. Homeowners underwriting income was $287 million in the third quarter of 2014 compared to $558 million in the third quarter of 2013, primarily due to increased catastrophe losses, partially offset by increased premiums earned. Auto underwriting income was $226 million in the third quarter of 2014 compared to $185 million in the third quarter of 2013, primarily due to increased premiums earned and higher favorable reserve reestimates, partially offset by increased losses excluding catastrophes, expenses and catastrophe losses.

Allstate Protection had underwriting income of $1.15 billion in the first nine months of 2014 compared to $1.57 billion in the first nine months of 2013. Homeowners underwriting income was $472 million in the first nine months of 2014 compared to $866 million in the first nine months of 2013, primarily due to increased catastrophe losses, partially offset by increased premiums earned. Commercial lines underwriting income was $13 million in the first nine months of 2014 compared to $40 million in the first nine months of 2013, primarily due to increased catastrophe losses and lower favorable reserve reestimates, partially offset by increased premiums earned. Auto underwriting income was $539 million in the first nine months of 2014 compared to $535 million in the first nine months of 2013, primarily due to increased premiums earned, partially offset by increased losses excluding catastrophes, increased expenses and increased catastrophe losses.

Catastrophe losses were $517 million and $1.90 billion in the third quarter and first nine months of 2014, respectively, compared to $128 million and $1.13 billion in the third quarter and first nine 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 September 30, 2014					
	Number of events		Claims and claims expense		Combined ratio impact	Average catastrophe loss per event
Size of catastrophe loss						
Greater than $250 million	--	--%	$ --	--%	--	$ --
$101 million to $250 million	1	3.4	140	27.1	1.9	140
$50 million to $100 million	1	3.4	70	13.5	1.0	70
Less than $50 million	27	93.2	174	33.7	2.4	6
Total	29	100.0%	384	74.3	5.3	13
Prior year reserve reestimates			6	1.1	--	
Prior quarter reserve reestimates			127	24.6	1.8	
Total catastrophe losses			$ 517	100.0%	7.1	

	Nine months ended September 30, 2014					
	Number of events		Claims and claims expense		Combined ratio impact	Average catastrophe loss per event
Size of catastrophe loss						
Greater than $250 million	2	2.8%	$ 552	29.1%	2.6	$ 276
$101 million to $250 million	2	2.8	259	13.7	1.2	130
$50 million to $100 million	5	7.1	399	21.0	1.8	80
Less than $50 million	62	87.3	644	33.9	3.0	10
Total	71	100.0%	1,854	97.7	8.6	26
Prior year reserve reestimates			44	2.3	0.2	
Total catastrophe losses			$ 1,898	100.0%	8.8	

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

($ in millions)	Three months ended September 30,				Nine months ended September 30,			
	2014	Number of events	2013	Number of events	2014	Number of events	2013	Number of events
Hurricanes/Tropical storms	$ 2	1	$ --	--	$ 2	1	$ 14	1
Tornadoes	--	--	--	--	97	2	126	2
Wind/Hail	368	25	195	25	1,341	57	1,022	52
Wildfires	14	3	1	1	20	5	43	5
Other events	--	--	--	--	394	6	13	1
Prior year reserve reestimates	6		(34)		44		(84)	
Prior quarter reserve reestimates	127		(34)		--		--	
Total catastrophe losses	$ 517	29	$ 128	26	$ 1,898	71	$ 1,134	61

Catastrophe losses, including prior year reserve reestimates, excluding hurricanes named or numbered by the National Weather Service, fires following earthquakes and earthquakes totaled $1.90 billion and $1.23 billion in the first nine 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 September 30,								Nine months ended September 30,							
	Ratio (1)		**Effect of catastrophe losses on combined ratio**		**Effect of prior year reserve reestimates on combined ratio**		**Effect of amortization of purchased intangible assets on combined ratio**		**Ratio** (1)		**Effect of catastrophe losses on combined ratio**		**Effect of prior year reserve reestimates on combined ratio**		**Effect of amortization of purchased intangible assets on combined ratio**	
	2014	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**
Allstate brand loss ratio:																
Auto	68.1	68.6	1.8	0.8	(1.8)	(0.8)			68.7	68.4	2.1	1.3	(1.1)	(1.4)		
Homeowners	57.6	41.1	22.0	4.7	(0.1)	(3.3)			65.5	57.3	27.3	18.5	0.9	0.1		
Other personal lines	58.9	57.6	4.9	(0.3)	2.6	2.6			63.2	61.9	10.0	4.4	1.0	2.4		
Commercial lines	60.0	61.4	3.3	0.9	(14.2)	(11.4)			65.8	58.7	6.6	1.2	(5.4)	(10.9)		
Total Allstate brand loss ratio	64.5	60.6	6.9	1.7	(1.3)	(1.4)			67.1	64.7	8.8	5.7	(0.5)	(1.0)		
Allstate brand expense ratio	25.3	25.7	--	--	--	--	--	--	25.5	26.1	--	--	--	--	--	--
Allstate brand combined ratio	89.8	86.3	6.9	1.7	(1.3)	(1.4)	--	--	92.6	90.8	8.8	5.7	(0.5)	(1.0)	--	--
Encompass brand loss ratio:																
Auto	78.0	70.9	3.0	1.9	0.5	(7.6)			77.2	73.5	4.3	0.6	(2.5)	(4.9)		
Homeowners	83.7	56.8	36.6	13.5	(6.5)	--			85.3	61.4	36.4	16.5	1.4	--		
Other personal lines	74.1	50.0	7.4	(3.8)	3.7	(11.5)			78.5	72.0	8.9	5.3	2.5	2.7		
Total Encompass brand loss ratio	79.8	63.7	16.4	5.8	(1.9)	(5.1)			80.4	68.9	17.1	6.8	(0.5)	(2.4)		
Encompass brand expense ratio	29.9	29.9	--	--	--	--	--	--	30.1	30.4	--	--	--	--	--	--
Encompass brand combined ratio	109.7	93.6	16.4	5.8	(1.9)	(5.1)	--	--	110.5	99.3	17.1	6.8	(0.5)	(2.4)	--	--
Esurance brand loss ratio:																
Auto	76.5	78.0	1.9	0.6	(0.8)	--			76.0	78.2	1.7	1.1	(1.0)	--		
Homeowners	100.0	--	--	--	--	--			100.0	--	--	--	--	--		
Other personal lines	50.0	--	--	--	--	--			50.0	100.0	--	--	--	--		
Total Esurance brand loss ratio	76.4	78.0	1.9	0.6	(0.8)	--			75.9	78.2	1.7	1.1	(1.0)	--		
Esurance brand expense ratio	40.2	38.8	--	--	--	--	3.2	4.7	42.6	39.6	--	--	--	--	3.3	5.0
Esurance brand combined ratio	116.6	116.8	1.9	0.6	(0.8)	--	3.2	4.7	118.5	117.8	1.7	1.1	(1.0)	--	3.3	5.0
Allstate Protection loss ratio	65.8	61.6	7.1	1.8	(1.3)	(1.4)			68.1	65.5	8.8	5.5	(0.5)	(1.0)		
Allstate Protection expense ratio	26.3	26.5	--	--	--	--	0.2	0.3	26.6	26.9	--	--	--	--	0.2	0.3
Allstate Protection combined ratio	92.1	88.1	7.1	1.8	(1.3)	(1.4)	0.2	0.3	94.7	92.4	8.8	5.5	(0.5)	(1.0)	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 decreased 0.5 points in the third quarter of 2014 compared to the same period of 2013, primarily due to increased premiums earned and higher favorable reserve reestimates, partially offset by increased catastrophe losses. Auto loss ratio for the Allstate brand increased 0.3 points in the first nine months of 2014 compared to the same period of 2013, primarily due to increased catastrophe losses and lower favorable reserve reestimates, partially offset by increased premiums earned.

Claim frequencies (rate of claim occurrence per policy in force) in the bodily injury and property damage coverages decreased 1.3% and 1.0%, respectively, in the third quarter of 2014, compared to the third quarter of 2013, and claim frequency in the bodily injury coverage and property damage decreased 1.5% and increased 0.5%, respectively, in the first nine months of 2014, compared to the first nine 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 2.2% and 5.5%, respectively, in the third quarter of 2014, compared to third quarter of 2013, and increased 1.4% and 4.2%, respectively, in the first nine months of 2014, compared to the first nine months of 2013. Bodily injury severity in the third quarter and first nine 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. Property damage paid severity increased 0.8% in the third quarter of 2013 compared to the third quarter of 2012. The 2-year average increase for property-damage severity is approximately 3%.

Encompass brand auto loss ratio increased 7.1 points in the third quarter of 2014 due to unfavorable reserve reestimates compared to favorable reserve reestimates in the same period of 2013. Encompass brand auto loss ratio increased 3.7 points in the first nine months of 2014 compared to the same period of 2013, due to increased catastrophe losses.

Esurance brand auto loss ratio decreased 1.5 points and 2.2 points in the third quarter and first nine 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 16.5 points to 57.6 in the third quarter of 2014 from 41.1 in the third quarter of 2013, primarily due to higher catastrophe losses, partially offset by increased premiums earned. Homeowners loss ratio increased 8.2 points to 65.5 in the first nine months of 2014 from 57.3 in the first nine months of 2013, primarily due to higher catastrophe losses, partially offset by increased premiums earned. Claim frequency excluding catastrophe losses decreased 5.5% and increased 0.7% in the third quarter and first nine months of 2014, respectively, compared to the same periods of 2013. Paid claim severity excluding catastrophe losses increased 9.2% and 7.6% in the third quarter and first nine months of 2014, respectively, compared to the same periods of 2013. Paid claim severity decreased 2.2% in the third quarter of 2013 compared to the third quarter of 2012. The 2-year average annual increase for paid claim severity is approximately 3.5%

Encompass brand homeowners loss ratio increased 26.9 points and 23.9 points in the third quarter and first nine months of 2014, respectively, compared to the same periods of 2013, primarily due to higher 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 3.8 points and 4.0 points in the third quarter and first nine 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 0.2 points and 0.3 points in the third quarter and first nine 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 September 30,							
	Allstate brand		Encompass brand		Esurance brand		Allstate Protection	
	2014	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**
Amortization of DAC	13.7	13.6	18.6	18.3	2.7	2.8	13.3	13.3
Advertising expenses	2.6	2.7	--	--	15.8	14.6	3.2	3.2
Amortization of purchased intangible assets	--	--	--	--	3.2	4.7	0.2	0.3
Other costs and expenses	9.0	9.3	10.7	11.6	18.5	16.7	9.5	9.6
Restructuring and related charges	--	0.1	0.6	--	--	--	0.1	0.1
Total expense ratio	25.3	25.7	29.9	29.9	40.2	38.8	26.3	26.5

	Nine months ended September 30,							
	Allstate brand		Encompass brand		Esurance brand		Allstate Protection	
	2014	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**
Amortization of DAC	13.8	13.3	18.8	18.0	2.7	2.6	13.5	13.1
Advertising expenses	2.6	2.9	0.4	0.5	19.3	15.6	3.3	3.3
Amortization of purchased intangible assets	--	--	--	--	3.3	5.0	0.2	0.3
Other costs and expenses	9.0	9.6	10.6	11.6	17.3	16.4	9.5	9.9
Restructuring and related charges	0.1	0.3	0.3	0.3	--	--	0.1	0.3
Total expense ratio	25.5	26.1	30.1	30.4	42.6	39.6	26.6	26.9

Amortization of DAC in the third quarter of 2014 was comparable to the same period of 2013 and increased in the first nine months of 2014 compared to the same period 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 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. In 2014, Allstate agency total incurred base commissions, variable compensation and bonus is higher than 2013.

Advertising expenses in the third quarter and first nine months of 2014 were comparable to the same periods of 2013 due to lower spending for Allstate brand, offset by higher spending at Esurance which included new homeowners advertising in the most recent quarter. Esurance continues to invest in advertising to achieve short term growth and long term brand positioning.

Other costs and expenses decreased in the third quarter and first nine 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 10 states, and homeowners from 3 to 11 states. The spending on expansion, excluding advertising, which occurs prior to premiums being written, contributed approximately 2.0 points and 2.2 points to the expense ratio in the third quarter and first nine 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 $37 million, after-tax, in the first nine months of 2014 relates to the sale of Sterling Collision Centers, Inc.

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 September 30,				Nine months ended September 30,			
	Reserve reestimate (1)		Effect on combined ratio (2)		Reserve reestimate (1)		Effect on combined ratio (2)	
	2014	2013	2014	2013	2014	2013	2014	2013
Auto	$ (79)	$ (44)	(1.1)	(0.6)	$ (163)	$ (193)	(0.7)	(0.9)
Homeowners	(9)	(51)	(0.1)	(0.7)	50	5	0.2	--
Other personal lines	11	7	0.2	0.1	14	29	0.1	0.1
Commercial lines	(17)	(13)	(0.3)	(0.2)	(19)	(37)	(0.1)	(0.2)
Other business lines	--	--	--	--	--	(4)	--	--
Total Allstate Protection (3)	$ (94)	$ (101)	(1.3)	(1.4)	$ (118)	$ (200)	(0.5)	(1.0)
Allstate brand	$ (85)	$ (86)	(1.2)	(1.2)	$ (102)	$ (179)	(0.5)	(0.9)
Encompass brand	(6)	(15)	(0.1)	(0.2)	(5)	(21)	--	(0.1)
Esurance brand	(3)	--	--	--	(11)	--	--	--
Total Allstate Protection	$ (94)	$ (101)	(1.3)	(1.4)	$ (118)	$ (200)	(0.5)	(1.0)

(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 $6 million and $44 million unfavorable in the three months and nine months ended September 30, 2014, respectively, compared to $34 million and $84 million favorable in the three months and nine months ended September 30, 2013, respectively. The effect of catastrophe losses included in prior year reserve reestimates on the combined ratio totaled zero and 0.2 unfavorable in the three months and nine months ended September 30, 2014, respectively, compared to 0.5 and 0.4 favorable in the three months and nine months ended September 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 September 30,**		**Nine months ended September 30,**	
	2014	**2013**	**2014**	**2013**
Premiums written	$ 1	$ --	$ 1	$ --
Premiums earned	$ 1	$ --	$ 1	$ --
Claims and claims expense	(105)	(135)	(110)	(141)
Operating costs and expenses	(1)	1	(2)	(1)
Underwriting loss	$ (105)	$ (134)	$ (111)	$ (142)

Underwriting losses of $105 million and $111 million in the third quarter and first nine months of 2014, respectively, were primarily related to our annual review using established industry and actuarial best practices resulting in a $87 million unfavorable reestimate of asbestos reserves, a $15 million unfavorable reestimate of environmental reserves and a $3 million increase in allowance for future uncollectible reinsurance, partially offset by a $3 million favorable reestimate of other exposure reserves. Underwriting losses of $134 million and $142 million in the third quarter and first nine months of 2013, respectively, were primarily related to a $74 million unfavorable reestimate of asbestos reserves, a $30 million unfavorable reestimate of environmental reserves and a $30 million unfavorable reestimate of other exposure reserves, partially offset by a $1 million decrease in our allowance for future uncollectible reinsurance.

For asbestos exposures, our 2014 annual review resulted in an increase in estimated reserves of $87 million primarily related to more reported claims than expected and increased severity including claims from certain large insurance programs. Reserves for asbestos claims were $1.05 billion and $1.02 billion, net of reinsurance recoverables of $494 million and $478 million, as of September 30, 2014 and December 31, 2013, respectively. Incurred but not reported (IBNR) represents 58% of total net asbestos reserves as of September 30, 2014, 2 points higher than as of December 31, 2013. IBNR provides for estimated probable future unfavorable reserve development of known claims and future reporting of additional unknown claims from current and new policyholders and ceding companies. In the third quarter of 2013, our review resulted in an increase in estimated reserves of $74 million.

For environmental exposures, our 2014 annual review resulted in an increase in estimated reserves of $15 million primarily related to greater reported loss activity than expected. Reserves for environmental claims were $211 million and $208 million, net of reinsurance recoverables of $66 million and $60 million, as of September 30, 2014 and December 31, 2013, respectively. IBNR represents 53% of total net environmental reserves, 1 point higher than as of December 31, 2013. In the third quarter of 2013, our review resulted in an increase in estimated reserves of $30 million.

For other exposures, our 2014 annual review resulted in a decrease in estimated reserves of $3 million. Reserves for other exposure claims were $406 million and $421 million as of September 30, 2014 and December 31, 2013, respectively. In the third quarter of 2013, our review resulted in an increase in estimated reserves of $30 million.

The allowance for uncollectible reinsurance primarily relates to Discontinued Lines and Coverages reinsurance recoverables and was $95 million and $92 million as of September 30, 2014 and December 31, 2013, respectively. The allowance for Discontinued Lines and Coverages represents 12.8% and 12.6% of the related reinsurance recoverable balances as of September 30, 2014 and December 31, 2013, respectively.

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

PROPERTY-LIABILITY INVESTMENT RESULTS

Net investment income The following table presents net investment income.

($ in millions)	Three months ended September 30, 2014	Three months ended September 30, 2013	Nine months ended September 30, 2014	Nine months ended September 30, 2013
Fixed income securities	$ 216	$ 219	$ 643	$ 699
Equity securities	21	26	73	85
Mortgage loans	4	6	13	16
Limited partnership interests	112	69	289	235
Short-term investments	--	1	3	2
Other	15	11	48	27
Investment income, before expense	368	332	1,069	1,064
Investment expense	(24)	(23)	(62)	(71)
Net investment income	$ 344	$ 309	$ 1,007	$ 993

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 September 30, 2014	Three months ended September 30, 2013	Nine months ended September 30, 2014	Nine months ended September 30, 2013
Fixed income securities: tax-exempt	2.6%	3.2%	2.6%	3.5%
Fixed income securities: tax-exempt equivalent	3.8	4.7	3.8	5.1
Fixed income securities: taxable	2.9	3.2	3.0	3.3
Equity securities	2.7	2.8	2.8	3.2
Mortgage loans	4.1	4.4	4.4	4.3
Limited partnership interests	18.4	9.3	14.4	10.4
Total portfolio	3.8	3.6	3.7	3.9

Net investment income increased 11.3% or $35 million to $344 million in the third quarter of 2014 from $309 million in the third quarter of 2013, primarily due to higher limited partnership income. Net investment income increased 1.4% or $14 million to $1.01 billion in the first nine months of 2014 from $993 million in the first nine months of 2013, primarily due to higher limited partnership income and higher average investment balances, partially offset by lower fixed income yields. 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 September 30, 2014	Three months ended September 30, 2013	Nine months ended September 30, 2014	Nine months ended September 30, 2013
Impairment write-downs	$ 8	$ (8)	$ (10)	$ (33)

Change in intent write-downs	(42)	(63)	(127)	(109)
Net other-than-temporary impairment losses recognized in earnings	(34)	(71)	(137)	(142)
Sales	312	52	740	549
Valuation and settlements of derivative instruments	(12)	(7)	(34)	(16)
Realized capital gains and losses, pre-tax	266	(26)	569	391
Income tax (expense) benefit	(93)	9	(201)	(138)
Realized capital gains and losses, after-tax	$ 173	$ (17)	$ 368	$ 253

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 $116 million and $423 million in the third quarter and first nine months of 2014, respectively, compared to net loss available to common shareholders of $360 million and $24 million in the third quarter and first nine months of 2013, respectively.

- Premiums and contract charges on underwritten products, including traditional life, interest-sensitive life and accident and health insurance, totaled $508 million in the third quarter of 2014, a decrease of 11.2% from $572 million in the third quarter of 2013, and $1.62 billion in the first nine months of 2014, a decrease of 5.2% from $1.71 billion in the first nine months of 2013.

- Investments totaled $38.61 billion as of September 30, 2014, reflecting a decrease of $498 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 25.3% to $473 million in the third quarter of 2014 and 13.2% to $1.65 billion in the first nine months of 2014 from $633 million and $1.90 billion in the third quarter and first nine months of 2013, respectively.

- Net realized capital gains totaled $28 million in the third quarter of 2014 compared to net realized capital losses of $16 million in the third quarter of 2013, and net realized capital gains totaled $19 million in the first nine months of 2014 compared to net realized capital gains of $60 million in the first nine months of 2013.

- During third quarter 2014, a $6 million pre-tax charge to income was recorded related to our annual comprehensive review of the DAC, deferred sales inducement costs and secondary guarantee liability balances. This compares to a $58 million pre-tax charge to income in the third quarter of 2013.

- Contractholder funds totaled $22.85 billion as of September 30, 2014, reflecting a decrease of $1.46 billion from $24.30 billion as of December 31, 2013.

- On April 1, 2014, we closed the sale of 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 $29 million, after-tax, and $60 million, after-tax, in the three months and nine months ended September 30, 2014, respectively. The third quarter 2014 amount and most of the amount for the nine months ended September 30, 2014 represent non-cash charges.

ALLSTATE FINANCIAL SEGMENT

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

($ in millions)	Three months ended September 30, 2014	Three months ended September 30, 2013	Nine months ended September 30, 2014	Nine months ended September 30, 2013
Revenues				
Life and annuity premiums and contract charges	$ 512	$ 584	$ 1,637	$ 1,742
Net investment income	473	633	1,651	1,901
Realized capital gains and losses	28	(16)	19	60
Total revenues	1,013	1,201	3,307	3,703
Costs and expenses				
Life and annuity contract benefits	(433)	(498)	(1,334)	(1,427)
Interest credited to contractholder funds	(198)	(317)	(717)	(973)
Amortization of DAC	(58)	(97)	(198)	(243)
Operating costs and expenses	(115)	(132)	(345)	(420)
Restructuring and related charges	1	(4)	(2)	(7)
Total costs and expenses	(803)	(1,048)	(2,596)	(3,070)
(Loss) gain on disposition of operations	(26)	(646)	(93)	(643)
Income tax (expense) benefit	(68)	133	(195)	(14)
Net income (loss) available to common shareholders	$ 116	$ (360)	$ 423	$ (24)
Life insurance	$ 52	$ (181)	$ 182	$ (48)
Accident and health insurance	30	24	84	73
Annuities and institutional products	34	(203)	157	(49)
Net income (loss) available to common shareholders	$ 116	$ (360)	$ 423	$ (24)
Allstate Life and Retirement	$ 83	$ (386)	$ 332	$ (103)
Allstate Benefits	33	26	91	79
Net income (loss) available to common shareholders	$ 116	$ (360)	$ 423	$ (24)
Investments as of September 30			$ 38,607	$ 39,604
Investments classified as held for sale as of September 30			--	12,239

Net income available to common shareholders was $116 million in the third quarter of 2014 compared to net loss available to common shareholders of $360 million in the third quarter of 2013. The favorable change primarily relates to the loss on disposition related to the LBL sale recorded in third quarter 2013, partially offset by the reduction in business due to the sale of LBL on April 1, 2014. Net income available to common shareholders in third quarter 2014 and 2013 included an after-tax loss on disposition of LBL totaling $29 million and $475 million, respectively. Excluding the loss on disposition as well as the net income of the LBL business for third quarter 2013 of $54 million, net income available to common shareholders increased $84 million in the third quarter of 2014 compared to the third quarter of 2013, primarily due to lower amortization of DAC, net realized capital gains in third quarter 2014 compared to net realized capital losses in third quarter 2013, and lower interest credited to contractholder funds, partially offset by lower net investment income.

Net income available to common shareholders was $423 million in the first nine months of 2014 compared to net loss available to common shareholders of $24 million in the first nine months of 2013. The favorable change primarily relates to the loss on disposition related to the LBL sale recorded in third quarter 2013, partially offset by the reduction in business due to the sale of LBL on April 1, 2014. Net income available to common shareholders in the first nine months of 2014 and 2013 included an after-tax loss on disposition of LBL totaling $60 million and $475 million, respectively. Excluding the loss on disposition as well as the net income of the LBL business for second and third quarter 2013 of $82 million, net income available to common shareholders increased $114 million in the first nine months of 2014 compared to the first nine months of 2013, primarily due to lower interest credited to contractholder funds, lower amortization of DAC, higher life and annuity premiums and contract charges, lower operating costs and expenses and higher net investment income, partially offset by lower net realized capital gains and higher life and annuity contract benefits.

Analysis of revenues Total revenues decreased 15.7% or $188 million and 10.7% or $396 million in the third quarter and first nine months of 2014, respectively, compared to the same periods of 2013. Excluding results of the LBL business for third quarter 2013 of $218 million, total revenues increased 3.1% or $30 million in the third quarter of 2014 compared to the third quarter of 2013, due to net realized capital gains in third quarter 2014 compared to net realized capital losses in third quarter 2013 and higher life and annuity premiums and contract charges, partially offset by lower net investment income. Excluding results of the LBL business for second and third quarter 2013 of $436 million, total revenues increased 1.2% or $40 million in the first nine months of 2014 compared to the first nine months of 2013, due to higher life and annuity premiums and contract charges and higher net investment income, partially offset by lower realized capital gains.

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 September 30,**		**Nine months ended September 30,**	
	2014	**2013**	**2014**	**2013**
Underwritten products				
Traditional life insurance premiums	$ 116	$ 110	$ 353	$ 330
Accident and health insurance premiums	1	7	7	19
Interest-sensitive life insurance contract charges	176	247	603	742
Subtotal Allstate Life and Retirement	293	364	963	1,091
Traditional life insurance premiums	10	10	25	25
Accident and health insurance premiums	181	173	557	520
Interest-sensitive life insurance contract charges	24	25	73	71
Subtotal Allstate Benefits	215	208	655	616
Total underwritten products	508	572	1,618	1,707
Annuities				
Immediate annuities with life contingencies premiums	--	6	5	22
Other fixed annuity contract charges	4	6	14	13
Total annuities	4	12	19	35
Life and annuity premiums and contract charges (1)	$ 512	$ 584	$ 1,637	$ 1,742

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(1) Contract charges related to the cost of insurance totaled $135 million and $182 million for the third quarter of 2014 and 2013, respectively, and $457 million and $541 million in the first nine months of 2014 and 2013, respectively.

Total premiums and contract charges decreased 12.3% or $72 million and 6.0% or $105 million in the third quarter and first nine months of 2014, respectively, compared to the same periods of 2013. Excluding results of the LBL business for third quarter 2013 of $83 million, premiums and contract charges increased $11 million in the third quarter of 2014 compared to the same period of 2013. Excluding results of the

LBL business for second and third quarter 2013 of $165 million, premiums and contract charges increased $60 million in the first nine months of 2014 compared to the first nine months of 2013. The increases in both periods were 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 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 September 30,**		**Nine months ended September 30,**	
	2014	**2013**	**2014**	**2013**
Contractholder funds, beginning balance	$ 23,472	$ 36,357	$ 24,304	$ 39,319
Contractholder funds classified as held for sale, beginning balance	--	--	10,945	--
Total contractholder funds, including those classified as held for sale	23,472	36,357	35,249	39,319
Deposits				
Interest-sensitive life insurance	247	330	811	1,044
Fixed annuities	48	218	231	786
Total deposits	295	548	1,042	1,830
Interest credited	197	321	717	985
Benefits, withdrawals, maturities and other adjustments				
Benefits	(286)	(392)	(955)	(1,186)
Surrenders and partial withdrawals	(630)	(807)	(1,896)	(2,543)
Maturities of and interest payments on institutional products	(1)	(1)	(1)	(1,799)
Contract charges	(197)	(279)	(677)	(830)
Net transfers from separate accounts	2	2	6	8
Other adjustments (1)	(4)	10	25	(25)
Total benefits, withdrawals, maturities and other adjustments	(1,116)	(1,467)	(3,498)	(6,375)
Contractholder funds sold in LBL disposition	--	--	(10,662)	--
Contractholder funds classified as held for sale, ending balance	--	(11,283)	--	(11,283)
Contractholder funds, ending balance	$ 22,848	$ 24,476	$ 22,848	$ 24,476

(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 2.7% and 6.0% in the third quarter and first nine months of 2014, respectively. Contractholder funds including those classified as held for sale decreased 1.6% and 9.1% in the third quarter and first nine months of 2013, respectively. The decreases in the 2014 periods reflect that we are no longer offering fixed annuity products beginning January 1, 2014.

Contractholder deposits decreased 46.2% and 43.1% in the third quarter and first nine 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 21.9% to $630 million in the third quarter of 2014 and 25.4% to $1.90 billion in the first nine months of 2014 from $807 million and $2.54 billion in the third quarter and first nine months of 2013, respectively. The decreases primarily relate to the LBL sale. The annualized surrender and partial withdrawal rate on deferred fixed annuities and interest-sensitive life insurance products, based on the beginning of year contractholder funds, was 10.6% in the first nine months of 2014 compared to 10.5% in the same period of 2013.

Maturities of and interest payments on institutional products included a $1.75 billion maturity in the first nine months of 2013.

Net investment income decreased 25.3% or $160 million to $473 million in the third quarter of 2014 and 13.2% or $250 million to $1.65 billion in the first nine months of 2014 from $633 million and $1.90 billion in the third quarter and first nine months of 2013, respectively. Excluding results of the LBL business for third quarter 2013 of $135 million, net investment income decreased $25 million in the third quarter of 2014 compared to the same period of 2013, primarily due to lower average investment balances. Excluding results of the LBL business for second and third quarter 2013 of $271 million, net investment income increased $21 million in the first nine months of 2014 compared to the same period 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 September 30,**		**Nine months ended September 30,**	
	2014	**2013**	**2014**	**2013**
Impairment write-downs	$ 2	$ (10)	$ (2)	$ (28)
Change in intent write-downs	(21)	(7)	(40)	(15)
Net other-than-temporary impairment losses recognized in earnings	(19)	(17)	(42)	(43)
Sales	43	6	52	89
Valuation and settlements of derivative instruments	4	(5)	9	14
Realized capital gains and losses, pre-tax	28	(16)	19	60
Income tax (expense) benefit	(9)	4	(6)	(23)
Realized capital gains and losses, after-tax	$ 19	$ (12)	$ 13	$ 37

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 23.4% or $245 million in the third quarter of 2014 and 15.4% or $474 million in the first nine months of 2014 compared to the same periods of 2013. Excluding results of the LBL business for third quarter 2013 of $136 million, total costs and expenses decreased $109 million in the third quarter of 2014 compared to the same period of 2013, primarily due to lower amortization of DAC and lower interest credited to contractholder funds. Excluding results of the LBL business for second and third quarter 2013 of $312 million, total costs and expenses decreased $162 million in the first nine months of 2014 compared to the same period of 2013, primarily due to lower interest credited to contractholder funds, lower amortization of DAC and lower operating costs and expenses, partially offset by higher life and annuity contract benefits.

Life and annuity contract benefits decreased 13.1% or $65 million in the third quarter of 2014 and 6.5% or $93 million in the first nine months of 2014 compared to the same periods of 2013. Excluding results of the LBL business for third quarter 2013 of $65 million, life and annuity contract benefits in the third quarter of 2014 were comparable to the same period of 2013. Excluding results of the LBL business for second and third quarter 2013 of $127 million, life and annuity contract benefits increased $34 million in the first nine months of 2014 compared to the same period of 2013, primarily due to worse mortality experience on life insurance and growth at Allstate Benefits.

Our annual review of assumptions in third quarter 2014 resulted in an $11 million increase in reserves primarily for secondary guarantees on interest-sensitive life insurance due to increased projected exposure to secondary guarantees. In the third quarter of 2013, the review resulted in a $37 million increase in reserves primarily for secondary guarantees on interest-sensitive life insurance due to higher concentration of and increased projected exposure to secondary guarantees. $25 million of the increase in third quarter 2013 related to the disposed LBL business.

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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 $131 million and $391 million in the third quarter and first nine months of 2014, respectively, compared to $133 million and $396 million in the third quarter and first nine months of 2013, respectively.

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

($ in millions)	**Three months ended September 30,**		**Nine months ended September 30,**	
	2014	**2013**	**2014**	**2013**
Life insurance	$ 67	$ 54	$ 220	$ 206
Accident and health insurance	(1)	(4)	(5)	(11)
Annuities	(30)	(22)	(69)	(55)
Subtotal Allstate Life and Retirement	36	28	146	140
Life insurance	5	6	12	15
Accident and health insurance	100	89	303	271
Subtotal Allstate Benefits	105	95	315	286
Total benefit spread	$ 141	$ 123	$ 461	$ 426

Benefit spread increased 14.6% or $18 million in the third quarter of 2014 and 8.2% or $35 million in the first nine months of 2014 compared to the same periods of 2013. Excluding results of the LBL business for third quarter 2013 of $(4) million, benefit spread increased $14 million in the third quarter of 2014 compared to the same period of 2013, primarily due to growth in Allstate Benefits accident and health insurance and higher premiums on life insurance, partially offset by worse mortality experience on immediate annuities. Excluding results of the LBL business for second and third quarter 2013 of $(8) million, benefit spread increased $27 million in the first nine months of 2014 compared to the same period of 2013, primarily due to growth in Allstate Benefits accident and health insurance and higher premiums and cost of insurance contract charges on life insurance, partially offset by worse mortality experience on life insurance and immediate annuities.

Interest credited to contractholder funds decreased 37.5% or $119 million in the third quarter of 2014 and 26.3% or $256 million in the first nine months of 2014 compared to the same periods of 2013. Excluding results of the LBL business for third quarter 2013 of $90 million, interest credited to contractholder funds decreased $29 million in the third quarter of 2014 compared to the same period of 2013. Excluding results of the LBL business for second and third quarter 2013 of $179 million, interest credited to contractholder funds decreased $77 million in the first nine months of 2014 compared to the same period of 2013. The decreases in both periods were 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 decreased interest credited to contractholder funds by $2 million in third quarter 2014 compared to an increase of $17 million in third quarter 2013, and increased interest credited to contractholder funds by $19 million in the first nine months of 2014 compared to an increase of $21 million in the first nine months of 2013.

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 September 30,**		**Nine months ended September 30,**	
	2014	**2013**	**2014**	**2013**
Annuities and institutional products	$ 54	$ 100	$ 262	$ 247
Life insurance	20	22	71	68
Accident and health insurance	1	4	7	11
Net investment income on investments supporting capital	58	66	195	201
Subtotal Allstate Life and Retirement	133	192	535	527
Life insurance	3	3	8	9
Accident and health insurance	3	2	8	8
Net investment income on investments supporting capital	3	3	11	9
Subtotal Allstate Benefits	9	8	27	26
Investment spread before valuation changes on embedded derivatives that are not hedged	142	200	562	553
Valuation changes on derivatives embedded in equity-indexed annuity contracts that are not hedged	2	(17)	(19)	(21)
Total investment spread	$ 144	$ 183	$ 543	$ 532

Investment spread before valuation changes on embedded derivatives that are not hedged decreased 29.0% or $58 million in the third quarter of 2014 compared to the same period of 2013. Excluding results of the LBL business for third quarter 2013 of $55 million, investment spread before valuation changes on embedded derivatives that are not hedged decreased $3 million in the third quarter of 2014 compared to the same period of 2013, primarily due to the continued managed reduction in our spread-based business in force, partially offset by lower crediting rates. Investment spread before valuation changes on embedded derivatives that are not hedged increased 1.6% or $9 million in the first nine months of 2014 compared to the same period of 2013. Excluding results of the LBL business for the second and third quarter of 2013 of $106 million, investment spread before valuation changes on embedded derivatives that are not hedged increased $115 million in the first nine months of 2014 compared to the same period of 2013, primarily due to higher limited partnership income, higher fixed income yields 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 September 30,					
	Weighted average investment yield		Weighted average interest crediting rate		Weighted average investment spreads	
	2014	2013	2014	2013	2014	2013
Interest-sensitive life insurance	5.1 %	5.0 %	4.0 %	3.8 %	1.1 %	1.2 %
Deferred fixed annuities and institutional products	4.5	4.8	2.8	2.9	1.7	1.9
Immediate fixed annuities with and without life contingencies	6.7	6.9	6.0	6.0	0.7	0.9
Investments supporting capital, traditional life and other products	4.3	4.0	n/a	n/a	n/a	n/a

	Nine months ended September 30,					
	Weighted average investment yield		Weighted average interest crediting rate		Weighted average investment spreads	
	2014	2013	2014	2013	2014	2013
Interest-sensitive life insurance	5.3 %	5.1 %	3.9 %	3.8 %	1.4 %	1.3 %
Deferred fixed annuities and institutional products	4.5	4.7	2.9	3.0	1.6	1.7
Immediate fixed annuities with and without life contingencies	7.4	6.6	6.0	6.0	1.4	0.6
Investments supporting capital, traditional life and other products	4.3	3.9	n/a	n/a	n/a	n/a

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

($ in millions)	September 30,	
	2014	2013
Immediate fixed annuities with life contingencies	$ 8,914	$ 8,910
Other life contingent contracts and other	3,568	3,680
Reserve for life-contingent contract benefits	$ 12,482	$ 12,590
Interest-sensitive life insurance	$ 7,838	$ 7,742
Deferred fixed annuities	11,175	12,624
Immediate fixed annuities without life contingencies	3,492	3,715
Institutional products	85	85
Other	258	310
Contractholder funds	$ 22,848	$ 24,476
Traditional life insurance	$ --	$ 331
Accident and health insurance	--	1,298
Interest-sensitive life insurance	--	3,579
Deferred fixed annuities	--	7,704
Liabilities held for sale	$ --	$ 12,912

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

($ in millions)	Three months ended September 30, 2014	2013	Nine months ended September 30, 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	$ 64	$ 77	$ 203	$ 218
Amortization (accretion) relating to realized capital gains and losses (1) and valuation changes on embedded derivatives that are not hedged	2	(3)	3	2
Amortization (deceleration) acceleration for changes in assumptions (DAC unlocking)	(8)	23	(8)	23
Total amortization of DAC	$ 58	$ 97	$ 198	$ 243

(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 40.2% or $39 million in the third quarter of 2014 and 18.5% or $45 million in the first nine months of 2014 compared to the same periods of 2013. Excluding results of the LBL business for third quarter 2013 of $(30) million, amortization of DAC decreased $69 million in the third quarter of 2014 compared to the same period of 2013, primarily due to amortization deceleration for changes in assumptions in 2014 compared to amortization acceleration in 2013. Excluding results of the LBL business for second and third quarter 2013 of $(18) million, amortization of DAC decreased $63 million in the first nine months of 2014 compared to the same period of 2013, primarily due to amortization deceleration for changes in assumptions in 2014 compared to amortization acceleration in 2013, partially offset by higher amortization on accident and health insurance resulting from growth.

Our annual comprehensive review of assumptions underlying estimated future gross profits for our interest-sensitive life, fixed annuities and other investment contracts covers assumptions for persistency, mortality, expenses, investment returns, including capital gains and losses, interest crediting rates to policyholders, and the effect of any hedges in all product lines. In the third quarter of 2014, the review resulted in a deceleration of DAC amortization (credit to income) of $8 million. Amortization deceleration of $10 million related to interest-sensitive life insurance and was primarily due to a decrease in projected expenses, partially offset by increased projected mortality. Amortization acceleration of $2 million related to fixed annuities and was primarily due to a decrease in projected gross profits.

In the third quarter of 2013, the review resulted in an acceleration of DAC amortization (charge to income) of $23 million. Amortization acceleration of $38 million related to interest-sensitive life insurance and was primarily due to an increase in projected mortality and expenses, partially offset by increased projected investment margins. Amortization deceleration of $12 million related to fixed annuities and was primarily due to an increase in projected investment margins. Amortization deceleration of $3 million related to variable life insurance.

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

($ in millions)	2014	2013
Investment margin	$ 11	$ (17)
Benefit margin	35	15
Expense margin	(54)	25
Net (deceleration) acceleration	$ (8)	$ 23

Operating costs and expenses decreased 12.9% or $17 million in the third quarter of 2014 and 17.9% or $75 million in the first nine months of 2014 compared to the same periods of 2013. Excluding results of the LBL business for third quarter 2013 of $11 million, operating costs and expenses decreased $6 million in the third quarter of 2014 compared to the same period of 2013. Excluding results of the LBL business for second and third quarter 2013 of

$24 million, operating costs and expenses decreased $51 million in the first nine months of 2014 compared to the same period of 2013. The following table summarizes operating costs and expenses.

($ in millions)	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Non-deferrable commissions	$ 25	$ 26	$ 78	$ 77
General and administrative expenses	78	92	226	298
Taxes and licenses	12	14	41	45
Total operating costs and expenses	$ 115	$ 132	$ 345	$ 420
Restructuring and related charges	$ (1)	$ 4	$ 2	$ 7

General and administrative expenses decreased 15.2% or $14 million in the third quarter of 2014 and 24.2% or $72 million in the first nine months of 2014 compared to the same periods of 2013, primarily due to actions to improve strategic focus and modernize the operating model. This included the sale of LBL, exiting the master brokerage agency distribution channel, the planned outsourcing of the annuity business and other rightsizing and profitability actions.

INVESTMENTS HIGHLIGHTS

- Investments totaled $80.72 billion as of September 30, 2014, decreasing from $81.16 billion as of December 31, 2013.
- Unrealized net capital gains totaled $3.14 billion as of September 30, 2014, increasing from $2.70 billion as of December 31, 2013.
- Net investment income was $823 million in the third quarter of 2014, a decrease of 13.4% from $950 million in the third quarter of 2013, and $2.68 billion in the first nine months of 2014, a decrease of 8.1% from $2.92 billion in the first nine months of 2013.
- Net realized capital gains were $294 million in the third quarter of 2014 compared to net realized capital losses of $41 million in the third quarter of 2013, and net realized capital gains were $588 million in the first nine months of 2014 compared to net realized capital gains of $452 million in the first nine months of 2013.

INVESTMENTS

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

($ in millions)	Property-Liability (5)		Allstate Financial (5)		Corporate and Other (5)		Total	
		Percent to total		Percent to total		Percent to total		Percent to total
Fixed income securities (1)	$ 31,366	78.6%	$ 29,023	75.2%	$ 1,924	88.1%	$ 62,313	77.2%
Equity securities (2)	3,053	7.7	1,282	3.3	--	--	4,335	5.4

Mortgage loans	372	0.9	3,771	9.8	--	--	4,143	5.1
Limited partnership interests (3)	2,411	6.0	1,933	5.0	4	0.2	4,348	5.4
Short-term investments(4)	1,328	3.3	880	2.3	255	11.7	2,463	3.0
Other	1,401	3.5	1,718	4.4	--	--	3,119	3.9
Total	$ 39,931	100.0%	$ 38,607	100.0%	$ 2,183	100.0%	$ 80,721	100.0%

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(1) Fixed income securities are carried at fair value. Amortized cost basis for these securities was $30.90 billion, $26.82 billion, $1.90 billion and $59.62 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 $2.75 billion, $1.13 billion and $3.88 billion for Property-Liability, Allstate Financial and in Total, respectively.

(3) We have commitments to invest in additional limited partnership interests totaling $1.28 billion, $1.23 billion and $2.51 billion for Property-Liability, Allstate Financial and in Total, respectively.

(4) Short-term investments are carried at fair value. Amortized cost basis for these investments was $1.33 billion, $880 million, $255 million and $2.46 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 decreased to $80.72 billion as of September 30, 2014, from $81.16 billion as of December 31, 2013, primarily due to common share repurchases, debt repayments and the reclassification of tax credit funds from limited partnership interests to other assets, partially offset by favorable fixed income valuations resulting from a decrease in risk-free interest rates and proceeds from the issuance of preferred stock.

The Property-Liability investment portfolio increased to $39.93 billion as of September 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 decreased to $38.61 billion as of September 30, 2014, from $39.11 billion as of December 31, 2013, primarily due to a $700 million return of capital paid by ALIC to AIC, the reclassification of tax credit funds from limited partnership interests to other assets, and net reductions in contractholder funds, partially offset by higher fixed income valuations.

The Corporate and Other investment portfolio decreased to $2.18 billion as of September 30, 2014, from $2.41 billion as of December 31, 2013, primarily due to common share repurchases, debt repayments and dividends paid to shareholders, partially offset by dividends paid by AIC to the Corporation and proceeds from the issuance of preferred stock.

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

($ in millions)		**Fair value as of September 30, 2014**	**Percent to total investments**		**Fair value as of December 31, 2013**	**Percent to total investments**
U.S. government and agencies	$	4,309	5.3%	$	2,913	3.6%
Municipal		8,535	10.6		8,723	10.8
Corporate		41,071	50.9		40,603	50.0
Foreign government		1,693	2.1		1,824	2.2
Asset-backed securities (ABS)		4,709	5.8		4,518	5.6
Residential mortgage-backed securities (RMBS)		1,289	1.6		1,474	1.8
Commercial mortgage-backed securities (CMBS)		681	0.9		829	1.0
Redeemable preferred stock		26	--		26	0.1
Total fixed income securities	$	62,313	77.2%	$	60,910	75.1%

As of September 30, 2014, 89.2% of the consolidated fixed income securities portfolio was rated investment grade, which is defined as a security having a rating of Aaa, Aa, A or Baa from Moody s, a rating of AAA, AA, A or BBB from 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.

The following table summarizes the fair value and unrealized net capital gains and losses for fixed income securities by credit rating as of September 30, 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	$ 4,309	$ 128	$ --	$ --	$ 4,309	$ 128
Municipal						
Tax exempt	4,790	133	98	(1)	4,888	132
Taxable	3,584	428	63	(3)	3,647	425
Corporate						
Public	26,624	1,218	3,852	45	30,476	1,263
Privately placed	9,172	486	1,423	(7)	10,595	479
Foreign government	1,693	96	--	--	1,693	96
ABS						
Collateralized debt obligations (CDO)	1,082	(1)	162	(9)	1,244	(10)
Consumer and other asset-backed securities (Consumer and other ABS)	3,441	27	24	1	3,465	28
RMBS						
U.S. government sponsored entities (U.S. Agency)	312	12	--	--	312	12
Prime residential mortgage-backed securities (Prime)	97	1	306	37	403	38
Alt-A residential mortgage-backed securities (Alt-A)	13	1	323	34	336	35
Subprime residential mortgage-backed securities (Subprime)	6	--	232	19	238	19
CMBS	426	19	255	29	681	48
Redeemable preferred stock	26	4	--	--	26	4
Total fixed income securities	$ 55,575	$ 2,552	$ 6,738	$ 145	$ 62,313	$ 2,697

Municipal bonds, including tax exempt and taxable securities, totaled $8.54 billion as of September 30, 2014 with an unrealized net capital gain of $557 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 $41.07 billion as of September 30, 2014, with an unrealized net capital gain of $1.74 billion. Privately placed securities primarily consist of corporate issued senior debt securities that are directly negotiated with the borrower or are in unregistered form.

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

ABS, including CDO and Consumer and other ABS, totaled $4.71 billion as of September 30, 2014, with 96.1% rated investment grade and an unrealized net capital gain of $18 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 $1.24 billion as of September 30, 2014, with 87.0% rated investment grade and an unrealized net capital loss of $10 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 $3.47 billion as of September 30, 2014, with 99.3% rated investment grade. Consumer and other ABS consists of $1.60 billion of consumer auto, $923 million of credit card and $938 million of other ABS with unrealized net capital gains of $2 million, zero and $26 million, respectively.

RMBS totaled $1.29 billion as of September 30, 2014, with 33.2% rated investment grade and an unrealized net capital gain of $104 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 $977 million as of September 30, 2014, with 11.9% rated investment grade and an unrealized net capital gain of $92 million.

CMBS totaled $681 million as of September 30, 2014, with 62.6% rated investment grade and an unrealized net capital gain of $48 million. The CMBS portfolio is subject to credit risk and has a sequential paydown structure. Of the CMBS investments, 92.7% 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, which are primarily held in the Allstate Financial portfolio, totaled $4.14 billion as of September 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 $576 million as of September 30, 2014. The following table presents information about our limited partnership interests as of September 30, 2014.

($ in millions)	Private equity/debt funds (1)	Real estate funds	Other funds	Total
Cost method of accounting (Cost)	$ 881	$ 263	$ --	$ 1,144
Equity method of accounting (EMA)	1,878	1,162	164	3,204
Total	$ 2,759	$ 1,425	$ 164	$ 4,348
Number of managers	98	39	13	150
Number of individual funds	176	85	19	280
Largest exposure to single fund	$ 109	$ 205	$ 91	$ 205

(1) Includes $547 million of infrastructure and real asset funds.

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

($ in millions)	Three months ended September 30,							
	2014				2013			
	Cost	EMA	Total income	Impairment write-downs	Cost	EMA	Total income	Impairment write-downs
Private equity/debt funds	$ 14	$ 52	$ 66	$ (5)	$ 39	$ 29	$ 68	$ (1)
Real estate funds	11	82	93	19	9	40	49	(1)
Other funds	--	3	3	--	--	(11)	(11)	--
Total	$ 25	$ 137	$ 162	$ 14	$ 48	$ 58	$ 106	$ (2)

	Nine months ended September 30,							
	2014				2013			
	Cost	EMA	Total income	Impairment write-downs	Cost	EMA	Total income	Impairment write-downs
Private equity/debt funds	$ 100	$ 195	$ 295	$ (17)	$ 94	$ 100	$ 194	$ (8)
Real estate funds	39	147	186	12	25	135	160	(2)
Other funds	2	16	18	--	--	(15)	(15)	--
Total	$ 141	$ 358	$ 499	$ (5)	$ 119	$ 220	$ 339	$ (10)

Limited partnership interests produced income, excluding impairment write-downs, of $162 million and $499 million in the three months and nine months ended September 30, 2014, respectively, compared to $106 million and $339 million in the three months and nine months ended September 30, 2013, respectively. Higher EMA limited partnership income resulted from favorable equity and real estate 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 $3.14 billion as of September 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, partially offset by the realization of unrealized net capital gains through sales. The decrease for equity securities was primarily due to the realization of unrealized net capital gains through sales, partially offset by positive equity market performance. The following table presents unrealized net capital gains and losses.

($ in millions)	September 30, 2014	December 31, 2013
U.S. government and agencies	$ 128	$ 122
Municipal	557	277
Corporate	1,742	1,272
Foreign government	96	88
ABS	18	27
RMBS	104	71
CMBS	48	41
Redeemable preferred stock	4	4
Fixed income securities	2,697	1,902
Equity securities	458	624

Derivatives		(8)		(18)
EMA limited partnerships		(5)		(3)
Investments classified as held for sale		--		190
Unrealized net capital gains and losses, pre-tax	$	3,142	$	2,695

The unrealized net capital gain for the fixed income portfolio totaled $2.70 billion and comprised $2.96 billion of gross unrealized gains and $265 million of gross unrealized losses as of September 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 September 30, 2014 are provided in the following table.

($ in millions)	Amortized cost	Gross unrealized Gains	Gross unrealized Losses	Fair value
Corporate:				
Consumer goods (cyclical and non-cyclical)	$ 9,701	$ 348	$ (39)	$ 10,010
Banking	3,571	70	(34)	3,607
Capital goods	3,932	211	(20)	4,123
Energy	4,731	234	(18)	4,947
Utilities	4,900	495	(16)	5,379
Basic industry	2,159	84	(16)	2,227
Technology	2,267	67	(16)	2,318
Communications	2,937	135	(12)	3,060
Transportation	1,555	124	(8)	1,671
Financial services	2,986	122	(7)	3,101
Other	590	40	(2)	628
Total corporate fixed income portfolio	39,329	1,930	(188)	41,071
U.S. government and agencies	4,181	132	(4)	4,309
Municipal	7,978	580	(23)	8,535
Foreign government	1,597	97	(1)	1,693
ABS	4,691	50	(32)	4,709
RMBS	1,185	118	(14)	1,289
CMBS	633	51	(3)	681
Redeemable preferred stock	22	4	--	26
Total fixed income securities	$ 59,616	$ 2,962	$ (265)	$ 62,313

The consumer goods, banking, capital goods and energy sectors had the highest concentration of gross unrealized losses in our corporate fixed income securities portfolio as of September 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 $458 million and comprised $477 million of gross unrealized gains and $19 million of gross unrealized losses as of September 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 September 30, 2014	Three months ended September 30, 2013	Nine months ended September 30, 2014	Nine months ended September 30, 2013
Fixed income securities	$ 581	$ 721	$ 1,870	$ 2,223
Equity securities	28	30	91	94
Mortgage loans	54	99	206	290
Limited partnership interests	162	106	499	339
Short-term investments	1	1	5	4
Other	41	44	127	120
Investment income, before expense	867	1,001	2,798	3,070
Investment expense	(44)	(51)	(118)	(153)
Net investment income	$ 823	$ 950	$ 2,680	$ 2,917

Net investment income decreased 13.4% or $127 million in the third quarter of 2014 and 8.1% or $237 million in the first nine 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 third quarter and first nine months of 2014 includes $15 million and $92 million, respectively, related to prepayment fee income and litigation proceeds compared to $36 million and $115 million in the third quarter and first nine 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 and real estate 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 September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Impairment write-downs	$ 10	$ (18)	$ (12)	$ (61)
Change in intent write-downs	(63)	(70)	(167)	(124)
Net other-than-temporary impairment losses recognized in earnings	(53)	(88)	(179)	(185)
Sales	355	59	792	639
Valuation and settlements of derivative instruments	(8)	(12)	(25)	(2)
Realized capital gains and losses, pre-tax	294	(41)	588	452
Income tax (expense) benefit	(102)	13	(207)	(161)
Realized capital gains and losses, after-tax	$ 192	$ (28)	$ 381	$ 291

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

($ in millions)	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Fixed income securities	$ (6)	$ (8)	$ (10)	$ (49)
Equity securities	--	--	(3)	(9)
Mortgage loans	2	(6)	6	11
Limited partnership interests	14	(2)	(5)	(10)
Other investments	--	(2)	--	(4)
Impairment write-downs	$ 10	$ (18)	$ (12)	$ (61)

Impairment write-downs on fixed income securities for the three and nine months ended September 30, 2014 were primarily driven by municipal and corporate fixed income securities impacted by issuer specific circumstances. In the three months ended September 30, 2014, limited partnership write-downs included the recovery in value of a limited partnership, based upon reported EMA net income, that was previously written-down, to the extent of the original loss.

Change in intent write-downs totaling $63 million and $167 million in the three months and nine months ended September 30, 2014, respectively, were primarily related to the repositioning and ongoing portfolio management of our equity securities.

Sales generated $355 million and $792 million of net realized capital gains in the three months and nine months ended September 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 $8 million and $25 million for the three months and nine months ended September 30, 2014, respectively, primarily composed of losses on equity futures used for risk management due to increases in equity indices and losses on foreign currency contracts due to the weakening of the Canadian dollar.

CAPITAL RESOURCES AND LIQUIDITY HIGHLIGHTS

- Shareholders equity as of September 30, 2014 was $22.33 billion, an increase of 4.0% from $21.48 billion as of December 31, 2013.
- On January 2, 2014, April 1, 2014 and July 1, 2014, we paid common shareholder dividends of $0.25, $0.28, and $0.28, respectively. On July 22, 2014, we declared a common shareholder dividend of $0.28 to be payable on October 1, 2014.
- On August 1, 2014, we entered into a new accelerated share repurchase agreement (ASR 2) with Morgan Stanley & Co. LLC (Morgan Stanley) to purchase $750 million of our outstanding common stock.
- As of September 30, 2014, there was $587 million remaining on our common share repurchase program. During the first nine months of 2014, we repurchased 24.9 million common shares for $1.42 billion in the market and under the ASR that settled July 29, 2014. Under ASR 2, we acquired 11.0 million shares, pursuant to which we paid a prepayment amount of $750 million. The actual number of shares we repurchase under ASR 2, and the purchase price, will be determined at the completion of the agreement, which is expected to be no later than December 15, 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)	**September 30, 2014**	**December 31, 2013**
Preferred stock, common stock, retained income and other shareholders equity items	$ 21,091	$ 20,434
Accumulated other comprehensive income	1,238	1,046
Total shareholders equity	22,329	21,480
Debt	5,195	6,201
Total capital resources	$ 27,524	$ 27,681
Ratio of debt to shareholders equity	23.3%	28.9%
Ratio of debt to capital resources	18.9%	22.4%

Shareholders equity increased in the first nine 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. In the nine months ended September 30, 2014, we paid dividend payments of $360 million and $56 million related to our common and preferred shares, respectively.

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.

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 were used for general corporate purposes.

Debt $300 million of 6.20% Senior Notes were paid at maturity in May 2014 and $650 million of 5.00% Senior Notes were paid at maturity in August 2014. These Notes were paid from available funds. We have no debt maturities until 2018.

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 September 30, 2014, capital resources includes $1.75 billion or 6.3% of preferred stock and $2.05 billion or 7.5% of subordinated debt, a total of 13.8% 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 September 30, 2014, our $2.5 billion common share repurchase program that commenced in February 2014 had $587 million 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. This accelerated share repurchase agreement settled on

July 29, 2014. On August 1, 2014, we entered into ASR 2 with Morgan Stanley to purchase $750 million of our outstanding common stock.

During the first nine months of 2014, we repurchased 24.9 million common shares for $1.42 billion in the market and under the ASR that settled July 29, 2014. Under ASR 2, we acquired 11.0 million shares, pursuant to which we paid a prepayment amount of $750 million. As of September 30, 2014, $637.5 million of the prepayment amount is reported in treasury stock and $112.5 million is reported in additional capital paid-in in the Condensed Consolidated Statement of Shareholders Equity. The actual number of shares we repurchase under ASR 2, and the purchase price, will be determined at the completion of the agreement, which is expected to be no later than December 15, 2014, which includes a settlement at maturity. The settlement is dependent on market price over the duration of the agreement and is expected to be made in shares. The average price of the shares purchased under ASR 2 will be determined at settlement. During the duration of ASR 2, we may purchase additional shares as agreed using Morgan Stanley as the broker.

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 September 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 $2.33 billion as of September 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 nine months of 2014, AIC paid dividends totaling $2.27 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 September 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 nine 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 September 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 11.9% as of September 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 third quarter and first nine 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 481 million shares of treasury stock as of September 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 $22.85 billion as of September 30, 2014. The following table summarizes contractholder funds by their contractual withdrawal provisions as of September 30, 2014.

($ in millions)			**Percent to total**
Not subject to discretionary withdrawal	$	3,681	16.1%
Subject to discretionary withdrawal with adjustments:			
Specified surrender charges (1)		6,363	27.9
Market value adjustments (2)		2,470	10.8
Subject to discretionary withdrawal without adjustments (3)		10,334	45.2
Total contractholder funds (4)	$	22,848	100.0%

(1) Includes $2.63 billion of liabilities with a contractual surrender charge of less than 5% of the account balance.

(2) $1.76 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, 7 or 10 years) during which there is no surrender charge or market value adjustment.

(3) 84% of these contracts have a minimum interest crediting rate guarantee of 3% or higher.

(4) Includes $862 million of contractholder funds on variable annuities reinsured to The Prudential Insurance Company of America, a subsidiary of Prudential Financial Inc., in 2006.

Retail life and annuity products may be surrendered by customers for a variety of reasons. Reasons unique to individual customers include a current or unexpected need for cash or a change in life insurance coverage needs. Other key factors that may impact the likelihood of customer surrender include the level of the contract surrender charge, the length of time the contract has been in force, distribution channel, market interest rates, equity market conditions and potential tax implications. In addition, the propensity for retail life insurance policies to lapse is lower than it is for fixed annuities because of the need for the insured to be re-underwritten upon policy replacement. The annualized surrender and partial withdrawal rate on deferred fixed annuities and interest-sensitive life insurance products, based on the beginning of year contractholder funds, was 10.6% and 10.5% in the first nine 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 nine months ended September 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	$ 2,230	$ 2,014	$ 487	$ 811	$ (152)	$ 246	$ 2,565	$ 3,071
Investing activities	(517)	(415)	2,254	3,293	247	(645)	1,984	2,233
Financing activities	(22)	33	(1,918)	(3,859)	(2,399)	(1,202)	(4,339)	(5,028)
Cash classified as held for sale		--		(13)		--	--	(13)
Net increase in consolidated cash							$ 210	$ 263

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

Property-Liability Higher cash provided by operating activities in the first nine months of 2014 compared to the first nine 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 used in investing activities in the first nine months of 2014 compared to the first nine months of 2013 was primarily the result of increased purchases of securities and short-term investments, partially offset by increased sales of securities. Increased sales and purchases of securities resulted from more active portfolio management.

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

Lower cash was provided by investing activities in the first nine months of 2014 compared to the first nine months of 2013 as proceeds from the sale of LBL were more than offset by lower collections and sales, partially offset by lower purchases. Lower collections resulted from funding a large institutional product maturity in 2013 from the portfolio.

Lower cash used in financing activities in the first nine months of 2014 compared to the first nine 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 September 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 state 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.

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

Issuer Purchases of Equity Securities

Period	**Total number of shares (or units) purchased** (1)	**Average price paid per share (or unit)** (2)	**Total number of shares (or units) purchased as part of publicly announced plans or programs** (3)	**Maximum number (or approximate dollar value) of shares (or units) that may yet be purchased under the plans or programs** (4)
July 1, 2014 - July 31, 2014	3,185,322	$ 61.0648	3,184,279	$1.3 billion
August 1, 2014 - August 31, 2014	11,933,141	$ 58.4931	11,836,732	$626 million
September 1, 2014- September 30, 2014	643,063	$ 61.5398	637,998	$587 million
Total	15,761,526	$ 59.1371	15,659,009	

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

July: 1,043

August: 96,409

September: 5,065

(2) Under an accelerated share repurchase agreement entered into on March 21, 2014 and completed on July 29, 2014, we repurchased 13,145,934 shares at an average share price of $57.69, excluding commissions and discounts.

(3) 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.

(4) 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)	
October 29, 2014	By	/s/ Samuel H. Pilch Samuel H. Pilch (chief accounting officer and duly authorized officer of Registrant)

		Incorporated by Reference				
Exhibit Number	Exhibit Description	Form	File Number	Exhibit	Filing Date	Filed or Furnished Herewith
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					
10.1	Resolutions regarding Non-Employee Director Compensation adopted by The Allstate Corporation Board of Directors on September 24, 2014					X
15	Acknowledgment of awareness from Deloitte & Touche LLP, dated October 29, 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