BERRY MICHAEL J
Form 4
May 03, 2010

FORM 4

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

OMB APPROVAL

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STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person *
BERRY MICHAEL J

(Last) (First) (Middle)

C/O SOLARWINDS, INC., 3711 S. MOPAC EXPY., BLDG TWO

(Street)

AUSTIN, TX 78746

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
SolarWinds, Inc. [SWI]

3. Date of Earliest Transaction (Month/Day/Year)
04/29/2010

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

_____ Director _____ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
Senior Vice President & CFO

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock	04/29/2010		P		15,000	A	$ 19.2765 (1)	33,000	D	

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. Price of Derivative Security (Instr. 5)	9. Nu Deriv Secur Bene Owne Follo Repo Trans (Instr
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares		

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
BERRY MICHAEL J C/O SOLARWINDS, INC. 3711 S. MOPAC EXPY., BLDG TWO AUSTIN, TX 78746			Senior Vice President & CFO	

Signatures

/s/ Bryan A. Sims, Attorney-in-Fact	05/03/2010
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) This transaction was executed in multiple trades at prices ranging from $19.1986 to $19.30, inclusive. The price reported above reflects the weighted average purchase price. The reporting person hereby undertakes to provide upon request to the SEC staff, the issuer or a security holder of the issuer full information regarding the number of shares acquired and each separate price within the ranges set forth in this footnote.

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(1) Excludes Esurance brand since not available.

(2) Reserves comprise 66% case reserves and 34% IBNR.

Pending, new and closed claims for Michigan personal injury protection exposures for the years ended December 31 are summarized in the following table.

Number of claims	**2013**	**2012**	**2011**

Pending, beginning of year	4,029	3,844	3,089
New	8,531	7,629	6,486
Total closed	7,876	7,444	6,122
Pending, end of year	4,684	4,029	3,453(1)

(1) Excludes Esurance claims totaling 391 as of December 31, 2011.

The reserve increases of $351 million in the NJUCJF program in 2013 are attributable to unlimited personal injury protection coverage on policies written prior to 1991. The ceded claims reflects increased longer term paid loss trends due to increased costs of medical care and increased longevity of claimants. New claims for this cohort of policies are unlikely and pending claims are expected to decline.

We enter into certain intercompany insurance and reinsurance transactions for the Property-Liability operations in order to maintain underwriting control and manage insurance risk among various legal entities. These reinsurance agreements have been approved by the appropriate regulatory authorities. All significant intercompany transactions have been eliminated in consolidation.

Catastrophe reinsurance

Our catastrophe reinsurance program is designed, utilizing our risk management methodology, to address our exposure to catastrophes nationwide. Our program is designed to provide reinsurance protection for catastrophes including hurricanes, windstorms, hail, tornados, fires following earthquakes, earthquakes and wildfires. These reinsurance agreements are part of our catastrophe management strategy, which is intended to provide our shareholders an acceptable return on the risks assumed in our property business, and to reduce variability of earnings, while providing protection to our customers.

We anticipate completing the placement of our 2014 catastrophe reinsurance program in second quarter 2014. We expect the program will be similar to our 2013 catastrophe reinsurance program. For further details of the existing 2013 program, see Note 11 of the consolidated financial statements.

ALLSTATE FINANCIAL 2013 HIGHLIGHTS

Net income available to common shareholders was $95 million in 2013 compared to $541 million in 2012.

Premiums and contract charges on underwritten products, including traditional life, interest-sensitive life and accident and health insurance, totaled $2.30 billion in 2013, an increase of 5.5% from $2.18 billion in 2012.

Investments totaled $39.11 billion as of December 31, 2013, reflecting a decrease of $17.89 billion from $57.00 billion as of December 31, 2012. Investments classified as held for sale totaled $11.98 billion as of December 31, 2013. Net investment income decreased 4.1% to $2.54 billion in 2013 from $2.65 billion in 2012.

Net realized capital gains totaled $74 million in 2013 compared to net realized capital losses of $13 million in 2012.

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During 2013, loss on disposition of $521 million, after-tax, was recorded relating to the pending sale of Lincoln Benefit Life Company.

Contractholder funds totaled $24.30 billion as of December 31, 2013, reflecting a decrease of $15.02 billion from $39.32 billion as of December 31, 2012. Contractholder funds classified as held for sale totaled $10.95 billion as of December 31, 2013.

ALLSTATE FINANCIAL SEGMENT

Overview and strategy The Allstate Financial segment sells life insurance and voluntary employee benefits products. We serve our customers through Allstate exclusive agencies and exclusive financial specialists, and workplace distribution. Allstate Financial brings value to The Allstate Corporation in three principal ways: through profitable growth, by bringing new customers to Allstate, and by improving the economics of the Protection business through increased customer loyalty and stronger customer relationships based on cross selling Allstate Financial products to existing customers. Allstate Financial's strategy is focused on expanding Allstate customer relationships, growing the number of products delivered to customers through Allstate exclusive agencies and Allstate Benefits (our workplace distribution business), improving returns on our in-force annuity products, and emphasizing capital efficiency and shareholder returns.

On July 17, 2013, we announced our plans to exit the independent master brokerage agencies distribution channel. In connection with this announcement, we entered into a definitive agreement with Resolution Life Holdings, Inc. to sell Lincoln Benefit Life Company, LBL's life insurance business generated through independent master brokerage agencies, and all of LBL's deferred fixed annuity and long-term care insurance business for $600 million subject to certain adjustments as of the closing date. The transaction is subject to regulatory approvals and other customary closing conditions. We expect the closing to occur in April 2014. The estimated loss on disposition of $521 million, after-tax, was recorded in 2013. The business being sold had $341 million of premiums and contract charges in 2013. Effective July 18, 2013, we no longer offer any products through the independent master brokerage agency distribution channel.

The products we currently offer include interest-sensitive, traditional and variable life insurance; and voluntary accident and health insurance. Our products are sold through Allstate exclusive agencies and exclusive financial specialists and workplace enrolling independent agents. Effective January 1, 2014, we no longer offer fixed annuities such as deferred and immediate annuities. Allstate exclusive agencies and exclusive financial specialists have a portfolio of non-proprietary products, including fixed and variable annuities and mutual funds, available to meet customer needs. We are planning to outsource the administration of our annuity business to a third party administration company by the end of 2014. Institutional products consisting of funding agreements sold to unaffiliated trusts that use them to back medium-term notes were previously offered and $85 million remain outstanding as of December 31, 2013. Banking products and services were previously offered to customers through the Allstate Bank, which ceased operations in 2011.

Based upon Allstate's strong financial position and brand, we have a unique opportunity to cross-sell our products to meet the needs of more Allstate customers. We will enhance trusted customer relationships established through Allstate exclusive agencies to serve those who are looking for assistance in meeting their protection and retirement needs by providing them with information, products and services. To further strengthen Allstate Financial's value proposition to Allstate exclusive agencies and drive further engagement in selling our products, Allstate Financial products are integrated into the Allstate Protection sales processes and the agent compensation structure incorporates sales of Allstate Financial products. Life insurance policies issued through Allstate agencies increased 3.9% and 9.3% in 2013 and 2012, respectively, compared to the prior years.

Our employer relationships through Allstate Benefits also afford opportunities to offer Allstate products to more customers and grow our business. Allstate Benefits is an industry leader in voluntary benefits, offering one of the broadest product portfolios in the voluntary benefits market. Our strategy for Allstate Benefits focuses on growth in the national accounts market by increasing the number of sales and account management personnel, expanding independent agent distribution in targeted geographic locations for increased new sales, increasing Allstate exclusive agency engagement to drive cross selling of voluntary benefits products, and developing opportunities for revenue growth through new product and fee income offerings. Allstate Benefits new business written premiums increased 9.4% and 6.5% in 2013 and 2012, respectively.

Our in-force deferred and immediate annuity business has been adversely impacted by the credit cycle and historically low interest rate environment. Our immediate annuity business has also been impacted by medical advancements that have resulted in annuitants living longer than anticipated when many of these contracts were originated. We have reduced the level of legacy deferred annuities in force and proactively manage annuity crediting rates to improve the profitability of the business. The pending LBL sale will further reduce the level of deferred annuities

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in force. We are managing the investment portfolio supporting our immediate annuities to ensure the assets match the characteristics of the liabilities and provide the long-term returns needed to support this business. We are increasing investments in which we have ownership interests and a greater proportion of return is derived from idiosyncratic operating or market performance including equities and real estate to more appropriately match investment duration with these long-term liabilities.

Allstate Financial outlook

- Our growth initiatives continue to focus on increasing the number of customers served through our proprietary Allstate agency and Allstate Benefits channels.

- We continue to focus on improving returns on our in-force deferred and immediate annuity products.

- We plan to accelerate growth of premiums and contract charges by offering a broad range of products to meet our customers' needs. The solutions we offer to meet customer life and retirement needs will include underwritten insurance products as well as third-party solutions where we choose not to offer certain products.

- We expect lower investment spread due to reduced contractholder funds, the continuing low interest rate environment and changes in asset allocations. The amount by which the low interest rate environment will reduce our investment spread is contingent on our ability to maintain the portfolio yield and lower interest crediting rates on spread-based products, which could be limited by market conditions, regulatory minimum rates or contractual minimum rate guarantees, and may not match the timing or magnitude of changes in asset yields. We also anticipate changing our asset allocation for long-term immediate annuities to have less reliance on investments whose returns come primarily from interest payments to investments in which we have ownership interests and a greater proportion of return is derived from idiosyncratic operating or market performance including equities and real estate. This shift could result in lower and more volatile investment income; however, we anticipate that this strategy will lead to higher total returns on attributed equity.

- Allstate Financial's attributed GAAP equity may increase as there may be limitations on the amount of dividends Allstate Financial companies can pay without prior approval by their insurance departments.

- We continue to review our strategic options to reduce our exposure and improve returns of the spread-based businesses. As a result, we may take additional operational and financial actions that offer return improvement and risk reduction opportunities.

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Summary analysis Summarized financial data for the years ended December 31 is presented in the following table.

($ in millions)	2013	2012	2011
Revenues			
Life and annuity premiums and contract charges	$ 2,352	$ 2,241	$ 2,238
Net investment income	2,538	2,647	2,716
Realized capital gains and losses	74	(13)	388
Total revenues	4,964	4,875	5,342
Costs and expenses			
Life and annuity contract benefits	(1,917)	(1,818)	(1,761)
Interest credited to contractholder funds	(1,278)	(1,316)	(1,645)
Amortization of DAC	(328)	(401)	(494)
Operating costs and expenses	(565)	(576)	(555)
Restructuring and related charges	(7)		(1)
Total costs and expenses	(4,095)	(4,111)	(4,456)
(Loss) gain on disposition of operations	(687)	18	(7)
Income tax expense	(87)	(241)	(289)
Net income available to common shareholders	$ 95	$ 541	$ 590
Life insurance	$ 235	$ 226	$ 262
Accident and health insurance	89	81	95
Annuities and institutional products	292	234	233
Loss on sale of LBL	(521)		
Net income available to common shareholders	$ 95	$ 541	$ 590
Allstate Life and Retirement	$ (5)	$ 458	$ 484
Allstate Benefits	100	83	106
Net income available to common shareholders	$ 95	$ 541	$ 590
Investments as of December 31	$ 39,105	$ 56,999	$ 57,373
Investments classified as held for sale as of December 31	11,983		

Net income available to common shareholders was $95 million in 2013 compared to $541 million in 2012. The decrease was primarily due to the estimated loss on disposition related to the pending LBL sale, lower net investment income and higher life and annuity contract benefits, partially offset by higher life and annuity premiums and contract charges, net realized capital gains in 2013 compared to net realized capital

losses in 2012 and decreased amortization of DAC.

Net income in 2012 was $541 million compared to $590 million in 2011. The decrease was primarily due to net realized capital losses in 2012 compared to net realized capital gains in 2011, lower net investment income and higher life and annuity contract benefits, partially offset by decreased interest credited to contractholder funds and lower amortization of DAC.

Analysis of revenues Total revenues increased 1.8% or $89 million in 2013 compared to 2012, primarily due to higher life and annuity premiums and contract charges and net realized capital gains in 2013 compared to net realized capital losses in 2012, partially offset by lower net investment income. Total revenues decreased 8.7% or $467 million in 2012 compared to 2011 due to net realized capital losses in 2012 compared to net realized capital gains in 2011 and lower net investment income.

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

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The following table summarizes life and annuity premiums and contract charges by product for the years ended December 31.

($ in millions)	2013	2012	2011
Underwritten products			
Traditional life insurance premiums	$ 455	$ 434	$ 406
Accident and health insurance premiums	26	26	27
Interest-sensitive life insurance contract charges	991	969	935
Subtotal Allstate Life and Retirement	1,472	1,429	1,368
Traditional life insurance premiums	36	36	35
Accident and health insurance premiums	694	627	616
Interest-sensitive life insurance contract charges	95	86	80
Subtotal Allstate Benefits	825	749	731
Total underwritten products	2,297	2,178	2,099
Annuities			
Immediate annuities with life contingencies premiums	37	45	106
Other fixed annuity contract charges	18	18	33
Total annuities	55	63	139
Life and annuity premiums and contract charges (1)	$ 2,352	$ 2,241	$ 2,238

(1) Contract charges related to the cost of insurance totaled $725 million, $696 million and $659 million in 2013, 2012 and 2011, respectively.

Total premiums and contract charges increased 5.0% in 2013 compared to 2012, primarily due to growth in Allstate Benefits accident and health insurance business, higher contract charges on interest-sensitive life insurance products primarily resulting from the aging of our policyholders and growth of insurance in force, and increased traditional life insurance premiums due to lower reinsurance premiums ceded and higher sales and renewals through Allstate agencies, partially offset by lower sales of immediate annuities with life contingencies. Effective March 22, 2013, we no longer offer structured settlement annuities. We continue to service the in-force structured settlement contracts.

Total premiums and contract charges increased 0.1% in 2012 compared to 2011, primarily due to higher contract charges on interest-sensitive life insurance products primarily resulting from the aging of our policyholders and lower reinsurance ceded, and increased traditional life insurance premiums due to lower reinsurance ceded and higher sales through Allstate agencies, partially offset by lower sales of immediate annuities with life contingencies.

Contractholder funds represent interest-bearing liabilities arising from the sale of products such as interest-sensitive life insurance, fixed annuities, funding agreements and, prior to December 31, 2011, bank deposits. The balance of contractholder funds is equal to the cumulative deposits received and interest credited to the contractholder less

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cumulative contract benefits, surrenders, withdrawals, maturities and contract charges for mortality or administrative expenses. The following table shows the changes in contractholder funds for the years ended December 31.

($ in millions)	**2013**	**2012**	**2011**
Contractholder funds, beginning balance	$ 39,319	$ 42,332	$ 48,195
Deposits			
Fixed annuities	1,062	928	667
Interest-sensitive life insurance	1,378	1,347	1,291
Bank deposits			360
Total deposits	2,440	2,275	2,318
Interest credited	1,295	1,323	1,629
Benefits, withdrawals, maturities and other adjustments			
Benefits	(1,535)	(1,463)	(1,461)
Surrenders and partial withdrawals	(3,299)	(3,990)	(4,935)
Bank withdrawals			(1,463)
Maturities of and interest payments on institutional products	(1,799)	(138)	(867)
Contract charges	(1,112)	(1,066)	(1,028)
Net transfers from separate accounts	12	11	12
Fair value hedge adjustments for institutional products			(34)
Other adjustments [(1)]	(72)	35	(34)
Total benefits, withdrawals, maturities and other adjustments	(7,805)	(6,611)	(9,810)
Contractholder funds classified as held for sale	(10,945)		
Contractholder funds, ending balance	$ 24,304	$ 39,319	$ 42,332

(1) The table above illustrates the changes in contractholder funds, which are presented gross of reinsurance recoverables on the 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 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 38.2%, 7.1% and 12.2% in 2013, 2012 and 2011, respectively. The decrease in 2013 reflects the reclassification of contractholder funds held for sale relating to the pending LBL sale. Contractholder funds including those classified as held for sale decreased 10.4% in 2013, reflecting a large institutional product maturity in 2013 and our continuing strategy to reduce our concentration in spread-based products. Average contractholder funds decreased 22.1% in 2013 compared to 2012 and 9.8% in 2012 compared to 2011.

Contractholder deposits increased 7.3% in 2013 compared to 2012, primarily due to increased fixed annuity deposits driven by the new equity-indexed annuity products and higher deposits on immediate annuities, as well as higher deposits on interest-sensitive life insurance. Contractholder deposits decreased 1.9% in 2012 compared to 2011, primarily due to increased fixed annuity deposits driven by new equity-indexed annuity products launched in second quarter 2012 being more than offset by the absence of Allstate Bank deposits in 2012.

Surrenders and partial withdrawals on deferred fixed annuities and interest-sensitive life insurance products decreased 17.3% to $3.30 billion in 2013 from $3.99 billion in 2012. Surrenders and partial withdrawals on deferred fixed annuities and interest-sensitive life insurance products decreased 19.1% to $3.99 billion in 2012 from $4.94 billion in 2011. 2011 had elevated surrenders on fixed annuities resulting from crediting rate actions and a large number of contracts reaching the 30-45 day period (typically at their 5 or 6 year anniversary) during which there is no surrender charge. The surrender and partial withdrawal rate on deferred fixed annuities and interest-sensitive life insurance products, based on the beginning of year contractholder funds, was 10.2% in 2013 compared to 11.3% in 2012 and 12.6% in 2011.

Maturities of and interest payments on institutional products in 2013 include a $1.75 billion maturity. There are $85 million of institutional products outstanding as of December 31, 2013. Maturities of and interest payments on institutional products decreased to $138 million in 2012 from $867 million in 2011, reflecting differences in the timing and magnitude of maturities.

Net investment income decreased 4.1% or $109 million to $2.54 billion in 2013 from $2.65 billion in 2012, primarily due to lower average investment balances, partially offset by higher prepayment fee income and litigation proceeds

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which together increased income by a total of $50 million in 2013 and higher limited partnership income. Net investment income in 2013 includes $264 million relating to investments classified as held for sale for the period from July 17, 2013 to December 31, 2013. Net investment income decreased 2.5% to $2.65 billion in 2012 from $2.72 billion in 2011, primarily due to lower average investment balances and lower yields on fixed income securities, partially offset by income from limited partnerships.

Net realized capital gains and losses for the years ended December 31 are presented in the following table.

($ in millions)	**2013**	**2012**	**2011**
Impairment write-downs	$ (33)	$ (51)	$ (246)
Change in intent write-downs	(19)	(17)	(51)
Net other-than-temporary impairment losses recognized in earnings	(52)	(68)	(297)
Sales	112	20	838
Valuation of derivative instruments	(3)	(16)	(237)
Settlements of derivative instruments	17	51	22
EMA limited partnership income [(1)]			62
Realized capital gains and losses, pre-tax	74	(13)	388
Income tax (expense) benefit	(28)	5	(138)
Realized capital gains and losses, after-tax	$ 46	$ (8)	$ 250

(1) Income from EMA limited partnerships is reported in net investment income in 2013 and 2012 and realized capital gains and losses in 2011.

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 0.4% or $16 million in 2013 compared to 2012, primarily due to lower amortization of DAC and interest credited to contractholder funds, partially offset by higher life and annuity contract benefits. Total costs and expenses decreased 7.7% or $345 million in 2012 compared to 2011, primarily due to lower interest credited to contractholder funds and amortization of DAC, partially offset by higher life and annuity contract benefits.

Life and annuity contract benefits increased 5.4% or $99 million in 2013 compared to 2012, primarily due to an increase in reserves for secondary guarantees on interest-sensitive life insurance, growth at Allstate Benefits and worse mortality experience on life insurance. Our 2013 annual review of assumptions 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.

Life and annuity contract benefits increased 3.2% or $57 million in 2012 compared to 2011, primarily due to worse mortality experience on life insurance and the reduction in accident and health insurance reserves at Allstate Benefits in 2011, partially offset by lower sales of immediate annuities with life contingencies and the reduction in reserves for secondary guarantees on interest-sensitive life insurance. Our 2012 annual review of assumptions resulted in a $13 million decrease in the reserves for secondary guarantees on interest-sensitive life insurance due to favorable projected mortality.

We analyze our mortality and morbidity results using the difference between premiums and contract charges earned for the cost of insurance and life and annuity contract benefits excluding the portion related to the implied interest on immediate annuities with life contingencies ("benefit spread"). This implied interest totaled $527 million, $538 million and $541 million in 2013, 2012 and 2011, respectively.

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The benefit spread by product group for the years ended December 31 is disclosed in the following table.

($ in millions)	**2013**	**2012**	**2011**
Life insurance	$ 301	$ 330	$ 338
Accident and health insurance	(18)	(9)	(9)
Annuities	(77)	(66)	(55)
Subtotal Allstate Life and Retirement	206	255	274
Life insurance	21	17	17
Accident and health insurance	356	312	338
Subtotal Allstate Benefits	377	329	355
Total benefit spread	$ 583	$ 584	$ 629

Benefit spread decreased 0.2% or $1 million in 2013 compared to 2012, primarily due to the increase in reserves for secondary guarantees on interest-sensitive life insurance and worse mortality experience on life insurance and annuities, partially offset by premium growth in Allstate Benefits accident and health insurance and higher cost of insurance contract charges on interest-sensitive life insurance.

Benefit spread decreased 7.2% or $45 million in 2012 compared to 2011, primarily due to worse mortality experience on life insurance and annuities and the reduction in accident and health insurance reserves at Allstate Benefits in 2011, partially offset by lower reinsurance premiums ceded on life insurance, higher cost of insurance contract charges on interest-sensitive life insurance and the reduction in reserves for secondary guarantees on interest-sensitive life insurance.

Interest credited to contractholder funds decreased 2.9% or $38 million in 2013 compared to 2012, primarily due to lower average contractholder funds and lower interest crediting rates, partially offset by the valuation change on derivatives embedded in equity-indexed annuity contracts that reduced interest credited expense in 2012. Interest credited to contractholder funds decreased 20.0% or $329 million in 2012 compared to 2011, primarily due to the valuation change on derivatives embedded in equity-indexed annuity contracts that reduced interest credited expense, lower average contractholder funds and lower interest crediting rates. Valuation changes on derivatives embedded in equity-indexed annuity contracts that are not hedged increased interest credited to contractholder funds by $24 million in 2013 compared to a $126 million decrease in 2012 and an $18 million increase in 2011. During third quarter 2012, we reviewed the significant valuation inputs for these embedded derivatives and reduced the projected option cost to reflect management's current and anticipated crediting rate setting actions, which were informed by the existing and projected low interest rate environment and are consistent with our strategy to reduce exposure to spread-based business. The reduction in projected interest rates resulted in a reduction of contractholder funds and interest credited expense by $169 million in 2012.

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

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The investment spread by product group for the years ended December 31 is shown in the following table.

($ in millions)	**2013**	**2012**	**2011**
Annuities and institutional products	$ 342	$ 292	$ 188
Life insurance	93	72	42
Accident and health insurance	14	13	8
Allstate Bank products			22
Net investment income on investments supporting capital	271	253	251
Subtotal Allstate Life and Retirement	720	630	511
Life insurance	12	10	12
Accident and health insurance	11	12	11
Net investment income on investments supporting capital	14	15	14
Subtotal Allstate Benefits	37	37	37
Investment spread before valuation changes on embedded derivatives that are not hedged	757	667	548
Valuation changes on derivatives embedded in equity-indexed annuity contracts that are not hedged	(24)	126	(18)
Total investment spread	$ 733	$ 793	$ 530

Investment spread before valuation changes on embedded derivatives that are not hedged increased 13.5% or $90 million in 2013 compared to 2012, primarily due to lower crediting rates, higher prepayment fee income and litigation proceeds and higher limited partnership income, partially offset by the continued managed reduction in our spread-based business in force. Investment spread before valuation changes on embedded derivatives that are not hedged increased 21.7% or $119 million in 2012 compared to 2011 due to income from limited partnerships and lower crediting rates, partially offset by lower yields on fixed income securities and the continued managed reduction in our spread-based business in force.

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

	Weighted average investment yield			**Weighted average interest crediting rate**			**Weighted average investment spreads**		
	2013	**2012**	**2011**	**2013**	**2012**	**2011**	**2013**	**2012**	**2011**
Interest-sensitive life insurance	5.1%	5.2%	5.4%	3.8%	4.0%	4.2%	1.3%	1.2%	1.2%
Deferred fixed annuities and institutional products	4.5	4.6	4.6	2.9	3.2	3.3	1.6	1.4	1.3
Immediate fixed annuities with and without life contingencies	6.9	6.9	6.3	6.0	6.1	6.2	0.9	0.8	0.1
Investments supporting capital, traditional life and other products	4.0	4.0	3.9	n/a	n/a	n/a	n/a	n/a	n/a

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Explanation of Responses:

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The following table summarizes our product liabilities as of December 31 and indicates the account value of those contracts and policies in which an investment spread is generated.

($ in millions)		2013		2012		2011
Immediate fixed annuities with life contingencies	$	8,928	$	8,889	$	8,831
Other life contingent contracts and other		3,458		6,006		5,575
Reserve for life-contingent contract benefits	$	12,386	$	14,895	$	14,406
Interest-sensitive life insurance	$	7,777	$	11,011	$	10,826
Deferred fixed annuities		12,524		22,066		25,228
Immediate fixed annuities without life contingencies		3,675		3,815		3,821
Institutional products		85		1,851		1,891
Other		243		576		566
Contractholder funds	$	24,304	$	39,319	$	42,332
Traditional life insurance	$	570	$		$	
Accident and health insurance		1,324				
Interest-sensitive life insurance		3,529				
Deferred fixed annuities		7,416				
Liabilities held for sale	$	12,839	$		$	

Amortization of DAC decreased 18.2% or $73 million in 2013 compared to 2012 and 18.8% or $93 million in 2012 compared to 2011. The components of amortization of DAC for the years ended December 31 are summarized in the following table.

($ in millions)		2013		2012		2011
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	$	298	$	310	$	331
Amortization relating to realized capital gains and losses [(1)] and valuation changes on embedded derivatives that are not hedged		7		57		156
Amortization acceleration for changes in assumptions ("DAC unlocking")		23		34		7
Total amortization of DAC	$	328	$	401	$	494

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

The decrease in DAC amortization in 2013 compared to 2012 was primarily due to the absence of amortization on a large fixed annuity block that became fully amortized in 2012, lower amortization relating to valuation changes on derivatives embedded in equity-indexed annuity contracts due to a large valuation change in 2012, lower amortization on interest-sensitive life insurance resulting from decreased benefit spread, and lower amortization acceleration for changes in assumptions. Amortization relating to valuation changes on derivatives embedded in equity-indexed annuity contracts was $1 million in 2013 compared to $25 million in 2012.

The decrease in DAC amortization in 2012 compared to 2011 was primarily due to decreased amortization relating to realized capital gains and losses and decreased amortization on fixed annuity products due to the DAC balance for contracts issued prior to 2010 being fully amortized, partially offset by increased amortization acceleration for changes in assumptions and increased amortization relating to valuation changes on embedded derivatives that are not hedged.

Our annual comprehensive review of the profitability of our products to determine DAC balances for our interest-sensitive life, fixed annuities and other investment contracts covers assumptions for persistency, mortality, expenses, investment returns, including capital gains and losses, interest crediting rates to policyholders, and the effect of any hedges in all product lines. In 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

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an increase in projected mortality and expenses, partially offset by increased projected investment margins. Amortization deceleration of $12 million related to fixed annuities and was primarily due to an increase in projected investment margins. Amortization deceleration of $3 million related to variable life insurance.

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

In 2011, the review resulted in an acceleration of DAC amortization of $7 million. Amortization acceleration of $12 million related to interest-sensitive life insurance and was primarily due to an increase in projected expenses. Amortization deceleration of $5 million related to equity-indexed annuities and was primarily due to an increase in projected investment margins.

The changes in DAC for the years ended December 31 are detailed in the following table.

($ in millions)	**Traditional life and accident and health**		**Interest-sensitive life insurance**		**Fixed annuities**		**Total**	
	2013	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**
Beginning balance	$ 671	$ 616	$ 1,529	$ 1,698	$ 25	$ 209	$ 2,225	$ 2,523
Acquisition costs deferred	164	154	176	192	24	25	364	371
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 (1)	(111)	(99)	(174)	(186)	(13)	(25)	(298)	(310)
Amortization relating to realized capital gains and losses and valuation changes on embedded derivatives that are not hedged (1)			(6)	(18)	(1)	(39)	(7)	(57)
Amortization (acceleration) deceleration for changes in assumptions ("DAC unlocking") (1)			(35)	(30)	12	(4)	(23)	(34)
Effect of unrealized capital gains and losses (2)			201	(127)	28	(141)	229	(268)
DAC classified as held for sale	(13)		(700)		(30)		(743)	
Ending balance	$ 711	$ 671	$ 991	$ 1,529	$ 45	$ 25	$ 1,747	$ 2,225

(1) Included as a component of amortization of DAC on the Consolidated Statements of Operations.

(2) Represents the change in the DAC adjustment for unrealized capital gains and losses. The DAC adjustment represents the amount by which the amortization of DAC would increase or decrease if the unrealized gains

and losses in the respective product portfolios were realized.

Operating costs and expenses decreased 1.9% or $11 million in 2013 compared to 2012 and increased 3.8% or $21 million in 2012 compared to 2011. The following table summarizes operating costs and expenses for the years ended December 31.

($ in millions)		**2013**		**2012**		**2011**
Non-deferrable commissions	$	103	$	103	$	111
General and administrative expenses		398		421		385
Taxes and licenses		64		52		59
Total operating costs and expenses	$	565	$	576	$	555
Restructuring and related charges	$	7	$		$	1

General and administrative expenses decreased 5.5% or $23 million in 2013 compared to 2012, primarily due to lower employee related expenses and proceeds received from a litigation settlement.

General and administrative expenses increased 9.4% or $36 million in 2012 compared to 2011, primarily due to higher employee related expenses, lower reinsurance expense allowances and increased marketing costs, partially offset by a charge in 2011 related to the liquidation plan for Executive Life Insurance Company of New York, the elimination of expenses following our exit from the banking business in 2011 and lower pension costs.

Loss on disposition of $687 million in 2013 includes the estimated $698 million loss relating to the pending LBL sale. Gain on disposition of $18 million in 2012 relates to the amortization of the deferred gain from the disposition through

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reinsurance of substantially all of our variable annuity business in 2006, and the sale of Surety Life Insurance Company, which was not used for new business, in third quarter 2012. Loss on disposition of $7 million in 2011 included $22 million related to the dissolution of Allstate Bank. In 2011, after receiving regulatory approval to dissolve, Allstate Bank ceased operations.

Reinsurance ceded We enter into reinsurance agreements with unaffiliated reinsurers to limit our risk of mortality and morbidity losses. In addition, Allstate Financial has used reinsurance to effect the acquisition or disposition of certain blocks of business. We retain primary liability as a direct insurer for all risks ceded to reinsurers. As of December 31, 2013 and 2012, 36% and 39%, respectively, of our face amount of life insurance in force was reinsured. Additionally, we ceded substantially all of the risk associated with our variable annuity business.

Our reinsurance recoverables, summarized by reinsurer as of December 31, are shown in the following table.

($ in millions)	**Standard & Poor's financial strength rating** [4]	**Reinsurance recoverable on paid and unpaid benefits**	
		2013	**2012**
Prudential Insurance Company of America	AA-	$ 1,510	$ 1,691
RGA Reinsurance Company	AA-	305	361
Swiss Re Life and Health America, Inc. [1]	AA-	186	217
Paul Revere Life Insurance Company	A	121	127
Munich American Reassurance	AA-	109	131
Scottish Re Group	N/A	104	131
Mutual of Omaha Insurance	A+	92	96
Transamerica Life Group	AA-	88	447
Manulife Insurance Company	AA-	59	62
Triton Insurance Company	N/A	54	55
Security Life of Denver	A-	48	83
American Health & Life Insurance Co.	N/A	44	45
Lincoln National Life Insurance	AA-	39	60
General Re Life Corporation	AA+	25	31
Employers Reassurance Corporation	A+	15	1,059
Other [2]		73	92
Total [3]		$ 2,872	$ 4,688

(1) The Company has extensive reinsurance contracts directly with Swiss Re and its affiliates and indirectly through Swiss Re's acquisition of other companies with whom we had reinsurance or retrocession contracts.

(2) As of December 31, 2013 and 2012, the other category includes $58 million and $75 million, respectively, of recoverables due from reinsurers with an investment grade credit rating from Standard & Poor's ("S&P").

(3) Reinsurance recoverables classified as held for sale were $1.66 billion as of December 31, 2013.

(4) N/A reflects no rating available.

We continuously monitor the creditworthiness of reinsurers in order to determine our risk of recoverability on an individual and aggregate basis, and a provision for uncollectible reinsurance is recorded if needed. No amounts have been deemed unrecoverable in the three-years ended

December 31, 2013.

We enter into certain intercompany reinsurance transactions for the Allstate Financial operations in order to maintain underwriting control and manage insurance risk among various legal entities. These reinsurance agreements have been approved by the appropriate regulatory authorities. All significant intercompany transactions have been eliminated in consolidation.

INVESTMENTS 2013 HIGHLIGHTS

Investments totaled $81.16 billion as of December 31, 2013, decreasing from $97.28 billion as of December 31, 2012. Investments classified as held for sale totaled $11.98 billion as of December 31, 2013.

Unrealized net capital gains totaled $2.70 billion as of December 31, 2013, decreasing from $5.55 billion as of December 31, 2012.

Net investment income was $3.94 billion in 2013, a decrease of 1.7% from $4.01 billion in 2012.

Net realized capital gains were $594 million in 2013 compared to $327 million in 2012.

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INVESTMENTS

Overview and strategy The return on our investment portfolios is an important component of our financial results. Investment portfolios are segmented between the Property-Liability, Allstate Financial and Corporate and Other operations. While taking into consideration the investment portfolio in aggregate, we manage the underlying portfolios based upon the nature of each respective business and its corresponding liability structure.

We employ a strategic asset allocation approach which considers the nature of the liabilities and risk tolerances, as well as the risk and return parameters of the various asset classes in which we invest. This asset allocation is informed by our global economic and market outlook, as well as other inputs and constraints, including diversification effects, duration, liquidity and capital considerations. Within the ranges set by the strategic asset allocation, tactical investment decisions are made in consideration of prevailing market conditions. We manage risks associated with interest rates, credit spreads, equity markets, real estate and currency exchange rates. Our continuing focus is to manage risks and returns and to position our portfolio to take advantage of market opportunities while attempting to mitigate adverse effects.

The Property-Liability portfolio's investment strategy emphasizes protection of principal and consistent income generation, within a total return framework. This approach, which has produced competitive returns over the long term, is designed to ensure financial strength and stability for paying claims, while maximizing economic value and surplus growth.

The Allstate Financial portfolio's investment strategy focuses on the total return of assets needed to support the underlying liabilities, asset-liability management and achieving an appropriate return on capital.

The Corporate and Other portfolio's investment strategy balances the unique liquidity needs of the portfolio in relation to the overall corporate capital structure with the pursuit of returns.

Investments outlook

Although interest rates rose in 2013, we anticipate that they may remain below historic averages for an extended period of time and that financial markets will continue to have periods of high volatility. Invested assets and income are expected to decline in line with reductions in contractholder funds for the Allstate Financial segment, including $11.98 billion of investments classified as held for sale as of December 31, 2013 related to the pending sale of Lincoln Benefit Life. Additionally, income will decline as we continue to invest and reinvest proceeds at market yields that are below the current portfolio yield. We plan to focus on the following priorities:

- Managing our exposure to interest rate risk by maintaining a shorter maturity profile in the Property-Liability portfolio.
- Shifting the portfolio mix to have less reliance on investments whose returns come primarily from interest payments to investments in which we have ownership interests and a greater proportion of return is derived from idiosyncratic operating or market performance including equities and real estate
- Investing to the specific needs and characteristics of Allstate's businesses.

Portfolio composition The composition of the investment portfolios as of December 31, 2013 is presented in the following table.

($ in millions)	Property-Liability [5]	Percent to total	Allstate Financial [5]	Percent to total	Corporate and Other [5]	Percent to total	Total	Percent to total
Fixed income securities [1]	$ 29,578	74.6%	$ 29,648	75.8%	$ 1,684	69.8%	$ 60,910	75.1%
Equity securities [2]	4,396	11.1	701	1.8			5,097	6.3
Mortgage loans	429	1.1	4,292	11.0			4,721	5.8
Limited partnership interests [3]	2,898	7.3	2,064	5.3	5	0.2	4,967	6.1
Short-term investments [4]	1,002	2.5	668	1.7	723	30.0	2,393	2.9
Other	1,335	3.4	1,732	4.4			3,067	3.8

Total	$	39,638	100.0%	$	39,105	100.0%	$	2,412	100.0%	$	81,155	100.0%

(1) Fixed income securities are carried at fair value. Amortized cost basis for these securities was $29.05 billion, $28.30 billion, $1.66 billion and $59.01 billion for Property-Liability, Allstate Financial, Corporate and Other, and in Total, respectively.

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(2)

Equity securities are carried at fair value. Cost basis for these securities was $3.86 billion, $607 million and $4.47 billion for Property-Liability, Allstate Financial and in Total, respectively.

(3)

We have commitments to invest in additional limited partnership interests totaling $1.48 billion, $1.37 billion and $2.85 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 $1.00 billion, $668 million, $723 million and $2.39 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 $81.16 billion as of December 31, 2013, from $97.28 billion as of December 31, 2012, primarily due to the reclassification of investments relating to LBL to assets held for sale. Total investments including those classified as held for sale were $93.14 billion as of December 31, 2013, a decrease of $4.14 billion from December 31, 2012, reflecting net reductions in Allstate Financial's contractholder funds and lower fixed income valuations. The decline in valuation of fixed income securities during 2013 was primarily due to increasing risk-free interest rates.

The Property-Liability investment portfolio increased to $39.64 billion as of December 31, 2013, from $38.22 billion as of December 31, 2012, primarily due to positive operating cash flows, partially offset by dividends paid by Allstate Insurance Company ("AIC") to The Allstate Corporation (the "Corporation") and lower fixed income valuations.

The Allstate Financial investment portfolio decreased to $39.11 billion as of December 31, 2013, from $57.00 billion as of December 31, 2012, primarily due to the reclassification of investments relating to LBL to assets held for sale, our continuing strategy to reduce our concentration in spread based products and lower fixed income valuations.

The Corporate and Other investment portfolio increased to $2.41 billion as of December 31, 2013, from $2.06 billion as of December 31, 2012, primarily due to the proceeds from the issuance of debt and preferred stock, and dividends paid by AIC to the Corporation, partially offset by payments for the debt tender offer, common share repurchases and dividends paid to common shareholders.

During 2013, strategic actions focused on optimizing portfolio yield, return and risk in the low interest rate environment. In the Property-Liability portfolio, we increased our investment in short and intermediate term corporate fixed income securities and reduced our investment in long-duration municipal and corporate bonds and shorter duration U.S. government and agencies. This positioning, coupled with an increase in floating rate bank loans, has reduced our exposure to rising interest rates. While the dispositions generated net realized capital gains, we expect a decline in investment income prospectively due to the lower yield on the reinvestment of proceeds. We reduced our investments in ARS through dispositions. The carrying value of RMBS and CMBS declined due to the receipt of principal payments during the year. We also increased our real estate and limited partnership interests, consistent with our strategy to have a greater proportion of ownership of assets and equity investments.

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

($ in millions)	Fair value as of December 31, 2013	Percent to total investments	Fair value as of December 31, 2012	Percent to total investments
U.S. government and agencies	$ 2,913	3.6%	$ 4,713	4.9%
Municipal	8,723	10.8	13,069	13.5
Corporate	40,603	50.0	48,537	49.9
Foreign government	1,824	2.2	2,517	2.6
ABS	4,518	5.6	3,624	3.7
RMBS	1,474	1.8	3,032	3.1
CMBS	829	1.0	1,498	1.5
Redeemable preferred stock	26	0.1	27	

Total fixed income securities	$	60,910	75.1%	$	77,017	79.2%

As of December 31, 2013, 89.4% of the consolidated fixed income securities portfolio was rated investment grade, which is defined as a security having a rating of Aaa, Aa, A or Baa from Moody's, a rating of AAA, AA, A or BBB from S&P, Fitch, Dominion, Kroll or Realpoint, a rating of aaa, aa, a or bbb from A.M. Best, or a comparable internal rating if an externally provided rating is not available. All of our fixed income securities are rated by third party credit rating agencies, the National Association of Insurance Commissioners, and/or are internally rated. Our initial investment decisions and ongoing monitoring procedures for fixed income securities are based on a thorough due diligence process which includes, but is not limited to, an assessment of the credit quality, sector, structure, and liquidity risks of each issue.

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The following table summarizes the fair value and unrealized net capital gains and losses for fixed income securities by credit rating as of December 31, 2013.

($ in millions)	Aaa		Aa		A	
	Fair value	Unrealized gain/(loss)	Fair value	Unrealized gain/(loss)	Fair value	Unrealized gain/(loss)
U.S. government and agencies	$ 2,913	$ 122	$	$	$	$
Municipal						
Tax exempt	923	8	2,588	51	1,411	42
Taxable	202	6	1,961	136	961	53
Corporate						
Public	588	12	2,500	56	10,833	345
Privately placed	633	8	921	52	3,218	170
Foreign government	836	61	373	8	323	9
ABS						
Collateralized debt obligations ("CDO")	491	2	392		182	(6)
Consumer and other asset-backed securities ("Consumer and other ABS")	2,660	21	275	7	198	8
RMBS						
U.S. government sponsored entities ("U.S. Agency")	409	15				
Prime residential mortgage-backed securities ("Prime")	24		8		34	1
Alt-A residential mortgage-backed securities ("Alt-A")	2				4	
Subprime residential mortgage-backed securities ("Subprime")	6				6	
CMBS	327	13	51	3	83	5
Redeemable preferred stock						
Total fixed income securities	$ 10,014	$ 268	$ 9,069	$ 313	$ 17,253	$ 627

	Baa		Ba or lower		Total	
	Fair value	Unrealized gain/(loss)	Fair value	Unrealized gain/(loss)	Fair value	Unrealized gain/(loss)
U.S. government and agencies	$	$	$	$	$ 2,913	$ 122
Municipal						
Tax exempt	240	5	121	(2)	5,283	104

Taxable	258	(15)	58	(7)	3,440	173
Corporate						
Public	12,482	351	3,633	101	30,036	865
Privately placed	4,505	163	1,290	14	10,567	407
Foreign government	292	10			1,824	88
ABS						
CDO	5		148	(10)	1,218	(14)
Consumer and other ABS	138	4	29	1	3,300	41
RMBS						
U.S. Agency					409	15
Prime	63		324	32	453	33
Alt-A	11		346	28	363	28
Subprime			237	(5)	249	(5)
CMBS	118	3	250	17	829	41
Redeemable preferred stock	25	4	1		26	4
Total fixed income securities	$ 18,137	$ 525	$ 6,437	$ 169	$ 60,910	$ 1,902

Municipal bonds, including tax exempt and taxable securities, totaled $8.72 billion as of December 31, 2013 with an unrealized net capital gain of $277 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).

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The following table summarizes by state the fair value, amortized cost and credit rating of our municipal bonds, excluding $646 million of pre-refunded bonds, as of December 31, 2013.

($ in millions) State	State general obligation	Local general obligation	Revenue (1)	Fair value	Amortized cost	Average credit rating
Texas	$ 29	$ 338	$ 333	$ 700	$ 672	Aa
California	118	216	311	645	631	A
Florida	99	92	321	512	497	Aa
New York	28	96	383	507	496	Aa
Pennsylvania	97	58	172	327	321	Aa
Washington	125	10	184	319	310	Aa
Michigan	131	11	142	284	271	Aa
Ohio	70	57	155	282	271	Aa
Oregon	48	153	67	268	250	Aa
Illinois		67	190	257	250	A
All others	1,002	829	2,145	3,976	3,871	Aa
Total	$ 1,747	$ 1,927	$ 4,403	$ 8,077	$ 7,840	Aa

(1) The nature of the activities supporting revenue bonds is highly diversified and includes transportation, health care, industrial development, housing, higher education, utilities, recreation/convention centers and other activities.

Our practice for acquiring and monitoring municipal bonds is predominantly based on the underlying credit quality of the primary obligor. We currently rely on the primary obligor to pay all contractual cash flows and are not relying on bond insurers for payments. As a result of downgrades in the insurers' credit ratings, the ratings of the insured municipal bonds generally reflect the underlying ratings of the primary obligor. As of December 31, 2013, 99.5% of our insured municipal bond portfolio is rated investment grade.

Corporate bonds, including publicly traded and privately placed, totaled $40.60 billion as of December 31, 2013, with an unrealized net capital gain of $1.27 billion. Privately placed securities primarily consist of corporate issued senior debt securities that are directly negotiated with the borrower or are in unregistered form.

Our $10.57 billion portfolio of privately placed securities is broadly diversified by issuer, industry sector and country. The portfolio is made up of 442 issuers. Privately placed corporate obligations contain structural security features such as financial covenants and call protections that provide investors greater protection against credit deterioration, reinvestment risk or fluctuations in interest rates than those typically found in publicly registered debt securities. Additionally, investments in these securities are made after due diligence of the issuer, typically including direct discussions with senior management and on-site visits to company facilities. Ongoing monitoring includes direct periodic dialog with senior management of the issuer and continuous monitoring of operating performance and financial position. Every issue not rated by an independent rating agency is internally rated with a formal rating affirmation at least once a year.

Foreign government securities totaled $1.82 billion as of December 31, 2013, with 100% rated investment grade and an unrealized net capital gain of $88 million. Of these securities, 50.2% are in Canadian governmental and provincial securities (41.3% of which are held by our Canadian companies), 20.6% are backed by the U.S. government and the remaining 29.2% are highly diversified in other foreign governments.

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

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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 $4.52 billion as of December 31, 2013, with 96.1% rated investment grade and an unrealized net capital gain of $27 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 $1.22 billion as of December 31, 2013, with 87.8% rated investment grade and an unrealized net capital loss of $14 million. CDO consist of obligations collateralized by cash flow CDO, which are structures collateralized primarily by below investment grade senior secured corporate loans.

Consumer and other ABS totaled $3.30 billion as of December 31, 2013, with 99.1% rated investment grade. Consumer and other ABS consists of $1.24 billion of consumer auto and $2.06 billion of other ABS with unrealized net capital gains of $4 million and $37 million, respectively.

RMBS totaled $1.47 billion as of December 31, 2013, with 38.5% rated investment grade and an unrealized net capital gain of $71 million. The RMBS portfolio is subject to interest rate risk, but unlike other fixed income securities, is additionally subject to significant prepayment risk from the underlying residential mortgage loans. RMBS consists of a U.S. Agency portfolio having collateral issued or guaranteed by U.S. government agencies and a non-agency portfolio consisting of securities collateralized by Prime, Alt-A and Subprime loans. The non-agency portfolio totaled $1.07 billion as of December 31, 2013, with 14.8% rated investment grade and an unrealized net capital gain of $56 million.

CMBS totaled $829 million as of December 31, 2013, with 69.8% rated investment grade and an unrealized net capital gain of $41 million. The CMBS portfolio is subject to credit risk and has a sequential paydown structure. Of the CMBS investments, 93.6% 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.

Equity securities Equity securities primarily include common stocks, exchange traded and mutual funds, non-redeemable preferred stocks and real estate investment trust equity investments. The equity securities portfolio was $5.10 billion as of December 31, 2013, with an unrealized net capital gain of $624 million.

Mortgage loans Our mortgage loan portfolio, which is primarily held in the Allstate Financial portfolio, totaled $4.72 billion as of December 31, 2013 and primarily comprises loans secured by first mortgages on developed commercial real estate. Key considerations used to manage our exposure include property type and geographic diversification. For further detail on our mortgage loan portfolio, see Note 6 of the consolidated financial statements.

Limited partnership interests consist of investments in private equity/debt funds, real estate funds, tax credit funds and other funds. The limited partnership interests portfolio is well diversified across a number of characteristics including fund managers, vintage years, strategies, geography (including international), and company/property types. The following table presents information about our limited partnership interests as of December 31, 2013.

($ in millions)	**Private equity/debt funds [1]**	**Real estate funds**	**Tax credit funds**	**Other funds**	**Total**
Cost method of accounting ("Cost")	$ 963	$ 477	$	$ 3	$ 1,443
Equity method of accounting ("EMA")	1,599	1,210	626	89	3,524
Total	$ 2,562	$ 1,687	$ 626	$ 92	$ 4,967

Number of managers	109	46	11	10
Number of individual funds	189	98	21	12
Largest exposure to single fund	$ 80	$ 264	$ 53	$ 83

(1) Includes $526 million of infrastructure and real asset funds.

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The following tables show the earnings from our limited partnership interests by fund type and accounting classification for the years ended December 31.

($ in millions)	2013				2012			
	Cost	EMA	Total income	Impairment write-downs	Cost	EMA	Total income	Impairment write-downs
Private equity/debt funds	$ 162	$ 172	$ 334	$ (14)	$ 94	$ 152	$ 246	$ (2)
Real estate funds	37	184	221	(4)	17	106	123	(4)
Tax credit funds		(35)	(35)			(28)	(28)	
Other funds		21	21			7	7	(2)
Total	$ 199	$ 342	$ 541	$ (18)	$ 111	$ 237	$ 348	$ (8)

Limited partnership interests produced income, excluding impairment write-downs, of $541 million in 2013 compared to $348 million in 2012. 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, real estate funds and tax credit funds are generally on a three month delay and the income recognition on other funds is primarily on a one month delay. Income on cost method limited partnerships is recognized only upon receipt of amounts distributed by the partnerships.

Short-term investments Our short-term investment portfolio was $2.39 billion as of December 31, 2013.

Other investments Our other investments as of December 31, 2013 primarily comprise $919 million of policy loans, $1.24 billion of bank loans, $341 million of agent loans and $269 million of certain derivatives. For further detail on our use of derivatives, see Note 8 of the consolidated financial statements.

Unrealized net capital gains totaled $2.70 billion as of December 31, 2013 compared to $5.55 billion as of December 31, 2012. The decline for fixed income securities was primarily due to increasing risk-free interest rates and the realization of unrealized net capital gains through sales. The increase for equity securities was primarily due to positive equity market performance, partially offset by the realization of unrealized net capital gains through sales. The following table presents unrealized net capital gains and losses as of December 31.

($ in millions)	2013	2012
U.S. government and agencies	$ 122	$ 326
Municipal	277	930
Corporate	1,272	3,594
Foreign government	88	227
ABS	27	1
RMBS	71	32
CMBS	41	(12)
Redeemable preferred stock	4	4
Fixed income securities	1,902	5,102
Equity securities	624	460
Derivatives	(18)	(22)
EMA limited partnerships	(3)	7
Investments classified as held for sale	190	

Unrealized net capital gains and losses, pre-tax	$	2,695	$	5,547

The unrealized net capital gain for the fixed income portfolio totaled $1.90 billion and comprised $2.48 billion of gross unrealized gains and $573 million of gross unrealized losses as of December 31, 2013. This is compared to an unrealized net capital gain for the fixed income portfolio totaling $5.10 billion, comprised of $5.63 billion of gross unrealized gains and $530 million of gross unrealized losses as of December 31, 2012.

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Gross unrealized gains and losses on fixed income securities by type and sector as of December 31, 2013 are provided in the following table.

($ in millions)	Amortized cost	Gross unrealized Gains	Gross unrealized Losses	Fair value
Corporate:				
Consumer goods (cyclical and non-cyclical)	$ 9,089	$ 306	$ (66)	$ 9,329
Utilities	6,284	438	(62)	6,660
Capital goods	4,283	186	(49)	4,420
Banking	3,345	84	(47)	3,382
Basic industry	2,404	75	(38)	2,441
Energy	3,613	145	(31)	3,727
Technology	2,255	56	(31)	2,280
Communications	2,827	117	(30)	2,914
Financial services	2,979	114	(19)	3,074
Transportation	1,560	92	(10)	1,642
Other	692	46	(4)	734
Total corporate fixed income portfolio	39,331	1,659	(387)	40,603
U.S. government and agencies	2,791	129	(7)	2,913
Municipal	8,446	364	(87)	8,723
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

The consumer goods, utilities, capital goods and banking sectors had the highest concentration of gross unrealized losses in our corporate fixed income securities portfolio as of December 31, 2013. In general, the gross unrealized losses are principally related to increasing risk-free interest rates or widening credit spreads since the time of initial purchase.

The unrealized net capital gain for the equity portfolio totaled $624 million and comprised $658 million of gross unrealized gains and $34 million of gross unrealized losses as of December 31, 2013. This is compared to an unrealized net capital gain for the equity portfolio totaling $460 million, comprised of $494 million of gross unrealized gains and $34 million of gross unrealized losses as of December 31, 2012.

Gross unrealized gains and losses on equity securities by sector as of December 31, 2013 are provided in the table below.

($ in millions)	Cost	Gross unrealized Gains	Gross unrealized Losses	Fair value
Emerging market equity funds	$ 556	$ 3	$ (12)	$ 547
Utilities	382	15	(8)	389
Emerging market fixed income funds	548		(6)	542
Basic industry	163	26	(4)	185
Real estate	157	19	(3)	173
Consumer goods (cyclical and non-cyclical)	639	148	(1)	786

Financial services		178		47				225
Energy		299		58				357
Technology		227		66				293
Capital goods		239		56				295
Index-based funds		677		104				781
Banking		136		56				192
Communications		201		36				237
Transportation		71		24				95
Total equity securities	$	4,473	$	658	$	(34)	$	5,097

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Within the equity portfolio, the losses were primarily concentrated in emerging market equity funds, the utilities sector and emerging market fixed income funds. The unrealized losses were company and sector specific. As of December 31, 2013, we have the intent and ability to hold our equity securities with unrealized losses until recovery.

Net investment income The following table presents net investment income for the years ended December 31.

($ in millions)	2013	2012	2011
Fixed income securities	$ 2,921	$ 3,234	$ 3,484
Equity securities	149	127	122
Mortgage loans	372	374	359
Limited partnership interests [1]	541	348	88
Short-term investments	5	6	6
Other	161	132	95
Investment income, before expense	4,149	4,221	4,154
Investment expense	(206)	(211)	(183)
Net investment income	$ 3,943	$ 4,010	$ 3,971

(1) Income from EMA limited partnerships is reported in net investment income in 2013 and 2012 and realized capital gains and losses in 2011.

Net investment income decreased 1.7% or $67 million in 2013 compared to 2012, after increasing 1.0% or $39 million in 2012 compared to 2011. The 2013 decrease was primarily due to lower average investment balances and lower fixed income yields, partially offset by higher limited partnership income and equity dividends, as well as prepayment fee income and litigation proceeds which together increased 2013 income by a total of $68 million. 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. Net investment income in 2013 includes $264 million relating to investments classified as held for sale for the period from July 17, 2013 to December 31, 2013. The 2012 increase was primarily due to income from limited partnerships, partially offset by lower average investment balances and lower fixed income yields.

Realized capital gains and losses The following table presents the components of realized capital gains and losses and the related tax effect for the years ended December 31.

($ in millions)	2013	2012	2011
Impairment write-downs	$ (72)	$ (185)	$ (496)
Change in intent write-downs	(143)	(48)	(100)
Net other-than-temporary impairment losses recognized in earnings	(215)	(233)	(596)
Sales	819	536	1,336
Valuation of derivative instruments	(6)	(11)	(291)
Settlements of derivative instruments	(4)	35	(105)
EMA limited partnership income [1]			159

Realized capital gains and losses, pre-tax	594	327	503
Income tax expense	(209)	(111)	(179)
Realized capital gains and losses, after-tax	$ 385	$ 216	$ 324

(1) Income from EMA limited partnerships is reported in net investment income in 2013 and 2012 and realized capital gains and losses in 2011.

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Impairment write-downs, which includes changes in the mortgage loan valuation allowance, for the years ended December 31 are presented in the following table.

($ in millions)	2013	2012	2011
Fixed income securities	$ (49)	$ (108)	$ (302)
Equity securities	(12)	(63)	(131)
Mortgage loans	11	5	(37)
Limited partnership interests	(18)	(8)	(6)
Other investments	(4)	(11)	(20)
Impairment write-downs	$ (72)	$ (185)	$ (496)

Impairment write-downs on fixed income securities in 2013 were primarily driven by CMBS that experienced deterioration in expected cash flows and municipal bonds impacted by issuer specific circumstances. Limited partnership write-downs primarily related to cost method limited partnerships that experienced declines in portfolio valuations deemed to be other than temporary. Equity securities were written down primarily due to the length of time and extent to which fair value was below cost, considering our assessment of the financial condition and near-term and long-term prospects of the issuer, including relevant industry conditions and trends. The valuation allowance on mortgage loans as of December 31, 2013 decreased compared to December 31, 2012 primarily due to reversals related to loans no longer deemed impaired.

Impairment write-downs on fixed income securities in 2012 were primarily driven by RMBS and CMBS that experienced deterioration in expected cash flows and municipal and corporate fixed income securities impacted by issuer specific circumstances. Equity securities were written down primarily due to the length of time and extent to which fair value was below cost, considering our assessment of the financial condition and near-term and long-term prospects of the issuer, including relevant industry conditions and trends.

Impairment write-downs in 2011 were primarily driven by RMBS, which experienced deterioration in expected cash flows; investments with commercial real estate exposure, including CMBS, mortgage loans and municipal bonds, which were impacted by lower real estate valuations or experienced deterioration in expected cash flows; and corporate fixed income securities impacted by issuer specific circumstances.

Change in intent write-downs were $143 million, $48 million and $100 million in 2013, 2012 and 2011, respectively. The change in intent write-downs in 2013 were primarily related to the repositioning and ongoing portfolio management of our equity securities. The change in intent write-downs in 2012 were primarily a result of ongoing comprehensive reviews of our portfolios resulting in write-downs of individually identified investments, primarily RMBS and equity securities. The change in intent write-downs in 2011 were primarily a result of ongoing comprehensive reviews of our portfolios resulting in write-downs of individually identified investments, primarily lower yielding, floating rate RMBS and municipal bonds, and equity securities.

Sales generated $819 million, $536 million and $1.34 billion of net realized capital gains in 2013, 2012 and 2011, respectively. The sales in 2013 primarily related to equity securities in connection with portfolio repositioning and ongoing portfolio management and municipal and corporate fixed income securities in conjunction with reducing our exposure to interest rate risk in the Property-Liability portfolio. The sales in 2012 primarily related to corporate, municipal and U.S. government and agencies fixed income securities and equity securities in connection with portfolio repositioning. The sales in 2011 were primarily due to $1.11 billion of net gains on sales of corporate, foreign government, U.S. government, ABS, U.S. Agency and municipal fixed income securities and $202 million of net gains on sales of equity securities.

Valuation and settlements of derivative instruments generated net realized capital losses of $10 million in 2013, net realized capital gains of $24 million in 2012 and net realized capital losses of $396 million in 2011. The net realized capital losses on derivative instruments in 2013 primarily composed of losses on equity futures used for risk management due to increases in equity indices and losses on credit default swaps due to the tightening of credit spreads on the underlying credit names. The net realized capital gains on derivative instruments in 2012 primarily included gains on credit default swaps due to the tightening of credit spreads on the underlying credit names. The net realized capital losses on derivative instruments in 2011 primarily included losses on interest rate risk management due to decreases in interest rates.

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MARKET RISK

Market risk is the risk that we will incur losses due to adverse changes in interest rates, credit spreads, equity prices or currency exchange rates. Adverse changes to these rates and prices may occur due to changes in fiscal policy, the economic climate, the liquidity of a market or market segment, insolvency or financial distress of key market makers or participants or changes in market perceptions of credit worthiness and/or risk tolerance. Our primary market risk exposures are to changes in interest rates, credit spreads and equity prices.

The active management of market risk is integral to our results of operations. We may use the following approaches to manage exposure to market risk within defined tolerance ranges: 1) rebalancing existing asset or liability portfolios, 2) changing the type of investments purchased in the future and 3) using derivative instruments to modify the market risk characteristics of existing assets and liabilities or assets expected to be purchased. For a more detailed discussion of our use of derivative financial instruments, see Note 8 of the consolidated financial statements.

Overview In formulating and implementing guidelines for investing funds, we seek to earn returns that enhance our ability to offer competitive rates and prices to customers while contributing to attractive and stable profits and long-term capital growth. Accordingly, our investment decisions and objectives are a function of the underlying risks and product profiles of each business.

Investment policies define the overall framework for managing market and other investment risks, including accountability and controls over risk management activities. Subsidiaries that conduct investment activities follow policies that have been approved by their respective boards of directors. These investment policies specify the investment limits and strategies that are appropriate given the liquidity, surplus, product profile and regulatory requirements of the subsidiary. Executive oversight of investment activities is conducted primarily through subsidiaries' boards of directors and investment committees. For Allstate Financial, its asset-liability management ("ALM") policies further define the overall framework for managing market and investment risks. ALM focuses on strategies to enhance yields, mitigate market risks and optimize capital to improve profitability and returns for Allstate Financial while factoring in future expected cash requirements to repay liabilities. Allstate Financial ALM activities follow asset-liability policies that have been approved by their respective boards of directors. These ALM policies specify limits, ranges and/or targets for investments that best meet Allstate Financial's business objectives in light of its product liabilities.

We use quantitative and qualitative market-based approaches to measure, monitor and manage market risk. We evaluate our exposure to market risk through the use of multiple measures including but not limited to duration, value-at-risk, scenario analysis and sensitivity analysis. Duration measures the price sensitivity of assets and liabilities to changes in interest rates. For example, if interest rates increase 100 basis points, the fair value of an asset with a duration of 5 is expected to decrease in value by 5%. Value-at-risk is a statistical estimate of the probability that the change in fair value of a portfolio will exceed a certain amount over a given time horizon. Scenario analysis estimates the potential changes in the fair value of a portfolio that could occur under different hypothetical market conditions defined by changes to multiple market risk factors: interest rates, credit spreads, equity prices or currency exchange rates. Sensitivity analysis estimates the potential changes in the fair value of a portfolio that could occur under different hypothetical shocks to a market risk factor. In general, we establish investment portfolio asset allocation and market risk limits for the Property-Liability and Allstate Financial businesses based upon a combination of duration, value-at-risk, scenario analysis and sensitivity analysis. The asset allocation limits place restrictions on the total funds that may be invested within an asset class. Comprehensive day-to-day management of market risk within defined tolerance ranges occurs as portfolio managers buy and sell within their respective markets based upon the acceptable boundaries established by investment policies. For Allstate Financial, this day-to-day management is integrated with and informed by the activities of the ALM organization. This integration is intended to result in a prudent, methodical and effective adjudication of market risk and return, conditioned by the unique demands and dynamics of Allstate Financial's product liabilities and supported by the continuous application of advanced risk technology and analytics.

Although we apply a similar overall philosophy to market risk, the underlying business frameworks and the accounting and regulatory environments differ considerably between the Property-Liability and Allstate Financial businesses affecting investment decisions and risk parameters.

Interest rate risk is the risk that we will incur a loss due to adverse changes in interest rates relative to the characteristics of our interest bearing assets and liabilities. This risk arises from many of our primary activities, as we invest substantial funds in interest-sensitive assets and issue interest-sensitive liabilities. Interest rate risk includes risks related to changes in U.S. Treasury yields and other key risk-free reference yields.

We manage the interest rate risk in our assets relative to the interest rate risk in our liabilities. One of the measures used to quantify this exposure is duration. The difference in the duration of our assets relative to our liabilities is our

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duration gap. To calculate the duration gap between assets and liabilities, we project asset and liability cash flows and calculate their net present value using a risk-free market interest rate adjusted for credit quality, sector attributes, liquidity and other specific risks. Duration is calculated by revaluing these cash flows at alternative interest rates and determining the percentage change in aggregate fair value. The cash flows used in this calculation include the expected maturity and repricing characteristics of our derivative financial instruments, all other financial instruments, and certain other items including unearned premiums, property-liability insurance claims and claims expense reserves, annuity liabilities and other interest-sensitive liabilities. The projections include assumptions (based upon historical market experience and our experience) that reflect the effect of changing interest rates on the prepayment, lapse, leverage and/or option features of instruments, where applicable. The preceding assumptions relate primarily to mortgage-backed securities, municipal housing bonds, callable municipal and corporate obligations, and fixed rate single and flexible premium deferred annuities. Additionally, the calculations include assumptions regarding the renewal of property-liability policies.

As of December 31, 2013, the difference between our asset and liability duration was a (0.95) gap compared to a (0.23) gap as of December 31, 2012. A negative duration gap indicates that the fair value of our liabilities is more sensitive to interest rate movements than the fair value of our assets, while a positive duration gap indicates that the fair value of our assets is more sensitive to interest rate movements than the fair value of our liabilities. The Property-Liability segment generally maintains a positive duration gap between its assets and liabilities due to the relatively short duration of auto and homeowners claims, which are its primary liabilities. The Allstate Financial segment may have a positive or negative duration gap, as the duration of its assets and liabilities vary with its product mix and investing activity. As of December 31, 2013, Property-Liability had a positive duration gap while Allstate Financial had a negative duration gap.

In the management of investments supporting the Property-Liability business, we adhere to an objective of emphasizing safety of principal and consistency of income within a total return framework. This approach is designed to ensure our financial strength and stability for paying claims, while maximizing economic value and surplus growth.

For the Allstate Financial business, we seek to invest premiums, contract charges and deposits to generate future cash flows that will fund future claims, benefits and expenses, and that will earn stable returns across a wide variety of interest rate and economic scenarios. To achieve this objective and limit interest rate risk for Allstate Financial, we adhere to a philosophy of managing the duration of assets and related liabilities within predetermined tolerance levels. This philosophy is executed using duration targets for fixed income investments in addition to interest rate swaps, futures, forwards, caps, floors and swaptions to reduce the interest rate risk resulting from mismatches between existing assets and liabilities, and financial futures and other derivative instruments to hedge the interest rate risk of anticipated purchases and sales of investments and product sales to customers.

Based upon the information and assumptions used in the duration calculation, and interest rates in effect as of December 31, 2013, we estimate that a 100 basis point immediate, parallel increase in interest rates ("rate shock") would increase the net fair value of the assets and liabilities by $826 million, compared to an increase of $211 million as of December 31, 2012, reflecting year to year changes in duration. The selection of a 100 basis point immediate, parallel change in interest rates should not be construed as our prediction of future market events, but only as an illustration of the potential effect of such an event. The estimate excludes the traditional and interest-sensitive life insurance products that are not considered financial instruments and the $13.13 billion of assets supporting them and the associated liabilities. The $13.13 billion of assets excluded from the calculation increased from $12.04 billion as of December 31, 2012. Based on assumptions described above, in the event of a 100 basis point immediate increase in interest rates, the assets supporting life insurance products would decrease in value by $753 million, compared to a decrease of $737 million as of December 31, 2012.

To the extent that conditions differ from the assumptions we used in these calculations, duration and rate shock measures could be significantly impacted. Additionally, our calculations assume that the current relationship between short-term and long-term interest rates (the term structure of interest rates) will remain constant over time. As a result, these calculations may not fully capture the effect of non-parallel changes in the term structure of interest rates and/or large changes in interest rates.

Credit spread risk is the risk that we will incur a loss due to adverse changes in credit spreads ("spreads"). This risk arises from many of our primary activities, as we invest substantial funds in spread-sensitive fixed income assets.

We manage the spread risk in our assets. One of the measures used to quantify this exposure is spread duration. Spread duration measures the price sensitivity of the assets to changes in spreads. For example, if spreads increase 100 basis points, the fair value of an asset exhibiting a spread duration of 5 is expected to decrease in value by 5%.

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Spread duration is calculated similarly to interest rate duration. As of December 31, 2013, the spread duration of Property-Liability assets was 3.28, compared to 4.04 as of December 31, 2012, and the spread duration of Allstate Financial assets was 5.35, compared to 5.85 as of December 31, 2012. Based upon the information and assumptions we use in this spread duration calculation, and spreads in effect as of December 31, 2013, we estimate that a 100 basis point immediate, parallel increase in spreads across all asset classes, industry sectors and credit ratings ("spread shock") would decrease the net fair value of the assets by $3.46 billion compared to $4.04 billion as of December 31, 2012. Reflected in the duration calculation are the effects of our tactical actions that use credit default swaps to manage spread risk. The selection of a 100 basis point immediate parallel change in spreads should not be construed as our prediction of future market events, but only as an illustration of the potential effect of such an event.

Equity price risk is the risk that we will incur losses due to adverse changes in the general levels of the equity markets. As of December 31, 2013, we held $5.04 billion in common stocks and exchange traded and mutual funds and $5.02 billion in other securities with equity risk (including primarily limited partnership interests, non-redeemable preferred securities and equity-linked notes), compared to $3.99 billion and $4.97 billion, respectively, as of December 31, 2012. 86.1% and 58.8% of these totals, respectively, represented assets of the Property-Liability operations as of December 31, 2013, compared to 90.8% and 60.2%, respectively, as of December 31, 2012.

As of December 31, 2013, our portfolio of common stocks and other securities with equity risk had a cash market portfolio beta of 1.10, compared to a beta of 0.86 as of December 31, 2012. Beta represents a widely used methodology to describe, quantitatively, an investment's market risk characteristics relative to an index such as the Standard & Poor's 500 Composite Price Index ("S&P 500"). Based on the beta analysis, we estimate that if the S&P 500 increases or decreases by 10%, the fair value of our equity investments will increase or decrease by 11.0%, respectively. Based upon the information and assumptions we used to calculate beta as of December 31, 2013, we estimate that an immediate decrease in the S&P 500 of 10% would decrease the net fair value of our equity investments by $1.10 billion, compared to $766 million as of December 31, 2012, and an immediate increase in the S&P 500 of 10% would increase the net fair value by $1.10 billion compared to $766 million as of December 31, 2012. The selection of a 10% immediate decrease or increase in the S&P 500 should not be construed as our prediction of future market events, but only as an illustration of the potential effect of such an event.

The beta of our common stocks and other securities with equity risk was determined by calculating the change in the fair value of the portfolio resulting from stressing the equity market up and down 10%. The illustrations noted above may not reflect our actual experience if the future composition of the portfolio (hence its beta) and correlation relationships differ from the historical relationships.

As of December 31, 2013 and 2012, we had separate accounts assets, including those classified as held for sale, related to variable annuity and variable life contracts with account values totaling $6.74 billion and $6.61 billion, respectively. Equity risk exists for contract charges based on separate account balances and guarantees for death and/or income benefits provided by our variable products. In 2006, we disposed of substantially all of the variable annuity business through reinsurance agreements with The Prudential Insurance Company of America, a subsidiary of Prudential Financial Inc. and therefore mitigated this aspect of our risk. Equity risk for our variable life business relates to contract charges and policyholder benefits. Total variable life contract charges for 2013 and 2012 were $67 million and $71 million, respectively. Separate account liabilities related to variable life contracts were $900 million and $767 million as of December 31, 2013 and 2012, respectively.

As of December 31, 2013 and 2012 we had $3.71 billion and $3.63 billion, respectively, in equity-indexed annuity liabilities that provide customers with interest crediting rates based on the performance of the S&P 500. We hedge the majority of the risk associated with these liabilities using equity-indexed options and futures and eurodollar futures, maintaining risk within specified value-at-risk limits. $2.26 billion of the December 31, 2013 balance are a component of the pending LBL sale.

Foreign currency exchange rate risk is the risk that we will incur economic losses due to adverse changes in foreign currency exchange rates. This risk primarily arises from our foreign equity investments, including real estate funds and private equity funds, and our Canadian, Northern Ireland and Indian operations. We also have investments in certain fixed income securities and emerging market fixed income funds that are denominated in foreign currencies; however, derivatives are used to hedge approximately 29% of this foreign currency risk.

As of December 31, 2013, we had $1.10 billion in foreign currency denominated equity investments, $878 million net investment in our foreign subsidiaries, and $330 million in unhedged non-dollar pay fixed income securities. These amounts were $1.11 billion, $858 million, and $548 million, respectively, as of December 31, 2012. 80.9% of the foreign currency exposure is in the Property-Liability business.

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Based upon the information and assumptions used as of December 31, 2013, we estimate that a 10% immediate unfavorable change in each of the foreign currency exchange rates to which we are exposed would decrease the value of our foreign currency denominated instruments by $254 million, compared with an estimated $264 million decrease as of December 31, 2012. The selection of a 10% immediate decrease in all currency exchange rates should not be construed as our prediction of future market events, but only as an illustration of the potential effect of such an event.

The modeling technique we use to report our currency exposure does not take into account correlation among foreign currency exchange rates. Even though we believe it is very unlikely that all of the foreign currency exchange rates that we are exposed to would simultaneously decrease by 10%, we nonetheless stress test our portfolio under this and other hypothetical extreme adverse market scenarios. Our actual experience may differ from these results because of assumptions we have used or because significant liquidity and market events could occur that we did not foresee.

PENSION PLANS

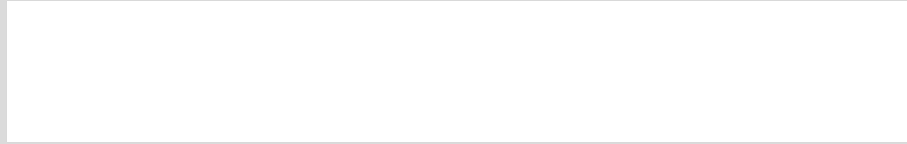
We have defined benefit pension plans, which cover most full-time, certain part-time employees and employee-agents. See Note 18 of the consolidated financial statements for a complete discussion of these plans and their effect on the consolidated financial statements. The pension and other postretirement plans may be amended or terminated at any time. Any revisions could result in significant changes to our obligations and our obligation to fund the plans.

We report unrecognized pension and other postretirement benefit cost in the Consolidated Statements of Financial Position as a component of accumulated other comprehensive income in shareholders' equity. It represents the after-tax differences between the fair value of plan assets and the projected benefit obligation ("PBO") for pension plans and the accumulated postretirement benefit obligation for other postretirement plans that have not yet been recognized as a component of net periodic cost. As of December 31, 2013, it totaled $638 million comprising $854 million related to pension benefits and $(216) million related to other postretirement benefits. The unrecognized pension and other postretirement benefit cost decreased by $1.09 billion as of December 31, 2013 from $1.73 billion as of December 31, 2012. The measurement of the unrecognized pension and other postretirement benefit cost can vary based upon the fluctuations in the fair value of plan assets and the actuarial assumptions used for the plans as discussed below. During 2013, we amended our primary pension plans effective January 1, 2014 to introduce a new cash balance formula to replace the previous formulas (including the final average pay formula and the previous cash balance formula) under which eligible employees accrue benefits. In addition, during 2013 we eliminated the retiree life insurance benefits effective January 1, 2014 for current eligible employees and effective January 1, 2016 for eligible retirees who retired after 1989. The estimated after-tax developments reducing the unrecognized pension and other postretirement benefit cost included:

- $397 million due to actuarial assumption and census data updates, including approximately $385 million, after-tax, due to increases in the discount rate assumptions.
- $329 million due to the change in the pension plan benefit formulas.
- $180 million due to lump sum settlement charges.
- $109 million due to annual amortization.
- $68 million due to the elimination of the retiree life benefits for eligible retirees who retired after 1989.

The components of net periodic pension cost for all pension plans for the years ended December 31 are as follows:

($ in millions)	**2013**	**2012**	**2011**
Service cost	$ 140	$ 152	$ 151
Interest cost	265	298	322
Expected return on plan assets	(394)	(393)	(367)
Amortization of:			
Prior service credit	(28)	(2)	(2)
Net actuarial loss	235	178	154
Settlement loss	277	33	46
Net periodic cost	$ 495	$ 266	$ 304



The service cost component is the actuarial present value of the benefits attributed by the plans benefit formula to services rendered by the employees during the period. Interest cost is the increase in the PBO in the period due to the passage of time at the discount rate. Interest cost fluctuates as the discount rate changes and is also impacted by the related change in the size of the PBO. The decrease or increase in the PBO due to an increase or decrease in the discount rate is deferred and decreases or increases the net actuarial loss. It is recorded in accumulated other comprehensive income as unrecognized pension benefit cost and may be amortized.

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The expected return on plan assets is determined as the product of the expected long-term rate of return on plan assets and the adjusted fair value of plan assets, referred to as the market-related value of plan assets. To determine the market-related value, the fair value of plan assets is adjusted annually so that differences between changes in the fair value of equity securities and hedge fund limited partnerships and the expected long-term rate of return on these securities are recognized into the market-related value of plan assets over a five year period. We believe this is consistent with the long-term nature of pension obligations.

When the actual return on plan assets exceeds the expected return on plan assets it reduces the net actuarial loss; when the expected return exceeds the actual return it increases the net actuarial loss. It is recorded in accumulated other comprehensive income as unrecognized pension benefit cost and may be amortized. The market-related value adjustment represents the current difference between actual returns and expected returns on equity securities and hedge fund limited partnerships recognized over a five year period. The market-related value adjustment is a deferred net gain of $19 million as of December 31, 2013. The expected return on plan assets fluctuates when the market-related value of plan assets changes and when the expected long-term rate of return on plan assets assumption changes.

Amortization of net actuarial loss in pension cost is recorded when the net actuarial loss including the unamortized market-related value adjustment exceeds 10% of the greater of the PBO or the market-related value of plan assets. The amount of amortization is equal to the excess divided by the average remaining service period for active employees for each plan, which approximates 9 years for Allstate's largest plan. As a result, the effect of changes in the PBO due to changes in the discount rate and changes in the fair value of plan assets may be experienced in our net periodic pension cost in periods subsequent to those in which the fluctuations actually occur.

Net actuarial loss fluctuates as the discount rate fluctuates, as the actual return on plan assets differ from the expected long-term rate of return on plans assets, and as actual plan experience differs from other actuarial assumptions. Net actuarial loss related to changes in the discount rate will change when interest rates change and from amortization of net actuarial loss when there is an excess sufficient to qualify for amortization. Net actuarial loss related to changes in the fair value of plan assets will change when plan assets change in fair value and when there is an excess sufficient to qualify for amortization. Other net actuarial loss will change over time due to changes in other valuation assumptions and the plan participants or when there is an excess sufficient to qualify for amortization.

An increase in the discount rate decreased the net actuarial loss by $593 million in 2013 and a decrease in the discount rate increased the net actuarial loss by $806 million and $407 million in 2012 and 2011, respectively. The difference between actual and expected returns on plan assets (decreased) increased the net actuarial loss by $(172) million, $(201) million, and $100 million in 2013, 2012, and 2011, respectively.

Settlement charges are non-cash charges that accelerate the recognition of unrecognized pension benefit cost, that would have been incurred in subsequent periods, when plan payments primarily lump sums from qualified pension plans, exceed a threshold of service and interest cost for the period. The value of lump sums paid to employees electing retirement in 2013 was elevated due to historically low interest rates. Voluntary retirement activity during the fourth quarter was almost five times the typical level. Of the $180 million settlement charges, after-tax, $150 million were reported in the Corporate and Other Segment, since the Corporation is the plan sponsor for the employee pension plans.

Net periodic pension cost in 2014 is estimated to be $55 million including expected settlement charges of $44 million primarily for agent lump sum payments. Expected returns on plan assets and amortization of prior service credits offset the other components of pension cost. Over half of the $440 million decrease from pension cost of $495 million in 2013 is due to a decline of $233 million in expected settlement charges. The remainder is due to lower amortization of net actuarial loss, lower service cost and interest cost, and a higher amortization of prior service credit as a result of the change in plan benefit formulas. Pension expense is reported consistent with other types of employee compensation and as a result is included in claims expense, operating costs and expenses and investment expense. Employee plan settlement charges are reported in the Corporate and other segment because the Corporation is the plan sponsor. Net periodic pension cost increased in 2013 compared to $266 million in 2012 due to an increase in the amortization expense for prior year's net actuarial losses (gain) which increased due to a lower discount rate used to value the pension plans. Net periodic pension cost decreased in 2012 compared to $304 million in 2011 primarily due to an increase in the expected return on plan assets, a lower discount rate used to value the pension plans and a decrease in settlement charges partially offset by increased amortization of net actuarial loss (gain). In 2013, 2012 and 2011, net pension cost included non-cash settlement charges primarily resulting from lump sum distributions. Settlement charges are likely to continue for some period in the future as we settle our remaining agent pension obligations by making lump sum distributions to agents.

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Unrecognized pension benefit cost, pre-tax, has primarily resulted from changes in the discount rates and asset returns differing from expected returns. As of December 31, 2013, the discount rate increased to 5.0% following a decline over the last five years from 7.5%, due to the decline in the weighted average yields of the investments that qualify for consideration to establish the assumption for the discount rate. Also, plan assets sustained net losses in 2008 primarily due to declines in equity and credit markets.

We anticipate that the net actuarial loss for our pension plans will exceed 10% of the greater of the PBO or the market-related value of assets in 2014 and into the foreseeable future, resulting in additional amortization and net periodic pension cost. The net actuarial loss will be amortized over the remaining service life of active employees (approximately 9 years) or will reverse with increases in the discount rate or better than expected returns on plan assets.

Amounts recorded for net periodic pension cost and accumulated other comprehensive income are significantly affected by changes in the assumptions used to determine the discount rate and the expected long-term rate of return on plan assets. The discount rate is based on rates at which expected pension benefits attributable to past employee service could effectively be settled on a present value basis at the measurement date. We develop the assumed discount rate by utilizing the weighted average yield of a theoretical dedicated portfolio derived from non-callable bonds and bonds with a make-whole provision available in the Bloomberg corporate bond universe having ratings of at least "AA" by S&P or at least "Aa" by Moody's on the measurement date with cash flows that match expected plan benefit requirements. Significant changes in discount rates, such as those caused by changes in the credit spreads, yield curve, the mix of bonds available in the market, the duration of selected bonds and expected benefit payments, may result in volatility in pension cost and accumulated other comprehensive income.

Holding other assumptions constant, a hypothetical decrease of 100 basis points in the discount rate would result in an increase of $39 million in net periodic pension cost and a $379 million increase in the unrecognized pension cost liability recorded as accumulated other comprehensive income as of December 31, 2013, compared to an increase of $51 million in net periodic pension cost and a $503 million increase in the unrecognized pension cost liability as of December 31, 2012. A hypothetical increase of 100 basis points in the discount rate would decrease net periodic pension cost by $35 million and would decrease the unrecognized pension cost liability recorded as accumulated other comprehensive income by $322 million as of December 31, 2013, compared to a decrease in net periodic pension cost of $45 million and a $421 million decrease in the unrecognized pension cost liability recorded as accumulated other comprehensive income as of December 31, 2012. This non-symmetrical range results from the non-linear relationship between discount rates and pension obligations, and changes in the amortization of unrealized net actuarial gains and losses.

The expected long-term rate of return on plan assets reflects the average rate of earnings expected on plan assets. While this rate reflects long-term assumptions and is consistent with long-term historical returns, sustained changes in the market or changes in the mix of plan assets may lead to revisions in the assumed long-term rate of return on plan assets that may result in variability of pension cost. Differences between the actual return on plan assets and the expected long-term rate of return on plan assets are a component of net actuarial loss and are recorded in accumulated other comprehensive income.

Holding other assumptions constant, a hypothetical decrease of 100 basis points in the expected long-term rate of return on plan assets would result in an increase of $55 million in pension cost as of December 31, 2013, compared to $51 million as of December 31, 2012. A hypothetical increase of 100 basis points in the expected long-term rate of return on plan assets would result in a decrease in net periodic pension cost of $55 million as of December 31, 2013, compared to $51 million as of December 31, 2012.

We target funding levels in accordance with regulations under the Internal Revenue Code ("IRC") and generally accepted actuarial principles. Our funding levels were within our targeted range as of December 31, 2013. In 2013, we contributed $561 million to our pension plans. We expect to contribute $38 million for the 2014 fiscal year to maintain the plans' funded status. This estimate could change significantly following either an improvement or decline in investment markets.

GOODWILL

Goodwill represents the excess of amounts paid for acquiring businesses over the fair value of the net assets acquired. The goodwill balances were $825 million and $418 million as of December 31, 2013 for the Allstate Protection segment and the Allstate Financial segment, respectively. Our reporting units are equivalent to our reporting segments, Allstate Protection and Allstate Financial. Goodwill is allocated to reporting units based on which unit is expected to benefit from the synergies of the business combination.

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Goodwill is not amortized but is tested for impairment at least annually. We perform our annual goodwill impairment testing during the fourth quarter of each year based upon data as of the close of the third quarter. We also review goodwill for impairment whenever events or changes in circumstances, such as deteriorating or adverse market conditions, indicate that it is more likely than not that the carrying amount of goodwill may exceed its implied fair value.

Impairment testing requires the use of estimates and judgments. For purposes of goodwill impairment testing, if the carrying value of a reporting unit exceeds its estimated fair value, the second step of the goodwill test is required. In such instances, the implied fair value of the goodwill is determined in the same manner as the amount of goodwill that would be determined in a business acquisition. The excess of the carrying value of goodwill over the implied fair value of goodwill would be recognized as an impairment and recorded as a charge against net income.

To estimate the fair value of our reporting units for our annual impairment test, we initially utilize a stock price and market capitalization analysis and apportion the value between our reporting units using peer company price to book multiples. If the stock price and market capitalization analysis does not result in the fair value of the reporting unit exceeding its carrying value, we may also utilize a peer company price to earnings multiples analysis and/or a discounted cash flow analysis to supplement the stock price and market capitalization analysis. If a combination of valuation techniques are utilized, the analyses would be weighted based on management's judgment of their relevance given current facts and circumstances.

The stock price and market capitalization analysis takes into consideration the quoted market price of our outstanding common stock and includes a control premium, derived from historical insurance industry acquisition activity, in determining the estimated fair value of the consolidated entity before allocating that fair value to individual reporting units. The total market capitalization of the consolidated entity is allocated to the individual reporting units using book value multiples derived from peer company data for the respective reporting units. The peer company price to earnings multiples analysis takes into consideration the price earnings multiples of peer companies for each reporting unit and estimated income from our strategic plan. The discounted cash flow analysis utilizes long term assumptions for revenue growth, capital growth, earnings projections including those used in our strategic plan, and an appropriate discount rate. We apply significant judgment when determining the fair value of our reporting units and when assessing the relationship of market capitalization to the estimated fair value of our reporting units. The valuation analyses described above are subject to critical judgments and assumptions and may be potentially sensitive to variability. Estimates of fair value are inherently uncertain and represent management's reasonable expectation regarding future developments. These estimates and the judgments and assumptions utilized may differ from future actual results. Declines in the estimated fair value of our reporting units could result in goodwill impairments in future periods which may be material to our results of operations but not our financial position.

During fourth quarter 2013, we completed our annual goodwill impairment test using information as of September 30, 2013. The stock price and market capitalization analysis resulted in the fair value of our reporting units exceeding their respective carrying values. The results of this analysis are supported by the operating performance of the individual reporting units as well as their respective industry sector's performance. Goodwill impairment evaluations indicated no impairment as of December 31, 2013 and no reporting unit was at risk of having its carrying value including goodwill exceed its fair value.

CAPITAL RESOURCES AND LIQUIDITY 2013 HIGHLIGHTS

Shareholders' equity as of December 31, 2013 was $21.48 billion, an increase of 4.4% from $20.58 billion as of December 31, 2012.

On April 1, 2013, July 1, 2013, and October 1, 2013, we paid common shareholder dividends of $0.25 each. On November 19, 2013, we declared a common shareholder dividend of $0.25 to be payable on January 2, 2014. On February 19, 2014, we declared a common shareholder dividend of $0.28 to be payable on April 1, 2014.

On October 15, 2013, we paid a dividend on our 5.625% preferred stock for the dividend period from June 12, 2013 through October 14, 2013. On November 19, 2013, we declared dividends on our 5.625% preferred stock for the dividend period from October 15, 2013 through January 14, 2014 to be payable on January 15, 2014 and our 6.75% preferred stock for the dividend period from September 30, 2013 through January 14, 2014 to be payable on January 15, 2014. On February 19, 2014, we declared dividends on our 5.625% and 6.75% preferred stock for the dividend period from January 15, 2014 through April 14, 2014 to be payable on April 15, 2014 and our 6.625% preferred stock for the dividend period from December 16, 2013 through April 14, 2014 to be payable on April 15, 2014.

During 2013, we repurchased 37.4 million common shares for $1.84 billion. As of December 31, 2013, there was $139 million remaining on our common share repurchase programs which was completed in February 2014. In

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February 2014, a new $2.5 billion common share repurchase program was authorized and is expected to be completed by August 2015.

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 as of December 31.

($ in millions)	**2013**	**2012**	**2011**
Preferred stock, common stock, retained income and other shareholders' equity items	$ 20,434	$ 19,405	$ 18,269
Accumulated other comprehensive income	1,046	1,175	29
Total shareholders' equity	21,480	20,580	18,298
Debt	6,201	6,057	5,908
Total capital resources	$ 27,681	$ 26,637	$ 24,206
Ratio of debt to shareholders' equity	28.9%	29.4%	32.3%
Ratio of debt to capital resources	22.4%	22.7%	24.4%

Shareholders' equity increased in 2013, primarily due to net income, decreased unrecognized pension and other postretirement benefit cost from increasing the discount rate, changes in plan benefits and settlements charges reducing the plan's benefit obligations, and the issuance of preferred stock, partially offset by common share repurchases, decreased unrealized net capital gains on investments and dividends paid to shareholders. Shareholders' equity increased in 2012, primarily due to net income and increased unrealized net capital gains on investments, partially offset by common share repurchases and dividends paid to shareholders.

Preferred stock On June 12, 2013, we issued 11,500 shares of 5.625% Noncumulative Perpetual Preferred Stock for gross proceeds of $287.5 million. The proceeds of this issuance were used to fund the repurchase of debt and for general corporate purposes. On September 30, 2013, we issued 15,400 shares of 6.75% Noncumulative Perpetual Preferred Stock for gross proceeds of $385 million. The proceeds of this issuance were used for general corporate purposes, including to prefund the repayment of debt maturing in 2014. In December 2013, we issued 5,400 shares of 6.625% Noncumulative Perpetual Preferred Stock for gross proceeds of $135 million. The proceeds of this issuance were used for general corporate purposes.

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

On June 20, 2013, we repurchased principal amounts of $1.83 billion of debt and recognized a loss on extinguishment of $480 million, pre-tax, representing the excess of the repurchase price over the principal repaid, the write-off of the unamortized debt issuance costs and other costs related to the repurchase transaction. During third and fourth quarter 2013, we repurchased principal amounts of $73 million of debt and recognized a loss on extinguishment of $11 million, pre-tax, representing the excess of the repurchase price over the principal repaid and the write-off of the unamortized debt issuance costs.

The next debt maturities are on May 16, 2014 when $300 million of 6.20% Senior Notes are due and August 15, 2014 when $650 million of 5.00% Senior Notes are due and which are expected to be paid from available funds. As of December 31, 2013 and 2012, there were no outstanding commercial paper borrowings. For further information on outstanding debt, see Note 13 of the consolidated financial statements.

During 2014, we may execute additional issuances of perpetual preferred stock for general corporate purposes.

Common share repurchases In July 2013, our $1.00 billion common share repurchase program that commenced in December 2012 was completed. As of December 31, 2013, our $1.00 billion common share repurchase program that

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was authorized in February 2013 had $139 million remaining which was completed in February 2014. On February 28, 2013, we entered into an accelerated share repurchase agreement with Barclays Bank PLC ("Barclays") and Barclays Capital Inc., as Barclays' agent, to purchase $500 million of our outstanding common stock. The accelerated share repurchase agreement settled on June 6, 2013. During 2013, we repurchased 37.4 million common shares for $1.84 billion. In February 2014, a new $2.5 billion common share repurchase program was authorized and is expected to be completed by August 2015.

Since 1995, we have acquired 561 million shares of our common stock at a cost of $23.01 billion, primarily as part of various stock repurchase programs. We have reissued 112 million common shares since 1995, primarily associated with our equity incentive plans, the 1999 acquisition of American Heritage Life Investment Corporation and the 2001 redemption of certain mandatorily redeemable preferred securities. Since 1995, total common shares outstanding has decreased by 451 million shares or 50.1%, primarily due to our repurchase programs.

Financial ratings and strength The following table summarizes our senior long-term debt, commercial paper and insurance financial strength ratings as of December 31, 2013.

	Moody's	Standard & Poor's	A.M. Best
The Allstate Corporation (senior long-term debt)	A3	A-	a-
The Allstate Corporation (commercial paper)	P-2	A-2	AMB-1
Allstate Insurance Company (insurance financial strength)	Aa3	AA-	A+
Allstate Life Insurance Company (insurance financial strength)	A1	A+	A+

Our ratings are influenced by many factors including our operating and financial performance, asset quality, liquidity, asset/liability management, overall portfolio mix, financial leverage (i.e., debt), exposure to risks such as catastrophes and the current level of operating leverage.

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

We have distinct and separately capitalized groups of subsidiaries licensed to sell property and casualty insurance in New Jersey and Florida that maintain separate group ratings. The ratings of these groups are influenced by the risks that relate specifically to each group. Many mortgage companies require property owners to have insurance from an insurance carrier with a secure financial strength rating from an accredited rating agency. On February 12, 2014, A.M. Best affirmed the Allstate New Jersey Insurance Company, which writes auto and homeowners insurance, rating of A-. The outlook for this rating is stable. Allstate New Jersey Insurance Company also has a Financial Stability Rating® of A" from Demotech, which was affirmed on November 22, 2013. On August 29, 2013, A.M. Best affirmed the Castle Key Insurance Company, which underwrites personal lines property insurance in Florida, rating of B-. The outlook for the rating is negative. Castle Key Insurance Company also has a Financial Stability Rating® of A' from Demotech, which was affirmed on November 22, 2013.

Subsequent to the announcement of the pending sale of LBL, the rating agencies initiated reviews of LBL's ratings and outlook. Moody's downgraded LBL from A1 to Baa1 and revised the rating outlook from stable to negative. Both the rating and outlook will be finalized after the transaction closes. S&P downgraded LBL from A+ to BBB+ and placed LBL on CreditWatch negative. Both the rating and CreditWatch will be finalized after the transaction closes. A.M. Best placed LBL's rating under review with negative implications, pending a final determination on both the rating and outlook after the transaction closes. The Moody's, S&P and A.M. Best ratings and outlook of ALIC are unaffected by the sale of LBL.

ALIC, AIC and The Allstate Corporation are party to the Amended and Restated Intercompany Liquidity Agreement ("Liquidity Agreement") which allows for short-term advances of funds to be made between parties for liquidity and

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other general corporate purposes. The Liquidity Agreement does not establish a commitment to advance funds on the part of any party. ALIC and AIC each serve as a lender and borrower and the Corporation serves only as a lender. AIC also has a capital support agreement with ALIC. Under the capital support agreement, AIC is committed to provide capital to ALIC to maintain an adequate capital level. The maximum amount of potential funding under each of these agreements is $1.00 billion. On March 22, 2013, the Corporation advanced $500 million to AIC under the Liquidity Agreement to facilitate investing activity. This amount was repaid on June 7, 2013.

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

Allstate's domestic property-liability and life insurance subsidiaries prepare their statutory-basis financial statements in conformity with accounting practices prescribed or permitted by the insurance department of the applicable state of domicile. Statutory surplus is a measure that is often used as a basis for determining dividend paying capacity, operating leverage and premium growth capacity, and it is also reviewed by rating agencies in determining their ratings. As of December 31, 2013, total statutory surplus is $18.28 billion compared to $17.28 billion as of December 31, 2012. Property-Liability surplus was $15.26 billion as of December 31, 2013, compared to $13.74 billion as of December 31, 2012. Allstate Financial surplus was $3.02 billion as of December 31, 2013, compared to $3.54 billion as of December 31, 2012.

The ratio of net premiums written to statutory surplus is a common measure of operating leverage used in the property-casualty insurance industry and serves as an indicator of a company's premium growth capacity. Ratios in excess of 3 to 1 are typically considered outside the usual range by insurance regulators and rating agencies, and for homeowners and related coverages that have significant net exposure to natural catastrophes a ratio of 1 to 1 is considered appropriate. AIC's combined premium to surplus ratio was 1.5x as of December 31, 2013 compared to 1.6x as of December 31, 2012.

The National Association of Insurance Commissioners ("NAIC") has also developed a set of financial relationships or tests known as the Insurance Regulatory Information System to assist state regulators in monitoring the financial condition of insurance companies and identifying companies that require special attention or actions by insurance regulatory authorities. The NAIC analyzes financial data provided by insurance companies using prescribed ratios, each with defined "usual ranges". Generally, regulators will begin to monitor an insurance company if its ratios fall outside the usual ranges for four or more of the ratios. If an insurance company has insufficient capital, regulators may act to reduce the amount of insurance it can issue. Our domestic insurance companies have no significant departure from these ranges.

Liquidity sources and uses Our potential sources of funds principally include activities shown in the following table.

	Property-Liability	Allstate Financial	Corporate and Other
Receipt of insurance premiums	X	X	
Contractholder fund deposits		X	
Reinsurance recoveries	X	X	
Receipts of principal, interest and dividends on investments	X	X	X
Sales of investments	X	X	X
Funds from securities lending, commercial paper and line of credit agreements	X	X	X
Intercompany loans	X	X	X
Capital contributions from parent	X	X	
Dividends from subsidiaries	X		X
Tax refunds/settlements	X	X	X
Funds from periodic issuance of additional securities			X
Receipt of intercompany settlements related to employee benefit plans			X

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Our potential uses of funds principally include activities shown in the following table.

	Property-Liability	Allstate Financial	Corporate and Other
Payment of claims and related expenses	X		
Payment of contract benefits, maturities, surrenders and withdrawals		X	
Reinsurance cessions and payments	X	X	
Operating costs and expenses	X	X	X
Purchase of investments	X	X	X
Repayment of securities lending, commercial paper and line of credit agreements	X	X	X
Payment or repayment of intercompany loans	X	X	X
Capital contributions to subsidiaries	X		X
Dividends to shareholders/parent company	X	X	X
Tax payments/settlements	X	X	
Common share repurchases			X
Debt service expenses and repayment	X	X	X
Payments related to employee and agent benefit plans	X	X	X

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 $2.56 billion as of December 31, 2013 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. In 2014, AIC will have the capacity to pay dividends currently estimated at $2.47 billion without prior regulatory approval. In addition, we have access to $1.00 billion of funds from either commercial paper issuance or an unsecured revolving credit facility. This provides funds for the parent company's fixed charges and other corporate purposes.

In 2013, AIC paid dividends totaling $1.95 billion to its parent, Allstate Insurance Holdings, LLC ("AIH") who then paid the same amount of dividends to the Corporation. In 2012, AIC paid dividends totaling $1.51 billion. These dividends comprised $1.06 billion in cash paid to AIH, of which $1.04 billion were paid by AIH to the Corporation, and the transfer of ownership (valued at $450 million) to AIH of three insurance companies that were formerly subsidiaries of AIC (Allstate Indemnity Company, Allstate Fire and Casualty Insurance Company and Allstate Property and Casualty Insurance Company). In 2011, dividends totaling $838 million were paid by AIC to the Corporation. There were no capital contributions paid by the Corporation to AIC in 2013, 2012 or 2011. There were no capital contributions by AIC to ALIC in 2013, 2012 or 2011. In 2013 and 2012, Allstate Financial paid $774 million and $357 million, respectively, of return of capital, repayment of surplus notes and dividends to the Corporation and other affiliates.

The sale of LBL is expected to generate deployable capital of approximately $1 billion. As allowed by regulatory authorities and subject to dividend limitations and approvals the capital may be returned to AIC. The $1 billion includes the estimated gain on the sale on a statutory-basis of accounting in the range of approximately $350 million to $400 million and the release of risk-based capital. During 2014, ALIC will not be able to pay dividends to AIC without prior Illinois Department of Insurance approval.

No dividends may be paid or declared on our common stock and no shares of common stock may 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 December 31, 2013, 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 2013, we did not defer interest payments on the subordinated debentures.

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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 December 31, 2013, there were no balances outstanding and therefore the remaining borrowing capacity was $1.00 billion; however, the outstanding balance can fluctuate daily.

Our $1.00 billion unsecured revolving credit facility is available for short-term liquidity requirements and backs our commercial paper facility. We have the option to extend the expiration of its initial five year term by one year at the first and second anniversary of the facility, upon approval of existing or replacement lenders. In April 2013, we utilized the option on the first anniversary of the facility and we extended the facility by one year making its current expiration April 2018. The facility is fully subscribed among 12 lenders with the largest commitment being $115 million. The commitments of the lenders are several and no lender is responsible for any other lender's commitment if such lender fails to make a loan under the facility. This facility contains an increase provision that would allow up to an additional $500 million of borrowing. This facility has a financial covenant requiring that we not exceed a 37.5% debt to capitalization ratio as defined in the agreement. This ratio was 15.5% as of December 31, 2013. Although the right to borrow under the facility is not subject to a minimum rating requirement, the costs of maintaining the facility and borrowing under it are based on the ratings of our senior unsecured, unguaranteed long-term debt. There were no borrowings under the credit facility during 2013. The total amount outstanding at any point in time under the combination of the commercial paper program and the credit facility cannot exceed the amount that can be borrowed under the credit facility.

A universal shelf registration statement was filed with the Securities and Exchange Commission on April 30, 2012. We can use this shelf registration to issue an unspecified amount of debt securities, common stock (including 451 million shares of treasury stock as of December 31, 2013), preferred stock, depositary shares, warrants, stock purchase contracts, stock purchase units and securities of trust subsidiaries. The specific terms of any securities we issue under this registration statement will be provided in the applicable prospectus supplements.

Liquidity exposure Contractholder funds were $24.30 billion as of December 31, 2013. The following table summarizes contractholder funds by their contractual withdrawal provisions as of December 31, 2013.

($ in millions)			**Percent to total**
Not subject to discretionary withdrawal	$	3,838	15.8%
Subject to discretionary withdrawal with adjustments:			
Specified surrender charges [1]		6,974	28.7
Market value adjustments [2]		3,247	13.4
Subject to discretionary withdrawal without adjustments [3]		10,245	42.1
Total contractholder funds [4]	$	24,304	100.0%

(1)
Includes $3.34 billion of liabilities with a contractual surrender charge of less than 5% of the account balance.

(2)
$2.45 billion of the contracts with market value adjusted surrenders have a 30-45 day period at the end of their initial and subsequent interest rate guarantee periods (which are typically 5, 6, 7 or 10 years) during which there is no surrender charge or market value adjustment.

(3)
79% of these contracts have a minimum interest crediting rate guarantee of 3% or higher.

(4)

Includes $911 million of contractholder funds on variable annuities reinsured to The Prudential Insurance Company of America, a subsidiary of Prudential Financial Inc., in 2006.

Retail life and annuity products may be surrendered by customers for a variety of reasons. Reasons unique to individual customers include a current or unexpected need for cash or a change in life insurance coverage needs. Other key factors that may impact the likelihood of customer surrender include the level of the contract surrender charge, the length of time the contract has been in force, distribution channel, market interest rates, equity market conditions and potential tax implications. In addition, the propensity for retail life insurance policies to lapse is lower than it is for fixed annuities because of the need for the insured to be re-underwritten upon policy replacement. Surrenders and partial withdrawals for our retail annuities decreased 20.0% in 2013 compared to 2012. The surrender and partial withdrawal rate on deferred fixed annuities and interest-sensitive life insurance products, based on the beginning of year contractholder funds, was 10.2% and 11.3% in 2013 and 2012, respectively. Allstate Financial strives to promptly pay customers who request cash surrenders; however, statutory regulations generally provide up to six months in most states to fulfill surrender requests.

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

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Certain remote events and circumstances could constrain our liquidity. Those events and circumstances include, for example, a catastrophe resulting in extraordinary losses, a downgrade in our senior long-term debt rating of A3, A- and a- (from Moody's, S&P and A.M. Best, respectively) to non-investment grade status of below Baa3/BBB-/bb, a downgrade in AIC's financial strength rating from Aa3, AA- and A+ (from Moody's, S&P and A.M. Best, respectively) to below Baa2/BBB/A-, or a downgrade in ALIC's financial strength ratings from A1, A+ and A+ (from Moody's, S&P and A.M. Best, respectively) to below A3/A-/A-. The rating agencies also consider the interdependence of our individually rated entities; therefore, a rating change in one entity could potentially affect the ratings of other related entities.

The following table summarizes consolidated cash flow activities by segment.

($ in millions)	Property-Liability (1)			Allstate Financial (1)			Corporate and Other (1)			Consolidated		
	2013	2012	2011	2013	2012	2011	2013	2012	2011	2013	2012	2011
Net cash provided by (used in):												
Operating activities	$ 3,058	$ 2,023	$789	$ 1,068	$ 1,165	$ 1,295	$ 116	$ (134)	$ (155)	$ 4,242	$ 3,054	$ 1,929
Investing activities	(1,858)	(1,081)	244	3,833	2,497	5,284	(395)	165	633	1,580	1,581	6,161
Financing activities	38	(18)	(4)	(4,393)	(3,363)	(6,504)	(1,598)	(1,224)	(1,368)	(5,953)	(4,605)	(7,876)
Net (decrease) increase in consolidated cash										$ (131)	$ 30	$ 214

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

Property-Liability Higher cash provided by operating activities in 2013 compared to 2012 was primarily due to lower claim payments, increased premiums and the surrender of company owned life insurance, partially offset by higher expenses and tax payments. Higher cash provided by operating activities in 2012 compared to 2011 was primarily due to lower claim payments.

Higher cash used in investing activities in 2013 compared to 2012 was primarily related to 2013 operating cash flows being invested. Cash used in investing activities in 2012 compared to cash provided by investing activities in 2011 was primarily due to 2012 operating cash flows being invested. There were lower sales of fixed income and equity securities and lower purchases of fixed income and equity securities.

Allstate Financial Lower cash provided by operating cash flows in 2013 compared to 2012 was primarily due to lower net investment income, partially offset by lower contract benefits paid and higher premiums. Lower cash provided by operating cash flows in 2012 compared to 2011 was primarily due to higher contract benefits paid.

Higher cash provided by investing activities in 2013 compared to 2012 was due to higher investment collections and higher financing needs to fund institutional product maturities. Lower cash provided by investing activities in 2012 compared to 2011 was primarily due to lower financing needs as reflected in lower sales of fixed income securities, partially offset by decreased purchases of fixed income securities.

Higher cash used in financing activities in 2013 compared to 2012 was primarily due to a $1.75 billion institutional product maturity. Lower cash used in financing activities in 2012 compared to 2011 was primarily due to lower surrenders and partial withdrawals on fixed annuities, decreased maturities of institutional products and the absence of Allstate Bank activity in 2012. For quantification of the changes in contractholder funds, see the Allstate Financial Segment section of the MD&A.

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

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Contractual obligations and commitments Our contractual obligations as of December 31, 2013 and the payments due by period are shown in the following table.

($ in millions)	Total	Less than 1 year	1-3 years	4-5 years	Over 5 years
Liabilities for collateral [1]	$ 624	$ 624	$	$	$
Contractholder funds [2]	53,740	5,258	8,604	7,216	32,662
Reserve for life-contingent contract benefits [2]	36,264	1,283	2,393	2,246	30,342
Long-term debt [3]	16,177	1,377	680	861	13,259
Capital lease obligations [3]	44	17	14	4	9
Operating leases [3]	533	145	208	91	89
Unconditional purchase obligations [3]	377	157	155	41	24
Defined benefit pension plans and other postretirement benefit plans [3][4]	1,309	61	121	118	1,009
Reserve for property-liability insurance claims and claims expense [5]	21,857	9,258	6,930	2,496	3,173
Other liabilities and accrued expenses [6][7]	3,754	3,575	114	40	25
Total contractual cash obligations	$ 134,679	$ 21,755	$ 19,219	$ 13,113	$ 80,592

(1) Liabilities for collateral are typically fully secured with cash or short-term investments. We manage our short-term liquidity position to ensure the availability of a sufficient amount of liquid assets to extinguish short-term liabilities as they come due in the normal course of business, including utilizing potential sources of liquidity as disclosed previously.

(2) Contractholder funds represent interest-bearing liabilities arising from the sale of products such as interest-sensitive life, fixed annuities, including immediate annuities without life contingencies and institutional products. The reserve for life-contingent contract benefits relates primarily to traditional life insurance, immediate annuities with life contingencies and voluntary accident and health insurance. These amounts reflect the present value of estimated cash payments to be made to contractholders and policyholders. Certain of these contracts, such as immediate annuities without life contingencies and institutional products, involve payment obligations where the amount and timing of the payment is essentially fixed and determinable. These amounts relate to (i) policies or contracts where we are currently making payments and will continue to do so and (ii) contracts where the timing of a portion or all of the payments has been determined by the contract. Other contracts, such as interest-sensitive life, fixed deferred annuities, traditional life insurance, immediate annuities with life contingencies and voluntary accident and health insurance, involve payment obligations where a portion or all of the amount and timing of future payments is uncertain. For these contracts, we are not currently making payments and will not make payments until (i) the occurrence of an insurable event such as death or illness or (ii) the occurrence of a payment triggering event such as the surrender or partial withdrawal on a policy or deposit contract, which is outside of our control. We have estimated the timing of payments related to these contracts based on historical experience and our expectation of future payment patterns. Uncertainties relating to these liabilities include mortality, morbidity, expenses, customer lapse and withdrawal activity, estimated additional deposits for interest-sensitive life contracts, and renewal premium for life policies, which may significantly impact both the timing and amount of future payments. Such cash outflows reflect adjustments for the estimated timing of mortality, retirement,

and other appropriate factors, but are undiscounted with respect to interest. As a result, the sum of the cash outflows shown for all years in the table exceeds the corresponding liabilities of $35.25 billion for contractholder funds and $14.28 billion for reserve for life-contingent contract benefits as included in the Consolidated Statements of Financial Position as of December 31, 2013, including those classified as held for sale. The liability amount in the Consolidated Statements of Financial Position reflects the discounting for interest as well as adjustments for the timing of other factors as described above.

(3)

Our payment obligations relating to long-term debt, capital lease obligations, operating leases, unconditional purchase obligations and pension and other postretirement benefits ("OPEB") contributions are managed within the structure of our intermediate to long-term liquidity management program. Amount differs from the balance presented on the Consolidated Statements of Financial Position as of December 31, 2013 because the long-term debt amount above includes interest.

(4)

The pension plans' obligations in the next 12 months represent our planned contributions where the benefit obligation exceeds the assets, and the remaining years' contributions are projected based on the average remaining service period using the current underfunded status of the plans. The OPEB plans' obligations are estimated based on the expected benefits to be paid. These liabilities are discounted with respect to interest, and as a result the sum of the cash outflows shown for all years in the table exceeds the corresponding liability amount of $628 million included in other liabilities and accrued expenses on the Consolidated Statements of Financial Position.

(5)

Reserve for property-liability insurance claims and claims expense is an estimate of amounts necessary to settle all outstanding claims, including claims that have been IBNR as of the balance sheet date. We have estimated the timing of these payments based on our historical experience and our expectation of future payment patterns. However, the timing of these payments may vary significantly from the amounts shown above, especially for IBNR claims. The ultimate cost of losses may vary materially from recorded amounts which are our best estimates. The reserve for property-liability insurance claims and claims expense includes loss reserves related to asbestos and environmental claims as of December 31, 2013, of $1.50 billion and $268 million, respectively.

(6)

Other liabilities primarily include accrued expenses and certain benefit obligations and claim payments and other checks outstanding. Certain of these long-term liabilities are discounted with respect to interest, as a result the sum of the cash outflows shown for all years in the table exceeds the corresponding liability amount of $3.68 billion.

(7)

Balance sheet liabilities not included in the table above include unearned and advance premiums of $11.69 billion and gross deferred tax liabilities of $2.59 billion. These items were excluded as they do not meet the definition of a contractual liability as we are not contractually obligated to pay these amounts to third parties. Rather, they represent an accounting mechanism that allows us to present our financial statements on an accrual

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basis. In addition, other liabilities of $395 million were not included in the table above because they did not represent a contractual obligation or the amount and timing of their eventual payment was sufficiently uncertain.

Our contractual commitments as of December 31, 2013 and the periods in which the commitments expire are shown in the following table.

($ in millions)	Total	Less than 1 year	1-3 years	4-5 years	Over 5 years
Other commitments conditional	$ 70	$ 37	$	$	$ 33
Other commitments unconditional	2,846	33	162	262	2,389
Total commitments	$ 2,916	$ 70	$ 162	$ 262	$ 2,422