

# The Allstate Corporation - Earnings Call Presentation

## Third Quarter 2013



# Allstate®

You're in good hands.

**Thursday, October 31, 2013**



This presentation contains forward-looking statements and information. Additional information on factors that could cause results to differ materially from those projected in this presentation is available in the 2012 Form 10-K, our current Form 10-Q for the quarter ended September 30, 2013, and in our most recent earnings release, available on our website, [allstate.com](http://allstate.com). This presentation also contains some non-GAAP measures. You can find the reconciliation of those measures to GAAP measures on the Investor Relations portion of our website, [allstate.com](http://allstate.com), under the “Quarterly Investor Info” link and “Conference Call Archive” link.



## Third Quarter Financial Highlights

	Three months ended September 30,		
(\$ in Millions, except per share data)	<u>2013</u>	<u>2012</u>	<u>% Change</u>
<b>Consolidated revenues</b>	<b>\$8,465</b>	<b>\$8,128</b>	<b>4.1</b>
<i>Property-liability written premiums</i>	<b>7,438</b>	<b>7,063</b>	<b>5.3</b>
<i>Life and annuity premiums and contract charges</i>	<b>584</b>	<b>563</b>	<b>3.7</b>
<b>Net income available to common shareholders</b>	<b>310</b>	<b>723</b>	<b>(57.1)</b>
<b>Operating income</b>	<b>713</b>	<b>717</b>	<b>(0.6)</b>
<b>Operating income per diluted common share</b>	<b>1.53</b>	<b>1.46</b>	<b>4.8</b>
<i>Common shares repurchased (#)</i>	<b>9.8M</b>	<b>4.1M</b>	<b>139.0</b>
<b>Book value per common share (@ 9/30)</b>	<b>43.49</b>	<b>42.64</b>	<b>2.0</b>
<b>Book value per common share, excluding the impact of unrealized net capital gains and losses on fixed income securities (@ 9/30)</b>	<b>40.37</b>	<b>37.31</b>	<b>8.2</b>



# Our Strategy to Provide Competitively Unique Offerings to Distinct Consumer Segments Continued Gaining Traction

Encompass	Q3 2013
NWP Growth Var. to PY Qtr.	10.8%
PIF Growth Var. to PY Qtr.	7.2%
Recorded CR	93.6
Underlying CR	92.5



Answer Financial	Q3 2013
Non-Proprietary Premium Growth to PY Qtr.	11.9%



Local Advice and Assistance



Self-Serve



Allstate Brand	Q3 2013		
	Std Auto <sup>(1)</sup>	Home <sup>(2)</sup>	Total
NWP Growth Var. to PY Qtr.	3.3%	5.5%	4.1%
PIF <sup>(3)</sup> Growth Var. to PY Qtr.	1.1%	(3.2)%	(0.4)%
Recorded CR	94.9	65.3	86.4
Underlying CR	94.6	61.8	85.4

Brand Neutral

Brand Sensitive

Esurance	Q3 2013
NWP Growth Var. to PY Qtr.	27.0%
PIF Growth Var. to PY Qtr.	32.0%
Recorded CR	116.8
Underlying CR	111.5

<sup>(1)</sup> Includes Allstate Auto, Home and Agencies (AAHA), Emerging Businesses, and Allstate Canada; AAHA Standard Auto PIF grew 0.4% from PY Qtr  
<sup>(2)</sup> Includes AAHA and Allstate Canada; AAHA Homeowners PIF declined 3.5% from PY Qtr  
<sup>(3)</sup> Excludes Good Hands Roadside Members of 1,439,000 - an increase of 681,000 over September 2012



## **Continued Progress on All Five Priorities for 2013**

### ➤ **Grow insurance premiums**

- Overall net written premiums increased 5.3% from Q3 2012, with all brands contributing
- Allstate brand standard auto policies in force increased over both the prior year quarter and last quarter
- Allstate brand homeowners policies in force decreased from Q3 2012, although the rate of decline has slowed
- Esurance grew net written premium 27.0% and policies in force 32.0% from the prior year quarter
- Encompass grew net written premium 10.8% and policies in force 7.2% from the prior year quarter
- Allstate Financial premiums and contract charges grew 3.7% from Q3 2012, 4.4% for underwritten products

### ➤ **Maintain auto profitability**

- Allstate brand standard auto combined ratio of 94.9; underlying combined ratio of 94.6
- Esurance standard auto combined ratio of 116.8; underlying combined ratio of 111.5
- Encompass standard auto combined ratio of 100.6, 8.6 point improvement from Q3 2012 due to favorable reserve re-estimates
- Esurance and Encompass continue to adjust pricing and underwriting to ensure growth is achieved at acceptable margins

### ➤ **Raise returns in the homeowners and annuity businesses**

- Improved Allstate brand homeowners profitability with a combined ratio of 65.3 and an underlying combined ratio of 61.8
  - Focus turning to building a sustainable competitive advantage
- Annuity returns improved; long-term outlook remains challenged

### ➤ **Proactively manage investments**

- Net investment income increased on strong limited partnership income; total portfolio return for the quarter of 1.0%
- Shortened property-liability portfolio duration to partially mitigate impact of rising interest rates

### ➤ **Reduce the cost structure**

- Progress in reducing the cost structure through simplification, process improvements and benefit plan changes
- Property-liability expense ratio has decreased sequentially since Q1 2013



# Profitability Strong in the Third Quarter, with the Underlying Combined Ratio Better Than our Full-Year Outlook Range

(\$ in Millions)	<u>Q3 2013</u>	<u>Var. to PY</u>	<u>Combined Ratio</u>		
<b><u>Property-Liability</u></b>					
Earned Premium	\$6,972	4.1%	<b><u>By Brand</u></b>	<b><u>Q3 2013</u></b>	<b><u>Var. to PY</u></b>
Combined Ratio - Recorded	90.0	(0.2) pts.	<b><u>Allstate</u></b>		(pts.)
- Underlying	86.9	(0.9) pts.	Recorded	86.4	(1.5)
Catastrophe Losses	\$128	(37.9)%	Underlying	85.4	(1.3)
Net Investment Income	\$309	3.3%	<b><u>Encompass</u></b>		
Operating Income	\$685	2.7%	Recorded	93.6	(6.0)
Net Income <sup>(1)</sup>	\$656	2.7%	Underlying	92.5	(0.9)
<b><u>Allstate Financial</u></b>					
Premiums & Contract Charges	\$584	3.7%	<b><u>Esurance</u></b>		
<i>Memo: LBL Contribution</i>	\$83	(12.6)%	Recorded	116.8	(1.7)
Benefit Spread	\$123	(19.6)%	Underlying	111.5	1.9
Investment Spread	\$183	(35.1)% <sup>(2)</sup>			
Net Investment Income	\$633	0.2%			
Operating Costs	\$132	(10.2)%			
Operating Income	\$127	30.9%			
Net Income <sup>(1)</sup>	\$(360)	N/M			

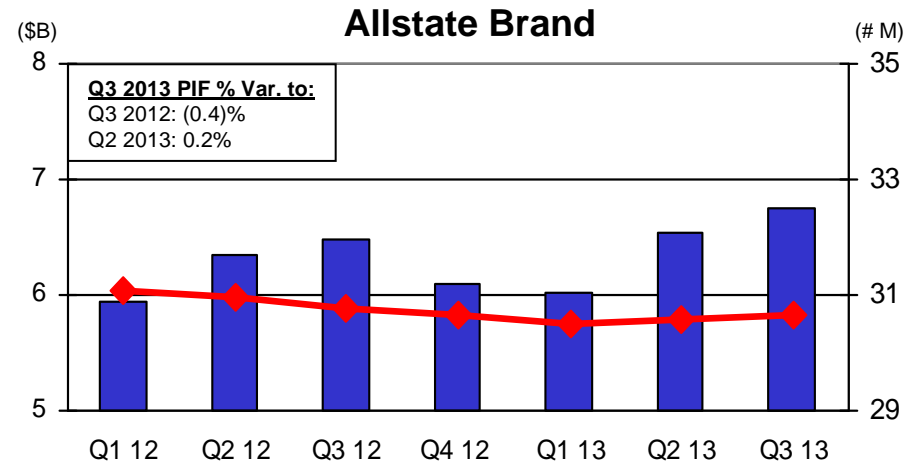
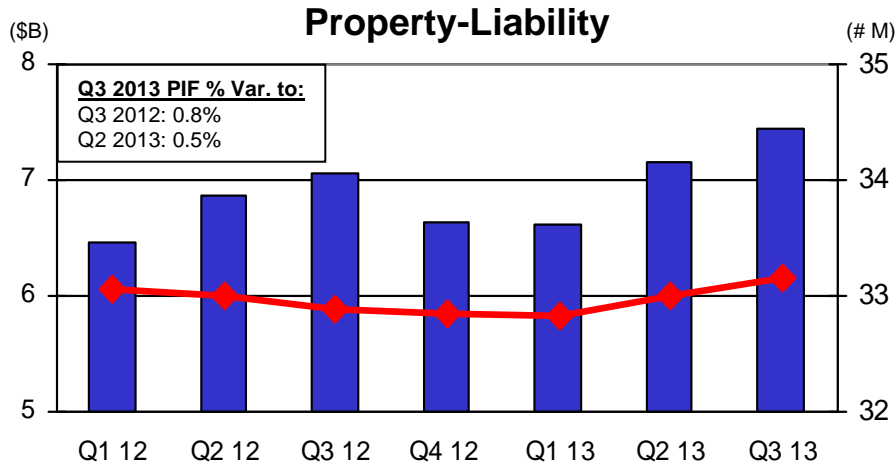
<sup>(1)</sup> Available to common shareholders

<sup>(2)</sup> Reflects comparable investment income, lower credited interest on spread-based liabilities and a gain on embedded derivatives in 2012

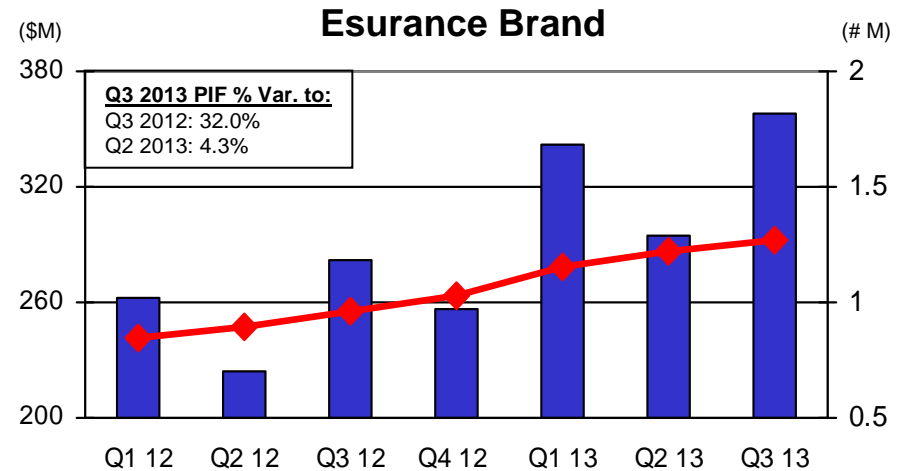
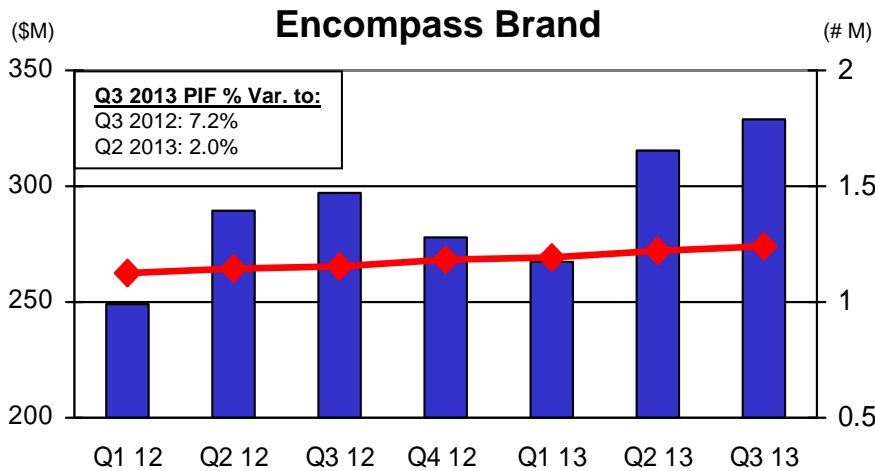
N/M = Not Meaningful



# Written Premium Grew 5.3%, with Positive Contributions from All Brands

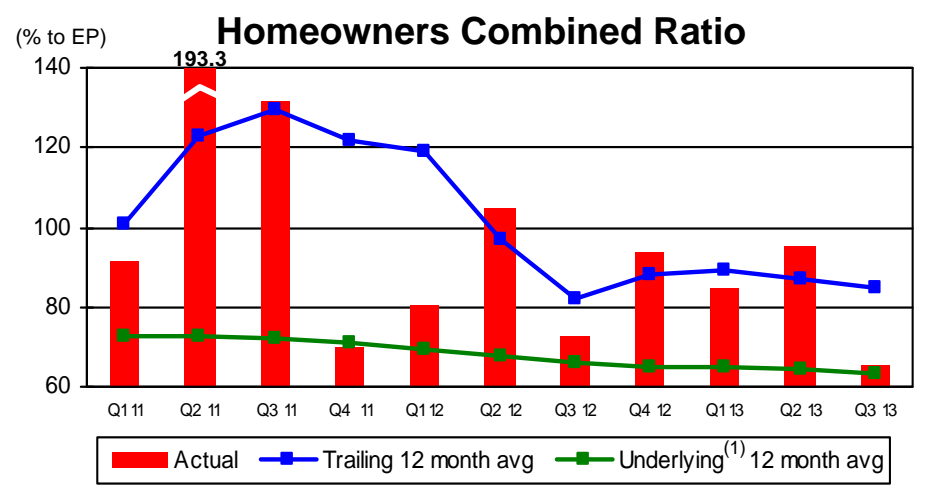
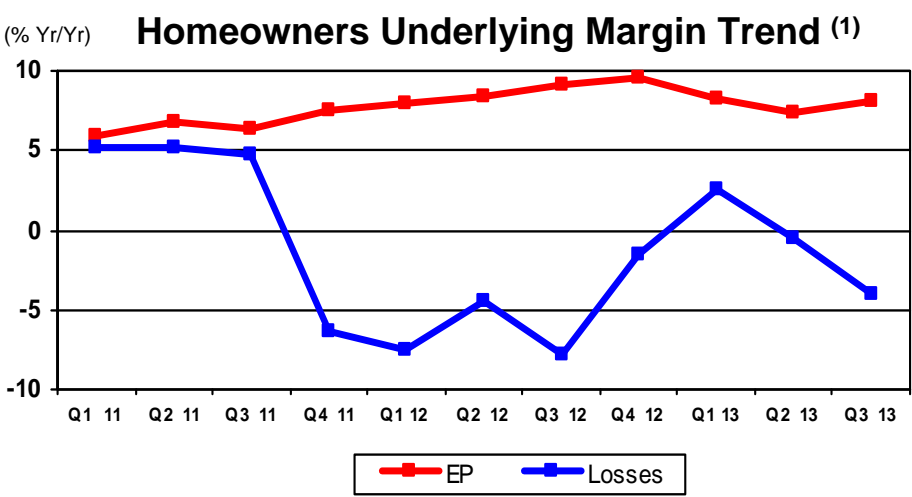
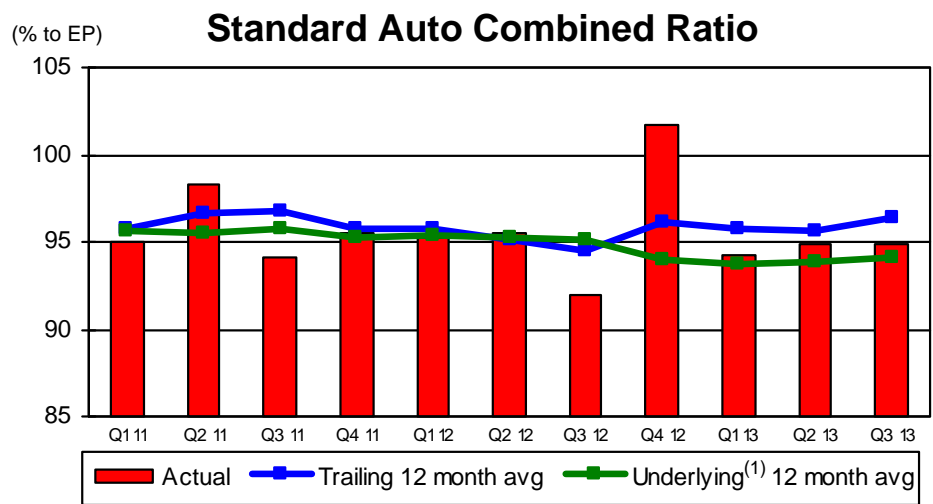
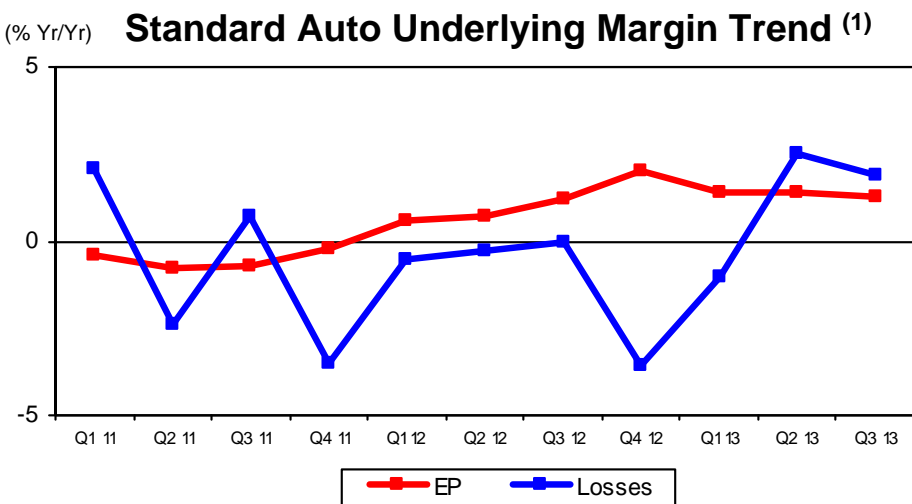


■ NWP ◆ PIF





# Allstate Brand Standard Auto Margins Maintained and Homeowners Margins Improved

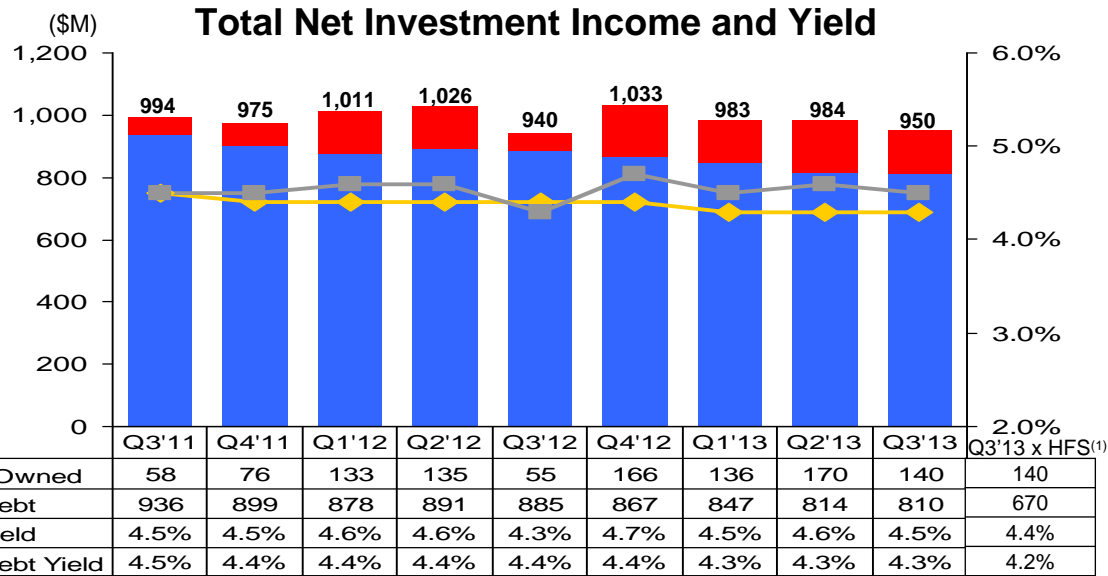


<sup>(1)</sup> Excludes Catastrophe Losses and Prior Year Reserve Reestimates

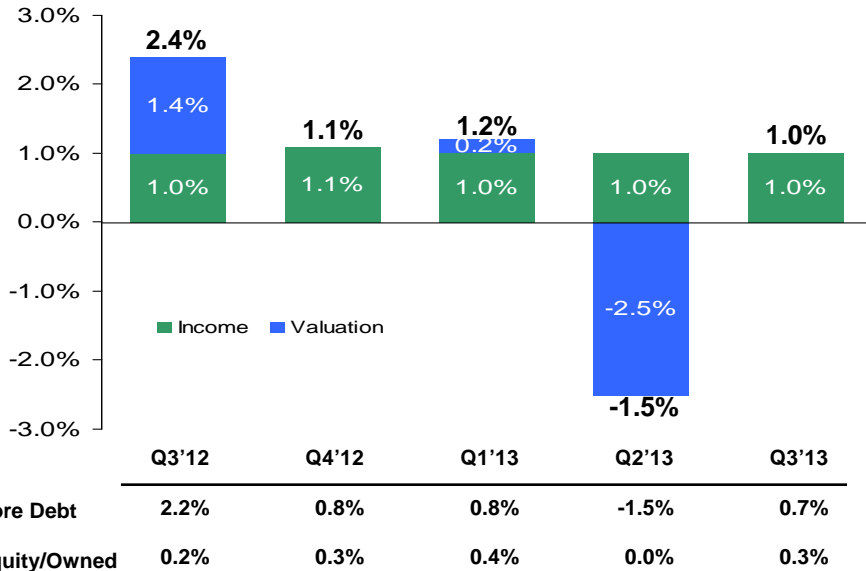




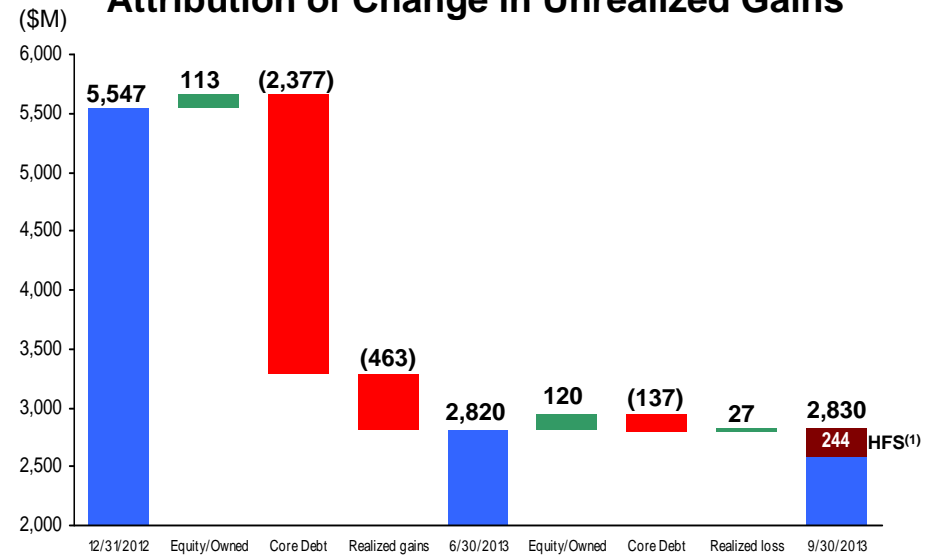
# Investment Results Reflect Progress on Strategic Priorities



### Portfolio Total Return



### Attribution of Change in Unrealized Gains

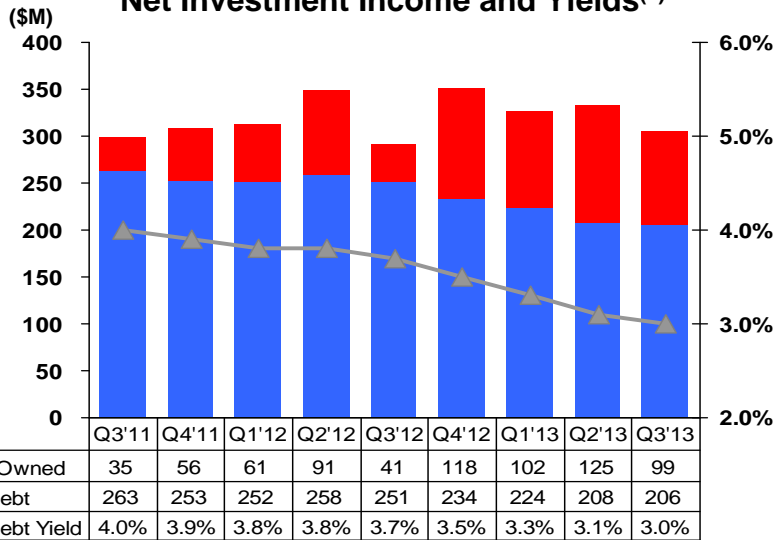




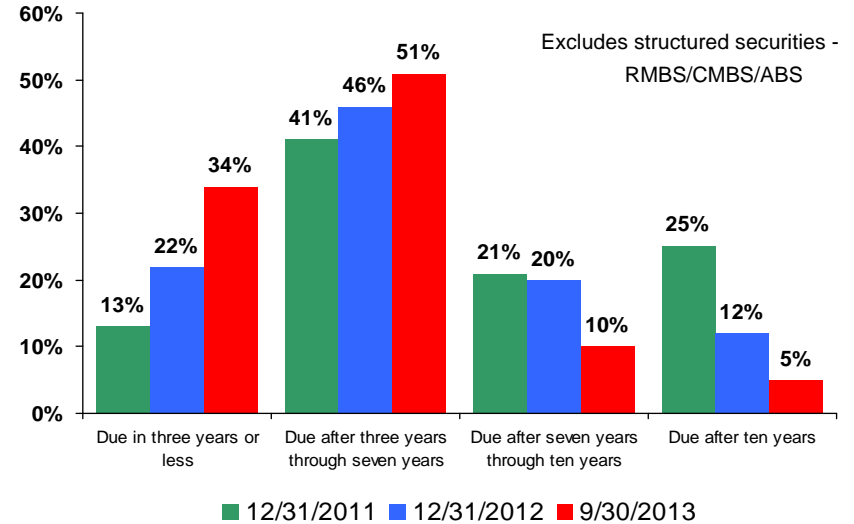
# Continued Focus on Delivering More Attractive Risk-Adjusted Returns

## Property-Liability

### Net Investment Income and Yields<sup>(1)</sup>

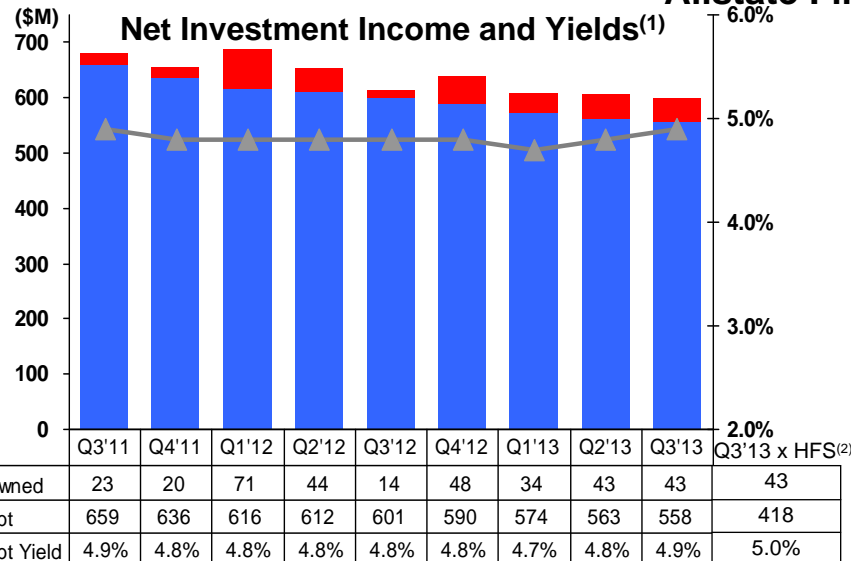


### Fixed Income by Scheduled Maturity Date

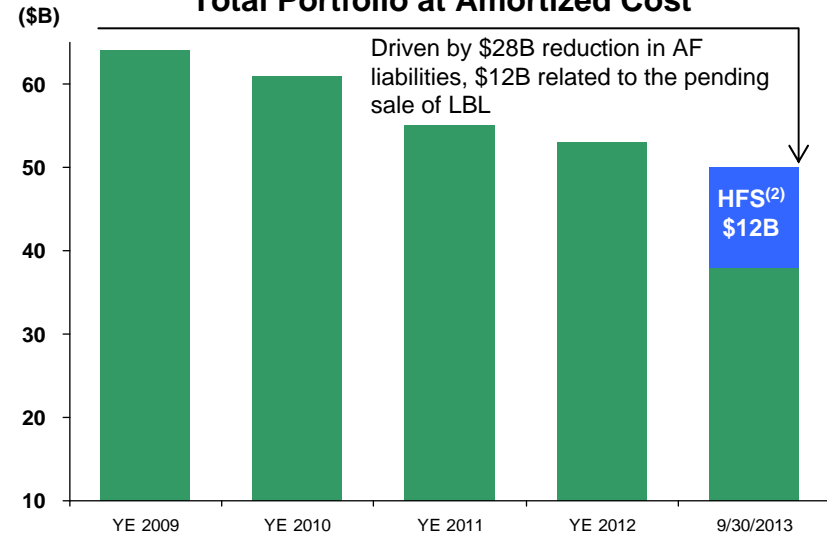


## Allstate Financial

### Net Investment Income and Yields<sup>(1)</sup>



### Total Portfolio at Amortized Cost



<sup>(1)</sup> Net investment income and yield exclude prepayment premiums and litigation proceeds

<sup>(2)</sup> HFS: Held for Sale



# Third Quarter Results Impacted by a Number of Annual and Unusual Items

(\$ in Millions)	<u>Operating Income</u>	<u>Net Income</u>	<u>Shareholders' Equity</u>	<u>Line Item</u>
<b>Sale of LBL</b>	---	\$(475)	\$(475)	Loss on disposition
<b>Benefit Plan Amendments:</b>				
-Unrecognized Pension and Other Postretirement Cost	---	---	658	
-Curtailment Gain	---	118	118	Operating costs and expenses
-Settlement Charge	\$(49)	(49)	(49)	Operating costs and expenses
<b>Annual Comprehensive Review of:</b>				
-Discontinued Lines & Coverages Reserves	(86)	(86)	(86)	Claims and claims expense
-Allstate Financial DAC and Reserve Assumptions	(44)	(37)	(37)	Contract benefits; Amortization of DAC

- Annual review of Discontinued Lines and Coverages reserves resulted in unfavorable reestimates for asbestos of \$74 million, environmental of \$30 million and other exposure reserves of \$30 million, pre-tax
  - 2012 review unfavorably impacted operating income by \$39 million, pre-tax
  
- Annual review of Allstate Financial DAC and reserve assumptions resulted in increased reserves and acceleration of DAC amortization which adversely impacted operating income by \$44 million, after-tax, and net income by \$37 million, after-tax
  - 2012 review unfavorably impacted operating income by \$21 million, after-tax



# Execution of Capital Management Plan Improves Financial Strength and Strategic Flexibility

- Returned \$608 million to shareholders during the quarter
  - Repurchased 2.1% of outstanding shares (9.8 million); \$589 million remaining on authorization
  - Paid \$0.25 per share quarterly dividend
- Issued \$800 million 5.75% fixed-to-floating rate subordinated debentures (“hybrids”) and \$385 million of perpetual preferred stock as part of the capital restructuring plan

## Capital Position

(\$ in Billions, except per share data)	<u>9/30/12</u>	<u>9/30/13</u>
Shareholders' Equity		
- Common	\$20.8	\$20.1
- Preferred	---	0.7
Book Value per Common Share	42.64	43.49
Debt – Long-Term		
- Senior Debt / Other	5.1	4.1
- Subordinated “Hybrid” Debt	1.0	2.1
Statutory Surplus		
- Property-Liability	13.3	13.9 est.
- Allstate Financial	3.7	3.4 est.
Total	17.0	17.3 est.
Holding Company Level Assets	2.3	2.8
<u>ROE – Twelve Months Ended</u>		
Net Income	13.6%	9.0%
Operating Income	15.0%	12.0%



**Allstate**®

You're in good hands.