

ALLSTATE CORP
Form 10-Q
October 31, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF**
THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2012

OR

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

For the transition period from ____ to ____

Commission file number 1-11840

THE ALLSTATE CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

36-3871531

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(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

2775 Sanders Road, Northbrook, Illinois

(Address of principal executive offices)

60062

(Zip Code)

(847) 402-5000

(Registrant's telephone number, including area code)

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

Yes X No

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

Yes X No

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

Large accelerated filer X

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

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

Yes No X

As of October 17, 2012, the registrant had 418,222,228 common shares, \$.01 par value, outstanding.

THE ALLSTATE CORPORATION

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September 30, 2012

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

THE ALLSTATE CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(\$ in millions, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
	(unaudited)		(unaudited)	
Revenues				
Property-liability insurance premiums	\$ 6,697	\$ 6,432	\$ 19,993	\$ 19,337
Life and annuity premiums and contract charges	563	552	1,675	1,668
Net investment income	940	994	2,977	2,996
Realized capital gains and losses:				
Total other-than-temporary impairment losses	(39)	(197)	(195)	(435)
Portion of loss recognized in other comprehensive income	(7)	(6)	16	(37)
Net other-than-temporary impairment losses recognized in earnings	(46)	(203)	(179)	(472)
Sales and other realized capital gains and losses	(26)	467	302	889
Total realized capital gains and losses	(72)	264	123	417
	8,128	8,242	24,768	24,418
Costs and expenses				
Property-liability insurance claims and claims expense	4,293	5,132	13,442	15,963
Life and annuity contract benefits	453	455	1,354	1,331
Interest credited to contractholder funds	215	405	959	1,240
Amortization of deferred policy acquisition costs	1,016	1,046	2,937	2,990
Operating costs and expenses	1,010	888	3,023	2,656
Restructuring and related charges	9	8	25	28
Interest expense	93	92	281	275
	7,089	8,026	22,021	24,483
Gain (loss) on disposition of operations	9	3	15	(10)
Income (loss) from operations before income tax expense (benefit)	1,048	219	2,762	(75)
Income tax expense (benefit)	325	44	850	(150)
Net income	\$ 723	\$ 175	\$ 1,912	\$ 75
Earnings per share:				
Net income per share - Basic	\$ 1.49	\$ 0.34	\$ 3.89	\$ 0.14
Weighted average shares - Basic	485.9	512.0	491.5	520.4
Net income per share - Diluted	\$ 1.48	\$ 0.34	\$ 3.86	\$ 0.14
Weighted average shares - Diluted	489.9	514.2	494.7	522.9

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Cash dividends declared per share	\$	0.22	\$	0.21	\$	0.66	\$	0.63
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See notes to condensed consolidated financial statements.

THE ALLSTATE CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(\$ in millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
	(unaudited)		(unaudited)	
Net income	\$ 723	\$ 175	\$ 1,912	\$ 75
Other comprehensive income (loss), after-tax				
Changes in:				
Unrealized net capital gains and losses	810	(410)	1,480	117
Unrealized foreign currency translation adjustments	12	(33)	14	(19)
Unrecognized pension and other postretirement benefit cost	20	21	64	53
Other comprehensive income (loss), after-tax	842	(422)	1,558	151
Comprehensive income (loss)	\$ 1,565	\$ (247)	\$ 3,470	\$ 226

See notes to condensed consolidated financial statements.

THE ALLSTATE CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(\$ in millions, except par value data)

	September 30, 2012 (unaudited)	December 31, 2011
Assets		
Investments		
Fixed income securities, at fair value (amortized cost \$72,432 and \$73,379)	\$ 77,729	\$ 76,113
Equity securities, at fair value (cost \$3,429 and \$4,203)	3,876	4,363
Mortgage loans	6,904	7,139
Limited partnership interests	4,974	4,697
Short-term, at fair value (amortized cost \$2,825 and \$1,291)	2,825	1,291
Other	2,208	2,015
Total investments	98,516	95,618
Cash	642	776
Premium installment receivables, net	5,108	4,920
Deferred policy acquisition costs	3,578	3,871
Reinsurance recoverables, net	7,278	7,251
Accrued investment income	835	826
Deferred income taxes	--	722
Property and equipment, net	928	914
Goodwill	1,242	1,242
Other assets	2,041	2,069
Separate Accounts	6,820	6,984
Total assets	\$ 126,988	\$ 125,193
Liabilities		
Reserve for property-liability insurance claims and claims expense	\$ 20,197	\$ 20,375
Reserve for life-contingent contract benefits	14,900	14,406
Contractholder funds	40,110	42,332
Unearned premiums	10,494	10,057
Claim payments outstanding	763	827
Deferred income taxes	689	--
Other liabilities and accrued expenses	6,121	5,978
Long-term debt	6,057	5,908
Separate Accounts	6,820	6,984
Total liabilities	106,151	106,867
Commitments and Contingent Liabilities (Note 10)		
Equity		
Preferred stock, \$1 par value, 25 million shares authorized, none issued	--	--
Common stock, \$.01 par value, 2.0 billion shares authorized and 900 million issued, 483 million and 501 million shares outstanding	9	9
Additional capital paid-in	3,154	3,189
Retained income	33,496	31,909
Deferred ESOP expense	(41)	(43)
Treasury stock, at cost (417 million and 399 million shares)	(17,368)	(16,795)
Accumulated other comprehensive income:		
Unrealized net capital gains and losses:		
Unrealized net capital losses on fixed income securities with OTTI	(42)	(174)
Other unrealized net capital gains and losses	3,765	2,041
Unrealized adjustment to DAC, DSI and insurance reserves	(843)	(467)
Total unrealized net capital gains and losses	2,880	1,400
Unrealized foreign currency translation adjustments	70	56
Unrecognized pension and other postretirement benefit cost	(1,363)	(1,427)
Total accumulated other comprehensive income	1,587	29
Total shareholders' equity	20,837	18,298
Noncontrolling interest	--	28
Total equity	20,837	18,326
Total liabilities and equity	\$ 126,988	\$ 125,193

See notes to condensed consolidated financial statements.

THE ALLSTATE CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(\$ in millions)

		Nine Months Ended September 30, (unaudited)	
	2012		2011
Cash flows from operating activities			
Net income	\$ 1,912	\$	75
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation, amortization and other non-cash items	293		149
Realized capital gains and losses	(123)		(417)
(Gain) loss on disposition of operations	(15)		10
Interest credited to contractholder funds	959		1,240
Changes in:			
Policy benefits and other insurance reserves	(769)		546
Unearned premiums	421		220
Deferred policy acquisition costs	13		129
Premium installment receivables, net	(178)		(158)
Reinsurance recoverables, net	(139)		(275)
Income taxes	669		(183)
Other operating assets and liabilities	(425)		335
Net cash provided by operating activities	2,618		1,671
Cash flows from investing activities			
Proceeds from sales			
Fixed income securities	13,952		23,916
Equity securities	1,345		1,116
Limited partnership interests	1,067		762
Mortgage loans	11		74
Other investments	104		149
Investment collections			
Fixed income securities	3,892		3,864
Mortgage loans	682		491
Other investments	70		105
Investment purchases			
Fixed income securities	(16,809)		(21,900)
Equity securities	(385)		(1,066)
Limited partnership interests	(1,232)		(1,159)
Mortgage loans	(472)		(896)
Other investments	(275)		(199)
Change in short-term investments, net	(1,284)		64
Change in other investments, net	(6)		(357)
Purchases of property and equipment, net	(176)		(160)
Disposition of operations	13		1
Net cash provided by investing activities	497		4,805
Cash flows from financing activities			
Proceeds from issuance of long-term debt	493		--
Repayment of long-term debt	(351)		(1)
Contractholder fund deposits	1,571		1,606
Contractholder fund withdrawals	(3,938)		(6,439)
Dividends paid	(322)		(327)
Treasury stock purchases	(729)		(858)
Shares reissued under equity incentive plans, net	60		18
Excess tax benefits on share-based payment arrangements	7		(4)
Other	(40)		(7)
Net cash used in financing activities	(3,249)		(6,012)
Net (decrease) increase in cash	(134)		464
Cash at beginning of period	776		562
Cash at end of period	\$ 642	\$	1,026

See notes to condensed consolidated financial statements.

THE ALLSTATE CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. General

Basis of presentation

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

The condensed consolidated financial statements and notes as of September 30, 2012 and for the three-month and nine-month periods ended September 30, 2012 and 2011 are unaudited. The condensed consolidated financial statements reflect all adjustments (consisting only of normal recurring accruals), which are, in the opinion of management, necessary for the fair presentation of the financial position, results of operations and cash flows for the interim periods. These condensed consolidated financial statements and notes should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2011 and Current Report on Form 8-K filed May 2, 2012. The results of operations for the interim periods should not be considered indicative of results to be expected for the full year.

To conform to the current year presentation, certain amounts in the prior year condensed consolidated financial statements and notes have been reclassified.

Adopted accounting standards

Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts

In October 2010, the FASB issued guidance modifying the definition of the types of costs incurred by insurance entities that can be capitalized in the acquisition of new and renewal insurance contracts. The guidance specifies that the costs must be directly related to the successful acquisition of insurance contracts. The guidance also specifies that advertising costs should be included as deferred acquisition costs (DAC) only when the direct-response advertising accounting criteria are met. The Company adopted the new guidance on a retrospective basis as of January 1, 2012. The cumulative effect of the adoption to shareholders' equity as of January 1, 2011 was a decrease of \$399 million, net of taxes. The impacts of the retrospective adjustments on previously issued financial statements are summarized in the following table.

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(\$ in millions, except per share data)

	Three months ended September 30, 2011		Nine months ended September 30, 2011	
	Previously Reported	As Adjusted	Previously Reported	As Adjusted
Amortization of DAC	\$ 1,122	\$ 1,046	\$ 3,191	\$ 2,990
Operating costs and expenses	825	888	2,465	2,656
Gain (loss) on disposition of operations	--	3	(17)	(10)
Income tax expense (benefit)	38	44	(156)	(150)
Net income	165	175	64	75
Net income per share - Basic	0.32	0.34	0.12	0.14
Net income per share - Diluted	0.32	0.34	0.12	0.14

	As of December 31, 2011	
	Previously Reported	As Adjusted
DAC	4,443	3,871
Deferred income taxes	520	722
Reserve for life-contingent contract benefits	14,449	14,406
Other liabilities and accrued expenses	5,929	5,978
Retained income	32,321	31,909
Unrealized adjustment to DAC, DSI and insurance reserves	(504)	(467)
Unrealized foreign currency translation adjustments	57	56

In future periods, operating costs and expenses will increase since a lower amount of acquisition costs will be capitalized, which will be partially offset by a decrease in amortization of DAC due to the retrospective reduction of the DAC balance. The effect of the adoption on net income and related per share amounts for interim periods after adoption is not determinable since calculations under the historic DAC accounting policy were not continued after adoption.

Criteria for Determining Effective Control for Repurchase Agreements

In April 2011, the FASB issued guidance modifying the assessment criteria of effective control for repurchase agreements. The new guidance removes the criteria requiring an entity to have the ability to repurchase or redeem financial assets on substantially the agreed terms and the collateral maintenance guidance related to that criteria. The guidance is to be applied prospectively to transactions or modifications of existing transactions that occur during reporting periods beginning on or after December 15, 2011. The adoption of this guidance as of January 1, 2012 had no impact on the Company's results of operations or financial position.

Amendments to Fair Value Measurement and Disclosure Requirements

In May 2011, the FASB issued guidance that clarifies the application of existing fair value measurement and disclosure requirements and amends certain fair value measurement principles, requirements and disclosures. Changes were made to improve consistency in global application. The guidance is to be applied prospectively for reporting periods beginning after December 15, 2011. The adoption of this guidance as of January 1, 2012 had no impact on the Company's results of operations or financial position.

Presentation of Comprehensive Income

In June and December 2011, the FASB issued guidance amending the presentation of comprehensive income and its components. Under the new guidance, a reporting entity has the option to present comprehensive income in a single continuous statement or in two separate but consecutive statements. The Company adopted the new guidance in the first quarter of 2012. The new guidance affects presentation only and therefore had no impact on the Company's results of operations or financial position.

Intangibles Goodwill and Other

In September 2011, the FASB issued guidance providing the option to first assess qualitative factors, such as macroeconomic conditions and industry and market considerations, to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If impairment is indicated by the qualitative assessment, then it is necessary to perform the two-step goodwill impairment test. If the option is not elected, the guidance requiring the two-step goodwill impairment test is unchanged. The adoption of this guidance as of January 1, 2012 had no impact on the Company's results of operations or financial position.

Pending accounting standard

Disclosures about Offsetting Assets and Liabilities for Financial Instruments and Derivative Instruments

In December 2011, the FASB issued guidance requiring expanded disclosures, including both gross and net information, for financial instruments and derivative instruments that are either offset in the reporting entity's financial statements or those that are subject to an enforceable master netting arrangement or similar agreement. The guidance is effective for reporting periods beginning on or after January 1, 2013 and is to be applied retrospectively. The new guidance affects disclosures only and will have no impact on the Company's results of operations or financial position.

2. Earnings per share

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

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

(\$ in millions, except per share data)	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Numerator:				
Net income	\$ 723	\$ 175	\$ 1,912	\$ 75
Denominator:				
Weighted average common shares outstanding	485.9	512.0	491.5	520.4
Effect of dilutive potential common stock:				
Stock options	2.7	1.6	2.2	2.0
Restricted stock units and performance share awards (non-participating)	1.3	0.6	1.0	0.5
Weighted average common and dilutive potential common shares outstanding	489.9	514.2	494.7	522.9
Earnings per share - Basic	\$ 1.49	\$ 0.34	\$ 3.89	\$ 0.14
Earnings per share - Diluted	\$ 1.48	\$ 0.34	\$ 3.86	\$ 0.14

The effect of dilutive potential common shares does not include the effect of options with an anti-dilutive effect on earnings per share because their exercise prices exceed the average market price of Allstate common shares during the period or for which the unrecognized compensation cost would have an anti-dilutive effect. Options to purchase 17.8 million and 27.6 million Allstate common shares, with exercise prices ranging from \$31.41 to \$62.84 and \$24.70 to \$62.84, were outstanding for the three-month periods ended September 30, 2012 and 2011, respectively, but were not included in the computation of diluted earnings per share in those periods. Options to purchase 22.1 million and 27.6 million Allstate common shares, with exercise prices ranging from \$26.56 to \$62.84 and \$25.91 to \$62.84, were outstanding for the nine-month periods ended September 30, 2012 and 2011, respectively, but were not included in the computation of diluted earnings per share in those periods.

3. Supplemental Cash Flow Information

Non-cash modifications of certain mortgage loans, fixed income securities, limited partnership interests and other investments, as well as mergers completed with equity securities, totaled \$170 million and \$564 million for the nine months ended September 30, 2012 and 2011, respectively. Non-cash financing activities include \$39 million related to the issuance of Allstate shares for vested restricted stock units for the nine months ended September 30, 2012.

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

(\$ in millions)	Nine months ended September 30,	
	2012	2011
Net change in proceeds managed		
Net change in short-term investments	\$ (297)	\$ (301)

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Operating cash flow used	(297)	(301)
Net change in cash	(6)	1
Net change in proceeds managed	\$ (303)	\$ (300)

Net change in liabilities

Liabilities for collateral, beginning of year	\$ (462)	\$ (484)
Liabilities for collateral, end of period	(765)	(784)
Operating cash flow provided	\$ 303	\$ 300

4. Investments

Fair values

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

(\$ in millions)	Amortized cost	Gains	Gross unrealized Losses	Fair value
September 30, 2012				
U.S. government and agencies	\$ 4,401	\$ 371	\$ --	\$ 4,772
Municipal	13,048	1,083	(161)	13,970
Corporate	44,344	3,956	(146)	48,154
Foreign government	2,015	240	--	2,255
Residential mortgage-backed securities (RMBS)	3,344	150	(146)	3,348
Commercial mortgage-backed securities (CMBS)	1,555	66	(91)	1,530
Asset-backed securities (ABS)	3,703	112	(142)	3,673
Redeemable preferred stock	22	5	--	27
Total fixed income securities \$	72,432	\$ 5,983	\$ (686)	\$ 77,729
December 31, 2011				
U.S. government and agencies	\$ 5,966	\$ 349	\$ --	\$ 6,315
Municipal	13,634	863	(256)	14,241
Corporate	41,217	2,743	(379)	43,581
Foreign government	1,866	216	(1)	2,081
RMBS	4,532	110	(521)	4,121
CMBS	1,962	48	(226)	1,784
ABS	4,180	73	(287)	3,966
Redeemable preferred stock	22	2	--	24
Total fixed income securities \$	73,379	\$ 4,404	\$ (1,670)	\$ 76,113

Scheduled maturities

The scheduled maturities for fixed income securities are as follows as of September 30, 2012:

(\$ in millions)	Amortized cost	Fair value
Due in one year or less	\$ 4,017	\$ 4,072
Due after one year through five years	20,943	22,124
Due after five years through ten years	24,287	26,615

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Due after ten years	16,138	17,897
	65,385	70,708
RMBS and ABS	7,047	7,021
Total	\$ 72,432	\$ 77,729

Actual maturities may differ from those scheduled as a result of prepayments by the issuers. Because of the potential for prepayment on RMBS and ABS, they are not categorized by contractual maturity. CMBS are categorized by contractual maturity because they generally are not subject to prepayment risk.

Net investment income

Net investment income is as follows:

(\$ in millions)	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Fixed income securities	\$ 817	\$ 862	\$ 2,441	\$ 2,661
Equity securities	29	23	74	76
Mortgage loans	92	91	277	267
Limited partnership interests (1)	22	33	238	61
Short-term investments	2	2	4	5
Other	33	27	97	64
Investment income, before expense	995	1,038	3,131	3,134
Investment expense	(55)	(44)	(154)	(138)
Net investment income	\$ 940	\$ 994	\$ 2,977	\$ 2,996

(1) Income from limited partnership interests accounted for under the equity method of accounting (EMA) is reported in net investment income in 2012 and realized capital gains and losses in 2011.

Realized capital gains and losses

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

(\$ in millions)	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Fixed income securities	\$ (50)	\$ 603	\$ (73)	\$ 615
Equity securities	(15)	(77)	157	60
Mortgage loans	(3)	(28)	5	(37)
Limited partnership interests (1)	--	8	13	129
Derivatives	(2)	(234)	26	(354)
Other	(2)	(8)	(5)	4
Realized capital gains and losses	\$ (72)	\$ 264	\$ 123	\$ 417

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

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

(\$ in millions)	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Impairment write-downs	\$ (43)	\$ (190)	\$ (131)	\$ (374)
Change in intent write-downs	(3)	(13)	(48)	(98)
Net other-than-temporary impairment losses recognized in earnings	(46)	(203)	(179)	(472)
Sales	(24)	692	275	1,116
Valuation of derivative instruments	--	(254)	1	(282)
Settlements of derivative instruments	(2)	20	26	(72)
EMA limited partnership income	--	9	--	127
Realized capital gains and losses	\$ (72)	\$ 264	\$ 123	\$ 417

Gross gains of \$109 million and \$709 million and gross losses of \$154 million and \$32 million were realized on sales of fixed income securities during the three months ended September 30, 2012 and 2011, respectively. Gross gains of \$296 million and \$1.10 billion and gross losses of \$291 million and \$218 million were realized on sales of fixed income securities during the nine months ended September 30, 2012 and 2011, respectively.

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

(\$ in millions)	Three months ended September 30, 2012			Nine months ended September 30, 2012		
	Gross	Included in OCI	Net	Gross	Included in OCI	Net
Fixed income securities:						
Municipal	\$ (2)	\$ (3)	\$ (5)	\$ (28)	\$ 14	\$ (14)
Corporate	(1)	(1)	(2)	(19)	(2)	(21)
RMBS	(4)	(6)	(10)	(59)	(2)	(61)
CMBS	(4)	3	(1)	(19)	6	(13)
Total fixed income securities	(11)	(7)	(18)	(125)	16	(109)
Equity securities	(22)	--	(22)	(58)	--	(58)
Mortgage loans	(1)	--	(1)	3	--	3
Limited partnership interests	(2)	--	(2)	(5)	--	(5)
Other	(3)	--	(3)	(10)	--	(10)
Other-than-temporary impairment losses	\$ (39)	\$ (7)	\$ (46)	\$ (195)	\$ 16	\$ (179)

(\$ in millions)	Three months ended September 30, 2011			Nine months ended September 30, 2011		
	Gross	Included in OCI	Net	Gross	Included in OCI	Net
Fixed income securities:						
Municipal	\$ (8)	\$ --	\$ (8)	\$ (50)	\$ (3)	\$ (53)
Corporate	(14)	--	(14)	(19)	1	(18)
Foreign government	--	--	--	(1)	--	(1)
RMBS	(57)	(3)	(60)	(164)	(28)	(192)
CMBS	(1)	(3)	(4)	(27)	(10)	(37)
ABS	--	--	--	(7)	3	(4)
Total fixed income securities	(80)	(6)	(86)	(268)	(37)	(305)
Equity securities	(81)	--	(81)	(114)	--	(114)
Mortgage loans	(29)	--	(29)	(42)	--	(42)
Limited partnership interests	(2)	--	(2)	(4)	--	(4)
Other	(5)	--	(5)	(7)	--	(7)
Other-than-temporary impairment losses	\$ (197)	\$ (6)	\$ (203)	\$ (435)	\$ (37)	\$ (472)

The total amount of other-than-temporary impairment losses included in accumulated other comprehensive income at the time of impairment for fixed income securities, which were not included in earnings, are presented in the following table. The amount excludes \$220 million and \$172 million as of September 30, 2012 and December 31, 2011, respectively, of net unrealized gains related to changes in valuation of the fixed income securities subsequent to the impairment measurement date.

(\$ in millions)	September 30, 2012	December 31, 2011
Municipal	\$ (25)	\$ (11)
Corporate	(1)	(35)
RMBS	(223)	(353)
CMBS	(22)	(19)
ABS	(14)	(21)
Total	\$ (285)	\$ (439)

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

(\$ in millions)	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Beginning balance	\$ (781)	\$ (912)	\$ (944)	\$ (1,046)
Additional credit loss for securities previously other-than-temporarily impaired	(15)	(56)	(49)	(133)
Additional credit loss for securities not previously other-than-temporarily impaired	(3)	(25)	(24)	(82)
Reduction in credit loss for securities disposed or collected	128	66	339	313
Reduction in credit loss for securities the Company has made the decision to sell or more likely than not will be required to sell	--	--	7	15
Change in credit loss due to accretion of increase in cash flows	1	4	1	10
Ending balance	\$ (670)	\$ (923)	\$ (670)	\$ (923)

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

Unrealized net capital gains and losses

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

(\$ in millions)		Fair value		Gross unrealized Gains		Losses	Unrealized net gains (losses)
September 30, 2012							
Fixed income securities	\$	77,729	\$	5,983	\$	(686)	\$ 5,297
Equity securities		3,876		509		(62)	447
Short-term investments		2,825		--		--	--
Derivative instruments (1)		(14)		2		(21)	(19)
EMA limited partnerships (2)							6
Unrealized net capital gains and losses, pre-tax							5,731
Amounts recognized for:							
Insurance reserves (3)							(876)
DAC and DSI (4)							(420)
Amounts recognized							(1,296)
Deferred income taxes							(1,555)
Unrealized net capital gains and losses, after-tax							\$ 2,880

(1) Included in the fair value of derivative instruments are \$(6) million classified as assets and \$8 million classified as liabilities.

(2) Unrealized net capital gains and losses for limited partnership interests represent the Company's share of EMA limited partnerships' other comprehensive income. Fair value and gross gains and losses are not applicable.

(3) The insurance reserves adjustment represents the amount by which the reserve balance would increase if the net unrealized gains in the applicable product portfolios were realized and reinvested at current lower interest rates, resulting in a premium deficiency. Although the Company evaluates premium deficiencies on the combined performance of life insurance and immediate annuities with life contingencies, the adjustment primarily relates to structured settlement annuities with life contingencies, in addition to annuity buy-outs and certain payout annuities with life contingencies.

(4) The DAC and DSI adjustment balance represents the amount by which the amortization of DAC and DSI would increase or decrease if the unrealized gains or losses in the respective product portfolios were realized.

		Fair value		Gross unrealized Gains		Losses	Unrealized net gains (losses)
December 31, 2011							
Fixed income securities	\$	76,113	\$	4,404	\$	(1,670)	\$ 2,734
Equity securities		4,363		369		(209)	160
Short-term investments		1,291		--		--	--
Derivative instruments (1)		(12)		3		(20)	(17)
EMA limited partnerships							2
Unrealized net capital gains and losses, pre-tax							2,879
Amounts recognized for:							
Insurance reserves							(594)
DAC and DSI							(124)
Amounts recognized							(718)
Deferred income taxes							(761)
Unrealized net capital gains and losses, after-tax							\$ 1,400

(1)Included in the fair value of derivative instruments are \$(5) million classified as assets and \$7 million classified as liabilities.

Change in unrealized net capital gains and losses

The change in unrealized net capital gains and losses for the nine months ended September 30, 2012 is as follows:

(\$ in millions)

Fixed income securities	\$	2,563
Equity securities		287
Derivative instruments		(2)
EMA limited partnerships		4
Total		2,852
Amounts recognized for:		
Insurance reserves		(282)
DAC and DSI		(296)
Amounts recognized		(578)
Deferred income taxes		(794)
Increase in unrealized net capital gains and losses	\$	1,480

Portfolio monitoring

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

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

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

For equity securities, the Company considers various factors, including whether it has the intent and ability to hold the equity security for a period of time sufficient to recover its cost basis. Where the Company lacks the intent and ability to hold to recovery, or believes the recovery period is extended, the equity security's decline in fair value is considered other than temporary and is recorded in earnings. For equity securities managed by a third party, the Company has contractually retained its decision making authority as it pertains to selling equity securities that are in an unrealized loss position.

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

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

(\$ in millions)		Less than 12 months				12 months or more			
	Number of issues	Fair value	Unrealized losses	Number of issues	Fair value	Unrealized losses	Total unrealized losses		
September 30, 2012									
Fixed income securities									
U.S. government and agencies	4	\$ 225	\$ --	--	\$ --	\$ --	\$ --		
Municipal	35	215	(9)	117	1,052	(152)	(161)		
Corporate	79	919	(30)	82	977	(116)	(146)		
Foreign government	7	17	--	1	1	--	--		
RMBS	269	51	(3)	236	735	(143)	(146)		
CMBS	4	21	--	50	449	(91)	(91)		
ABS	19	249	(4)	83	859	(138)	(142)		
Redeemable preferred stock	1	--	--	--	--	--	--		
Total fixed income securities	418	1,697	(46)	569	4,073	(640)	(686)		
Equity securities	892	663	(43)	136	80	(19)	(62)		
Total fixed income and equity securities	1,310	\$ 2,360	\$ (89)	705	\$ 4,153	\$ (659)	\$ (748)		
Investment grade fixed income securities	364	\$ 1,275	\$ (30)	346	\$ 2,584	\$ (293)	\$ (323)		
Below investment grade fixed income securities	54	422	(16)	223	1,489	(347)	(363)		
Total fixed income securities	418	\$ 1,697	\$ (46)	569	\$ 4,073	\$ (640)	\$ (686)		
December 31, 2011									
Fixed income securities									
U.S. government and agencies	4	\$ 61	\$ --	--	\$ --	\$ --	\$ --		
Municipal	29	135	(11)	303	1,886	(245)	(256)		
Corporate	307	3,439	(113)	105	1,273	(266)	(379)		
Foreign government	11	85	(1)	1	1	--	(1)		
RMBS	321	373	(11)	294	1,182	(510)	(521)		
CMBS	47	378	(49)	68	489	(177)	(226)		
ABS	89	960	(17)	108	1,020	(270)	(287)		
Redeemable preferred stock	1	--	--	--	--	--	--		
Total fixed income securities	809	5,431	(202)	879	5,851	(1,468)	(1,670)		
Equity securities	1,397	2,120	(203)	32	30	(6)	(209)		
Total fixed income and equity securities	2,206	\$ 7,551	\$ (405)	911	\$ 5,881	\$ (1,474)	\$ (1,879)		
Investment grade fixed income securities	665	\$ 4,480	\$ (145)	555	\$ 3,773	\$ (700)	\$ (845)		
Below investment grade fixed income securities	144	951	(57)	324	2,078	(768)	(825)		
Total fixed income securities	809	\$ 5,431	\$ (202)	879	\$ 5,851	\$ (1,468)	\$ (1,670)		

As of September 30, 2012, \$373 million of unrealized losses are related to securities with an unrealized loss position less than 20% of amortized cost or cost, the degree of which suggests that these securities do not pose a high risk of being other-than-temporarily impaired. Of the \$373 million, \$228 million are related to unrealized losses on investment grade fixed income securities. Investment grade is defined as a security having a rating of Aaa, Aa, A or Baa from Moody's, a rating of AAA, AA, A or BBB from Standard & Poor's (S&P), Fitch, Dominion or

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Realpoint, a rating of aaa, aa, a or bbb from A.M. Best, or a comparable internal rating if an externally provided rating is not available. Unrealized losses on investment grade securities are principally related to widening credit spreads or rising interest rates since the time of initial purchase.

As of September 30, 2012, the remaining \$375 million of unrealized losses are related to securities in unrealized loss positions greater than or equal to 20% of amortized cost or cost. Investment grade fixed income securities comprising \$95 million of these unrealized losses were evaluated based on factors such as discounted cash flows and the financial condition and near-term and long-term prospects of the issue or issuer and were determined to have adequate resources to fulfill contractual obligations. Of the \$375 million, \$250 million are related to below investment grade fixed income securities and \$30 million are related to equity securities. Of these amounts, \$215 million are related to below investment grade fixed income securities that had been in an unrealized loss position greater than or equal to 20% of amortized cost for a period of twelve or more consecutive months as of September 30, 2012. Unrealized losses on below investment grade securities are principally related to RMBS, CMBS and ABS

and were the result of wider credit spreads resulting from higher risk premiums since the time of initial purchase. These wider spreads are largely due to the risk associated with the underlying collateral supporting certain RMBS, CMBS and ABS securities.

RMBS, CMBS and ABS in an unrealized loss position were evaluated based on actual and projected collateral losses relative to the securities positions in the respective securitization trusts, security specific expectations of cash flows, and credit ratings. This evaluation also takes into consideration credit enhancement, measured in terms of (i) subordination from other classes of securities in the trust that are contractually obligated to absorb losses before the class of security the Company owns, (ii) the expected impact of other structural features embedded in the securitization trust beneficial to the class of securities the Company owns, such as overcollateralization and excess spread, and (iii) for RMBS and ABS in an unrealized loss position, credit enhancements from reliable bond insurers, where applicable. Municipal bonds in an unrealized loss position were evaluated based on the quality of the underlying securities. Unrealized losses on equity securities are primarily related to temporary equity market fluctuations of securities that are expected to recover.

As of September 30, 2012, the Company has not made the decision to sell and it is not more likely than not the Company will be required to sell fixed income securities with unrealized losses before recovery of the amortized cost basis. As of September 30, 2012, the Company had the intent and ability to hold equity securities with unrealized losses for a period of time sufficient for them to recover.

Limited partnerships

As of September 30, 2012 and December 31, 2011, the carrying value of equity method limited partnerships totaled \$3.52 billion and \$3.13 billion, respectively. The Company recognizes an impairment loss for equity method limited partnerships when evidence demonstrates that the loss is other than temporary. Evidence of a loss in value that is other than temporary may include the absence of an ability to recover the carrying amount of the investment or the inability of the investee to sustain a level of earnings that would justify the carrying amount of the investment. The Company had no write-downs related to equity method limited partnerships for the three or nine months ended September 30, 2012 and 2011.

As of September 30, 2012 and December 31, 2011, the carrying value for cost method limited partnerships was \$1.46 billion and \$1.57 billion, respectively. To determine if an other-than-temporary impairment has occurred, the Company evaluates whether an impairment indicator has occurred in the period that may have a significant adverse effect on the carrying value of the investment. Impairment indicators may include: significantly reduced valuations of the investments held by the limited partnerships; actual recent cash flows received being significantly less than expected cash flows; reduced valuations based on financing completed at a lower value; completed sale of a material underlying investment at a price significantly lower than expected; or any other adverse events since the last financial statements received that might affect the fair value of the investee's capital. Additionally, the Company's portfolio monitoring process includes a quarterly review of all cost method limited partnerships to identify instances where the net asset value is below established thresholds for certain periods of time, as well as investments that are performing below expectations, for further impairment consideration. If a cost method limited partnership is other-than-temporarily impaired, the carrying value is written down to fair value, generally estimated to be equivalent to the reported net asset value of the underlying funds. The Company had write-downs related to cost method limited partnerships of \$2 million and \$2 million for the three months ended September 30, 2012 and 2011, respectively, and \$5 million and \$4 million for the nine months ended September 30, 2012 and 2011, respectively.

Mortgage loans

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Mortgage loans are evaluated for impairment on a specific loan basis through a quarterly credit monitoring process and review of key credit quality indicators. Mortgage loans are considered impaired when it is probable that the Company will not collect the contractual principal and interest. Valuation allowances are established for impaired loans to reduce the carrying value to the fair value of the collateral less costs to sell or the present value of the loan's expected future repayment cash flows discounted at the loan's original effective interest rate. Impaired mortgage loans may not have a valuation allowance when the fair value of the collateral less costs to sell is higher than the carrying value. Valuation allowances are adjusted for subsequent changes in the fair value of the collateral less costs to sell. Mortgage loans are charged off against their corresponding valuation allowances when there is no reasonable expectation of recovery. The impairment evaluation is non-statistical in respect to the aggregate portfolio but considers facts and circumstances attributable to each loan. It is not considered probable that

additional impairment losses, beyond those identified on a specific loan basis, have been incurred as of September 30, 2012.

Accrual of income is suspended for mortgage loans that are in default or when full and timely collection of principal and interest payments is not probable. Cash receipts on mortgage loans on nonaccrual status are generally recorded as a reduction of carrying value.

Debt service coverage ratio is considered a key credit quality indicator when mortgage loans are evaluated for impairment. Debt service coverage ratio represents the amount of estimated cash flows from the property available to the borrower to meet principal and interest payment obligations. Debt service coverage ratio estimates are updated annually or more frequently if conditions are warranted based on the Company's credit monitoring process.

The following table reflects the carrying value of non-impaired fixed rate and variable rate mortgage loans summarized by debt service coverage ratio distribution:

(\$ in millions)	September 30, 2012			December 31, 2011		
	Fixed rate mortgage loans	Variable rate mortgage loans	Total	Fixed rate mortgage loans	Variable rate mortgage loans	Total
Debt service coverage ratio distribution						
Below 1.0	\$ 296	\$ --	\$ 296	\$ 345	\$ --	\$ 345
1.0 - 1.25	1,276	21	1,297	1,527	44	1,571
1.26 - 1.50	1,615	22	1,637	1,573	24	1,597
Above 1.50	3,322	172	3,494	3,214	168	3,382
Total non-impaired mortgage loans	\$ 6,509	\$ 215	\$ 6,724	\$ 6,659	\$ 236	\$ 6,895

Mortgage loans with a debt service coverage ratio below 1.0 that are not considered impaired primarily relate to instances where the borrower has the financial capacity to fund the revenue shortfalls from the properties for the foreseeable term, the decrease in cash flows from the properties is considered temporary, or there are other risk mitigating circumstances such as additional collateral, escrow balances or borrower guarantees.

The net carrying value of impaired mortgage loans is as follows:

(\$ in millions)	September 30, 2012	December 31, 2011
Impaired mortgage loans with a valuation allowance	\$ 172	\$ 244
Impaired mortgage loans without a valuation allowance	8	--
Total impaired mortgage loans	\$ 180	\$ 244
Valuation allowance on impaired mortgage loans	\$ 47	\$ 63

The average balance of impaired loans was \$214 million and \$201 million for the nine months ended September 30, 2012 and 2011, respectively.

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

(\$ in millions)	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Beginning balance	\$ 48	\$ 68	\$ 63	\$ 84
Net increase (decrease) in valuation allowance	1	29	(3)	42
Charge offs	(2)	(27)	(13)	(56)
Ending balance	\$ 47	\$ 70	\$ 47	\$ 70

The carrying value of past due mortgage loans is as follows:

(\$ in millions)	September 30, 2012	December 31, 2011
Less than 90 days past due	\$ 9	\$ --
90 days or greater past due	7	43
Total past due	16	43
Current loans	6,888	7,096
Total mortgage loans	\$ 6,904	\$ 7,139

5. Fair Value of Assets and Liabilities

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The hierarchy for inputs used in determining fair value maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that observable inputs be used when available. Assets and liabilities recorded on the Condensed Consolidated Statements of Financial Position at fair value are categorized in the fair value hierarchy based on the observability of inputs to the valuation techniques as follows:

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

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

- (a) Quoted prices for similar assets or liabilities in active markets;
- (b) Quoted prices for identical or similar assets or liabilities in markets that are not active; or
- (c) Valuation models whose inputs are observable, directly or indirectly, for substantially the full term of the asset or liability.

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

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

be reduced for many instruments.

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

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

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

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

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

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

Level 1 measurements

- Fixed income securities: Comprise certain U.S. Treasuries. Valuation is based on unadjusted quoted prices for identical assets in active markets that the Company can access.
- Equity securities: Comprise actively traded, exchange-listed equity securities. Valuation is based on unadjusted quoted prices for identical assets in active markets that the Company can access.
- Short-term: Comprise actively traded money market funds that have daily quoted net asset values for identical assets that the Company can access.

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- Separate account assets: Comprise actively traded mutual funds that have daily quoted net asset values for identical assets that the Company can access. Net asset values for the actively traded mutual funds in which the separate account assets are invested are obtained daily from the fund managers.

Level 2 measurements

- Fixed income securities:

U.S. government and agencies: The primary inputs to the valuation include quoted prices for identical or similar assets in markets that are not active, contractual cash flows, benchmark yields and credit spreads.

Municipal: The primary inputs to the valuation include quoted prices for identical or similar assets in markets that are not active, contractual cash flows, benchmark yields and credit spreads.

Corporate, including privately placed: The primary inputs to the valuation include quoted prices for identical or similar assets in markets that are not active, contractual cash flows, benchmark yields and credit spreads. Also included are privately placed securities valued using a discounted cash flow model that is widely accepted in the financial services industry and uses market observable inputs and inputs derived principally from, or corroborated by, observable market data. The primary inputs to the discounted cash flow model include an interest rate yield curve, as well as published credit spreads for similar assets in markets that are not active that incorporate the credit quality and industry sector of the issuer.

Foreign government: The primary inputs to the valuation include quoted prices for identical or similar assets in markets that are not active, contractual cash flows, benchmark yields and credit spreads.

RMBS and ABS: The primary inputs to the valuation include quoted prices for identical or similar assets in markets that are not active, contractual cash flows, benchmark yields, prepayment speeds, collateral performance and credit spreads. Certain ABS are valued based on non-binding broker quotes whose inputs have been corroborated to be market observable.

CMBS: The primary inputs to the valuation include quoted prices for identical or similar assets in markets that are not active, contractual cash flows, benchmark yields, collateral performance and credit spreads.

Redeemable preferred stock: The primary inputs to the valuation include quoted prices for identical or similar assets in markets that are not active, contractual cash flows, benchmark yields, underlying stock prices and credit spreads.

- Equity securities: The primary inputs to the valuation include quoted prices or quoted net asset values for identical or similar assets in markets that are not active.

- Short-term: The primary inputs to the valuation include quoted prices for identical or similar assets in markets that are not active, contractual cash flows, benchmark yields and credit spreads. For certain short-term investments, amortized cost is used as the best estimate of fair value.

- Other investments: Free-standing exchange listed derivatives that are not actively traded are valued based on quoted prices for identical instruments in markets that are not active.

OTC derivatives, including interest rate swaps, foreign currency swaps, foreign exchange forward contracts, certain options and certain credit default swaps, are valued using models that rely on inputs such as interest rate yield curves, currency rates, and counterparty credit spreads that are observable for substantially the full term of the contract. The valuation techniques underlying the models are widely accepted in the financial services industry and do not involve significant judgment.

Level 3 measurements

- Fixed income securities:

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Municipal: ARS primarily backed by student loans that have become illiquid due to failures in the auction market are valued using a discounted cash flow model that is widely accepted in the financial services industry and uses significant non-market observable inputs, including the anticipated date liquidity will return to the market. Also included are municipal bonds that are not rated by third party credit rating agencies but are rated by the National Association of Insurance Commissioners (NAIC). The primary inputs to the valuation of these municipal bonds include quoted prices for identical or similar assets in markets that exhibit less liquidity relative to those markets supporting Level 2 fair value measurements, contractual cash flows, benchmark yields and credit spreads.

Corporate, including privately placed: Primarily valued based on non-binding broker quotes where the inputs have not been corroborated to be market observable. Also included are equity-indexed notes which are valued using a discounted cash flow model that is widely accepted in the financial services industry and uses significant non-market observable inputs, such as volatility. Other inputs include an interest rate yield curve, as well as published credit spreads for similar assets that incorporate the credit quality and industry sector of the issuer.

RMBS, CMBS and ABS: Valued based on non-binding broker quotes received from brokers who are familiar with the investments and where the inputs have not been corroborated to be market observable.

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

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

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observable inputs such as volatility. Other primary inputs include interest rate yield curves and credit spreads.

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

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

Mortgage loans written-down to fair value in connection with recognizing impairments are valued based on the fair value of the underlying collateral less costs to sell. Limited partnership interests written-down to fair value in connection with recognizing other-than-temporary impairments are valued using net asset values.

The following table summarizes the Company's assets and liabilities measured at fair value on a recurring and non-recurring basis as of September 30, 2012:

(\$ in millions)	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Counterparty and cash collateral netting	Balance as of September 30, 2012
Assets					
Fixed income securities:					
U.S. government and agencies	\$ 2,866	\$ 1,898	\$ 8		\$ 4,772
Municipal	--	12,808	1,162		13,970
Corporate	--	46,611	1,543		48,154
Foreign government	--	2,255	--		2,255
RMBS	--	3,345	3		3,348
CMBS	--	1,480	50		1,530
ABS	--	3,451	222		3,673
Redeemable preferred stock	--	26	1		27
Total fixed income securities	2,866	71,874	2,989		77,729
Equity securities	2,806	887	183		3,876
Short-term investments	788	2,037	--		2,825
Other investments:					
Free-standing derivatives	--	333	2	\$ (84)	251
Separate account assets	6,820	--	--		6,820
Other assets	1	--	1		2
Total recurring basis assets	13,281	75,131	3,175	(84)	91,503
Non-recurring basis (1)	--	--	22		22
Total assets at fair value	\$ 13,281	\$ 75,131	\$ 3,197	\$ (84)	\$ 91,525
% of total assets at fair value	14.5%	82.1%	3.5%	(0.1)%	100.0%
Liabilities					
Contractholder funds:					
Derivatives embedded in life and annuity contracts	\$ --	\$ --	(551)	\$	(551)
Other liabilities:					

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Free-standing derivatives		(1)	(150)	(32) \$	43	(140)
Total liabilities at fair value	\$	(1) \$	(150) \$	(583) \$	43 \$	(691)
% of total liabilities at fair value		0.1%	21.7%	84.4%	(6.2)%	100.0%

(1) Includes \$9 million of mortgage loans, \$6 million of limited partnership interests and \$7 million of other investments written-down to fair value in connection with recognizing other-than-temporary impairments.

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The following table summarizes quantitative information about the significant unobservable inputs used in Level 3 fair value measurements as of September 30, 2012.

(\$ in millions)	Fair value	Valuation technique	Unobservable input	Range	Weighted average
ARS backed by student loans	\$ 573	Discounted cash flow model	Anticipated date liquidity will return to the market	18 - 60 months	32 - 44 months
Derivatives embedded in life and annuity contracts Equity-indexed and forward starting options	\$ (413)	Stochastic cash flow model	Projected option cost	1.0 - 2.0 %	1.95 %

If the anticipated date liquidity will return to the market is sooner (later), it would result in a higher (lower) fair value. If the projected option cost increased (decreased), it would result in a higher (lower) liability fair value.

As of September 30, 2012, Level 3 fair value measurements include \$1.73 billion of fixed income securities valued based on non-binding broker quotes where the inputs have not been corroborated to be market observable and \$405 million of municipal fixed income securities that are not rated by third party credit rating agencies. The Company does not develop the unobservable inputs used in measuring fair value; therefore, these are not included in the table above. However, an increase (decrease) in credit spreads for fixed income securities valued based on non-binding broker quotes would result in a lower (higher) fair value, and an increase (decrease) in the credit rating of municipal bonds that are not rated by third party credit rating agencies would result in a higher (lower) fair value.

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The following table summarizes the Company's assets and liabilities measured at fair value on a recurring and non-recurring basis as of December 31, 2011:

(\$ in millions)	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Counterparty and cash collateral netting	Balance as of December 31, 2011
Assets					
Fixed income securities:					
U.S. government and agencies	\$ 4,707	\$ 1,608	--	\$	6,315
Municipal	--	12,909	1,332		14,241
Corporate	--	42,176	1,405		43,581
Foreign government	--	2,081	--		2,081
RMBS	--	4,070	51		4,121
CMBS	--	1,724	60		1,784
ABS	--	3,669	297		3,966
Redeemable preferred stock	--	23	1		24
Total fixed income securities	4,707	68,260	3,146		76,113
Equity securities	3,433	887	43		4,363
Short-term investments	188	1,103	--		1,291
Other investments:					
Free-standing derivatives	--	281	1	(114)	168
Separate account assets	6,984	--	--		6,984
Other assets	1	--	1		2
Total recurring basis assets	15,313	70,531	3,191	(114)	88,921
Non-recurring basis (1)	--	--	35		35
Total assets at fair value	\$ 15,313	\$ 70,531	\$ 3,226	(114)\$	88,956
% of total assets at fair value	17.2 %	79.3 %	3.6 %	(0.1) %	100.0 %
Liabilities					
Contractholder funds:					
Derivatives embedded in life and annuity contracts	\$ --	\$ --	(723)	\$	(723)
Other liabilities:					
Free-standing derivatives	(1)	(112)	(96)	77	(132)
Total liabilities at fair value	\$ (1)	\$ (112)	\$ (819)	77\$	(855)
% of total liabilities at fair value	0.1 %	13.1 %	95.8 %	(9.0) %	100.0 %

(1) Includes \$19 million of mortgage loans and \$16 million of other investments written-down to fair value in connection with recognizing other-than-temporary impairments.

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The following table presents the rollforward of Level 3 assets and liabilities held at fair value on a recurring basis during the three months ended September 30, 2012.

(\$ in millions)	Total gains (losses) included in:				
	Balance as of June 30, 2012	Net income (1)	OCI	Transfers into Level 3	Transfers out of Level 3
Assets					
Fixed income securities:					
U.S. government and agencies	\$ 8	\$ --	\$ --	\$ --	--
Municipal	1,144	(4)	14	53	--
Corporate	1,524	10	39	74	--
RMBS	4	--	--	--	--
CMBS	47	(1)	1	--	--
ABS	334	(9)	34	43	(26)
Redeemable preferred stock	1	--	--	--	--
Total fixed income securities	3,062	(4)	88	170	(26)
Equity securities	192	(3)	--	--	--
Other investments:					
Free-standing derivatives, net	(71)	11	--	--	--
Other assets	1	--	--	--	--
Total recurring Level 3 assets	\$ 3,184	\$ 4	\$ 88	\$ 170	(26)
Liabilities					
Contractholder funds:					
Derivatives embedded in life and annuity contracts	\$ (707)	\$ 160	\$ --	\$ --	--
Total recurring Level 3 liabilities	\$ (707)	\$ 160	\$ --	\$ --	--

	Purchases	Sales	Issues	Settlements	Balance as of September 30, 2012
Assets					
Fixed income securities:					
U.S. government and agencies	\$ --	\$ --	\$ --	\$ --	8
Municipal	4	(49)	--	--	1,162
Corporate	62	(120)	--	(46)	1,543
RMBS	--	--	--	(1)	3
CMBS	3	--	--	--	50
ABS	--	(151)	--	(3)	222
Redeemable preferred stock	--	--	--	--	1
Total fixed income securities	69	(320)	--	(50)	2,989
Equity securities	2	(8)	--	--	183
Other investments:					
Free-standing derivatives, net	21	--	--	9	(30)(2)
Other assets	--	--	--	--	1
Total recurring Level 3 assets	\$ 92	\$ (328)	\$ --	\$ (41)	3,143
Liabilities					
Contractholder funds:					
Derivatives embedded in life and annuity contracts	\$ --	\$ --	(24) \$	20 \$	(551)
Total recurring Level 3 liabilities	\$ --	\$ --	(24) \$	20 \$	(551)

(1) The effect to net income totals \$164 million and is reported in the Condensed Consolidated Statements of Operations as follows: \$(4) million in realized capital gains and losses, \$7 million in net investment income, \$143 million in interest credited to contractholder funds and \$18 million in life and annuity contract benefits.

(2) Comprises \$2 million of assets and \$32 million of liabilities.

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The following table presents the rollforward of Level 3 assets and liabilities held at fair value on a recurring basis during the nine months ended September 30, 2012.

(\$ in millions)	Total gains (losses) included in:				
	Balance as of December 31, 2011	Net income (1)	OCI	Transfers into Level 3	Transfers out of Level 3
Assets					
Fixed income securities:					
U.S. government and agencies	\$ --	\$ --	\$ --	\$ 8	--
Municipal	1,332	(10)	31	53	(26)
Corporate	1,405	16	62	210	(38)
RMBS	51	--	--	--	(47)
CMBS	60	(3)	9	--	(5)
ABS	297	20	46	43	(77)
Redeemable preferred stock	1	--	--	--	--
Total fixed income securities	3,146	23	148	314	(193)
Equity securities	43	(7)	6	--	--
Other investments:					
Free-standing derivatives, net	(95)	25	--	--	--
Other assets	1	--	--	--	--
Total recurring Level 3 assets	\$ 3,095	\$ 41	\$ 154	\$ 314	\$ (193)
Liabilities					
Contractholder funds:					
Derivatives embedded in life and annuity contracts	\$ (723)	\$ 151	\$ --	\$ --	--
Total recurring Level 3 liabilities	\$ (723)	\$ 151	\$ --	\$ --	--

	Purchases	Sales	Issues	Settlements	Balance as of September 30, 2012
Assets					
Fixed income securities:					
U.S. government and agencies	\$ --	\$ --	\$ --	\$ --	8
Municipal	46	(254)	--	(10)	1,162
Corporate	193	(219)	--	(86)	1,543
RMBS	--	--	--	(1)	3
CMBS	5	(1)	--	(15)	50
ABS	74	(162)	--	(19)	222
Redeemable preferred stock	1	(1)	--	--	1
Total fixed income securities	319	(637)	--	(131)	2,989
Equity securities	164	(23)	--	--	183
Other investments:					
Free-standing derivatives, net	27	--	--	13	(30)(2)
Other assets	--	--	--	--	1
Total recurring Level 3 assets	\$ 510	\$ (660)	\$ --	\$ (118)	3,143
Liabilities					
Contractholder funds:					
Derivatives embedded in life and annuity contracts	\$ --	\$ --	(53) \$	74 \$	(551)
Total recurring Level 3 liabilities	\$ --	\$ --	(53) \$	74 \$	(551)

(1) The effect to net income totals \$192 million and is reported in the Condensed Consolidated Statements of Operations as follows: \$19 million in realized capital gains and losses, \$22 million in net investment income, \$119 million in interest credited to contractholder funds and \$32 million in life and annuity contract

benefits.

(2) Comprises \$2 million of assets and \$32 million of liabilities.

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The following table presents the rollforward of Level 3 assets and liabilities held at fair value on a recurring basis during the three months ended September 30, 2011.

(\$ in millions)		Total gains (losses) included in:			
	Balance as of June 30, 2011	Net income (1)	OCI	Transfers into Level 3	Transfers out of Level 3
Assets					
Fixed income securities:					
Municipal	\$ 1,554	\$ (10)	\$ 1	\$ --	\$ (22)
Corporate	1,720	(4)	(23)	3	(107)
RMBS	1,194	--	2	--	(1,100)
CMBS	938	(1)	(5)	20	(877)
ABS	2,167	(36)	(75)	--	(329)
Redeemable preferred stock	1	--	--	--	--
Total fixed income securities	7,574	(51)	(100)	23	(2,435)
Equity securities	42	--	--	--	--
Other investments:					
Free-standing derivatives, net	(56)	(57)	--	--	--
Other assets	1	--	--	--	--
Total recurring Level 3 assets	\$ 7,561	\$ (108)	\$ (100)	\$ 23	\$ (2,435)
Liabilities					
Contractholder funds:					
Derivatives embedded in life and annuity contracts	\$ (629)	\$ 2	\$ --	\$ --	\$ --
Total recurring Level 3 liabilities	\$ (629)	\$ 2	\$ --	\$ --	\$ --

	Purchases	Sales	Issues	Settlements	Balance as of September 30, 2011
Assets					
Fixed income securities:					
Municipal	\$ --	\$ (70)	\$ --	\$ --	1,453
Corporate	245	(59)	--	(45)	1,730
RMBS	--	--	--	(4)	92
CMBS	2	--	--	(1)	76
ABS	165	(1)	--	(90)	1,801
Redeemable preferred stock	--	--	--	--	1
Total fixed income securities	412	(130)	--	(140)	5,153
Equity securities	--	--	--	--	42
Other investments:					
Free-standing derivatives, net	5	--	--	(2)	(110)(2)
Other assets	--	--	--	--	1
Total recurring Level 3 assets	\$ 417	\$ (130)	\$ --	\$ (142)	5,086
Liabilities					
Contractholder funds:					
Derivatives embedded in life and annuity contracts	\$ --	\$ --	\$ (15)	\$ 45	(597)
Total recurring Level 3 liabilities	\$ --	\$ --	\$ (15)	\$ 45	(597)

(1) The effect to net income totals \$(106) million and is reported in the Condensed Consolidated Statements of Operations as follows: \$(119) million in realized capital gains and losses, \$14 million in net investment income, \$54 million in interest credited to contractholder funds and \$(55) million in life and annuity contract benefits.

(2) Comprises \$1 million of assets and \$111 million of liabilities.

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The following table presents the rollforward of Level 3 assets and liabilities held at fair value on a recurring basis during the nine months ended September 30, 2011.

(\$ in millions)

	Total gains (losses) included in:				
	Balance as of December 31, 2010	Net income (1)	OCI	Transfers into Level 3	Transfers out of Level 3
Assets					
Fixed income securities:					
Municipal	\$ 2,016	\$ (34)	\$ 67	\$ --	\$ (81)
Corporate	1,908	31	(5)	185	(271)
RMBS	1,794	(87)	108	--	(1,213)
CMBS	923	(43)	113	86	(946)
ABS	2,417	19	(47)	--	(642)
Redeemable preferred stock	1	--	--	--	--
Total fixed income securities	9,059	(114)	236	271	(3,153)
Equity securities	63	(10)	--	--	(10)
Other investments:					
Free-standing derivatives, net	(21)	(91)	--	--	--
Other assets	1	--	--	--	--
Total recurring Level 3 assets	\$ 9,102	\$ (215)	\$ 236	\$ 271	\$ (3,163)
Liabilities					
Contractholder funds:					
Derivatives embedded in life and annuity contracts	\$ (653)	\$ (24)	\$ --	\$ --	\$ --
Total recurring Level 3 liabilities	\$ (653)	\$ (24)	\$ --	\$ --	\$ --

	Balance as of September 30, 2011				
	Purchases	Sales	Issues	Settlements	
Assets					
Fixed income securities:					
Municipal	\$ 13	\$ (525)	\$ --	\$ (3)	1,453
Corporate	376	(437)	--	(57)	1,730
RMBS	--	(378)	--	(132)	92
CMBS	12	(66)	--	(3)	76
ABS	468	(164)	--	(250)	1,801
Redeemable preferred stock	--	--	--	--	1
Total fixed income securities	869	(1,570)	--	(445)	5,153
Equity securities	--	(1)	--	--	42
Other investments:					
Free-standing derivatives, net	72	--	--	(70)	(110)(2)
Other assets	--	--	--	--	1
Total recurring Level 3 assets	\$ 941	\$ (1,571)	\$ --	\$ (515)	5,086
Liabilities					
Contractholder funds:					
Derivatives embedded in life and annuity contracts	\$ --	\$ --	\$ (42)	\$ 122	(597)
Total recurring Level 3 liabilities	\$ --	\$ --	\$ (42)	\$ 122	(597)

(1) The effect to net income totals \$(239) million and is reported in the Condensed Consolidated Statements of Operations as follows: \$(242) million in realized capital gains and losses, \$30 million in net investment income, \$(9) million in interest credited to contractholder funds and \$(18) million in life and annuity contract benefits.

(2) Comprises \$1 million of assets and 111 million of liabilities.

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

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During the nine months ended September 30, 2012, certain U.S. government securities were transferred into Level 1 from Level 2 as a result of increased liquidity in the market and a sustained increase in the market activity for these assets.

During the nine months ended September 30, 2011, certain RMBS, CMBS and ABS were transferred into Level 2 from Level 3 as a result of increased liquidity in the market and a sustained increase in the market activity for these assets. When transferring these securities into Level 2, the Company did not change the source of fair value estimates or modify the estimates received from independent third-party valuation service providers or the internal valuation approach. Accordingly, for securities included within this group, there was no change in fair value in conjunction with the transfer resulting in a realized or unrealized gain or loss.

Transfers into Level 3 during the three and nine months ended September 30, 2012 and 2011 included situations where a fair value quote was not provided by the Company's independent third-party valuation service provider and as a result the price was stale or had been replaced with a broker quote where the inputs have not been corroborated to be market observable resulting in the security being classified as Level 3. Transfers out of Level 3 during the three and nine months ended September 30, 2012 and 2011 included situations where a broker quote was used in the prior period and a fair value quote became available from the Company's independent third-party valuation service provider in the current period. A quote utilizing the new pricing source was not available as of the prior period, and any gains or losses related to the change in valuation source for individual securities were not significant.

The following table provides the change in unrealized gains and losses included in net income for Level 3 assets and liabilities held as of September 30.

(\$ in millions)	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Assets				
Fixed income securities:				
Municipal	\$ (5)	\$ (7)	\$ (10)	\$ (17)
Corporate	5	(12)	13	3
RMBS	--	--	(1)	--
CMBS	(1)	(1)	(2)	(10)
ABS	--	(38)	--	(26)
Total fixed income securities	(1)	(58)	--	(50)
Equity securities	(3)	--	(9)	--
Other investments:				
Free-standing derivatives, net	(7)	(57)	4	(54)
Total recurring Level 3 assets	\$ (11)	\$ (115)	\$ (5)	\$ (104)
Liabilities				
Contractholder funds:				
Derivatives embedded in life and annuity contracts	\$ 160	\$ 2	\$ 151	\$ (24)
Total recurring Level 3 liabilities	\$ 160	\$ 2	\$ 151	\$ (24)

The amounts in the table above represent the change in unrealized gains and losses included in net income for the period of time that the asset or liability was determined to be in Level 3. These gains and losses total \$149 million for the three months ended September 30, 2012 and are reported as follows: \$(17) million in realized capital gains and losses, \$6 million in net investment income, \$142 million in interest credited to contractholder funds and \$18 million in life and annuity contract benefits. These gains and losses total \$(113) million for the three months ended September 30, 2011 and are reported as follows: \$(128) million in realized capital gains and losses, \$13 million in net investment income, \$57 million in interest credited to contractholder funds and \$(55) million in life and annuity contract benefits. These gains and losses total

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\$146 million for the nine months ended September 30, 2012 and are reported as follows: \$(20) million in realized capital gains and losses, \$16 million in net investment income, \$118 million in interest credited to contractholder funds and \$32 million in life and annuity contract benefits. These gains and losses total \$(128) million for the nine months ended September 30, 2011 and are reported as follows: \$(145) million in realized capital gains and losses, \$41 million in net investment income, \$(6) million in

interest credited to contractholder funds and \$(18) million in life and annuity contract benefits.

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

Financial assets

(\$ in millions)	September 30, 2012		December 31, 2011	
	Carrying value	Fair value	Carrying value	Fair value
Mortgage loans	\$ 6,904	\$ 7,240	\$ 7,139	\$ 7,350
Cost method limited partnerships	1,456	1,756	1,569	1,838
Bank loans	410	411	339	328

The fair value of mortgage loans is based on discounted contractual cash flows or, if the loans are impaired due to credit reasons, the fair value of collateral less costs to sell. Risk adjusted discount rates are selected using current rates at which similar loans would be made to borrowers with similar characteristics, using similar types of properties as collateral. The fair value of cost method limited partnerships is determined using reported net asset values of the underlying funds. The fair value of bank loans, which are reported in other investments, is based on broker quotes from brokers familiar with the loans and current market conditions. The fair value measurements for mortgage loans, cost method limited partnerships and bank loans are categorized as Level 3.

Financial liabilities

(\$ in millions)	September 30, 2012		December 31, 2011	
	Carrying value	Fair value	Carrying value	Fair value
Contractholder funds on investment contracts	\$ 27,934	\$ 29,029	\$ 30,192	\$ 30,499
Long-term debt	6,057	7,147	5,908	6,312
Liability for collateral	765	765	462	462

The fair value of contractholder funds on investment contracts is based on the terms of the underlying contracts utilizing prevailing market rates for similar contracts adjusted for the Company's own credit risk. Deferred annuities included in contractholder funds are valued using discounted cash flow models which incorporate market value margins, which are based on the cost of holding economic capital, and the Company's own credit risk. Immediate annuities without life contingencies and fixed rate funding agreements are valued at the present value of future benefits using market implied interest rates which include the Company's own credit risk. The fair value measurements for contractholder funds on investment contracts are categorized as Level 3.

The fair value of long-term debt is based on market observable data (such as the fair value of the debt when traded as an asset) or, in certain cases, is determined using discounted cash flow calculations based on current interest rates for instruments with comparable terms and considers the Company's own credit risk. The liability for collateral is valued at carrying value due to its short-term nature. The fair value measurements for long-term debt and liability for collateral are categorized as Level 2.

6. Derivative Financial Instruments

The Company uses derivatives to manage risks with certain assets and liabilities arising from the potential adverse impacts from changes in risk-free interest rates, changes in equity market valuations, increases in credit spreads and foreign currency fluctuations, and for asset replication. The Company does not use derivatives for speculative purposes.

Property-Liability uses interest rate swaps, swaptions, futures and options to manage the interest rate risks of existing investments and to reduce exposure to rising or falling interest rates. Portfolio duration management is a risk management strategy that is principally employed by Property-Liability wherein financial futures and interest rate swaps are utilized to change the duration of the portfolio in order to offset the economic effect that interest rates would otherwise have on the fair value of its fixed income securities. Equity index futures and options are used by Property-Liability to offset valuation losses in the equity portfolio during periods of declining equity market values. Credit default swaps are typically used to mitigate the credit risk within the Property-Liability fixed income portfolio. Property-Liability uses equity futures to hedge the market risk related to deferred compensation liability

contracts and forward contracts to hedge foreign currency risk associated with holding foreign currency denominated investments and foreign operations.

Asset-liability management is a risk management strategy that is principally employed by Allstate Financial to balance the respective interest-rate sensitivities of its assets and liabilities. Depending upon the attributes of the assets acquired and liabilities issued, derivative instruments such as interest rate swaps, caps, floors, swaptions and futures are utilized to change the interest rate characteristics of existing assets and liabilities to ensure the relationship is maintained within specified ranges and to reduce exposure to rising or falling interest rates. Allstate Financial uses financial futures and interest rate swaps to hedge anticipated asset purchases and liability issuances and futures and options for hedging the equity exposure contained in its equity indexed life and annuity product contracts that offer equity returns to contractholders. In addition, Allstate Financial uses interest rate swaps to hedge interest rate risk inherent in funding agreements. Allstate Financial uses foreign currency swaps primarily to reduce the foreign currency risk associated with issuing foreign currency denominated funding agreements and holding foreign currency denominated investments. Credit default swaps are typically used to mitigate the credit risk within the Allstate Financial fixed income portfolio.

Asset replication refers to the synthetic creation of assets through the use of derivatives and primarily investment grade host bonds to replicate securities that are either unavailable in the cash markets or more economical to acquire in synthetic form. The Company replicates fixed income securities using a combination of a credit default swap and one or more highly rated fixed income securities to synthetically replicate the economic characteristics of one or more cash market securities.

The Company also has derivatives embedded in non-derivative host contracts that are required to be separated from the host contracts and accounted for at fair value with changes in fair value of embedded derivatives reported in net income. The Company's primary embedded derivatives are equity options in life and annuity product contracts, which provide equity returns to contractholders; equity-indexed notes containing equity call options, which provide a coupon payout that is determined using one or more equity-based indices; credit default swaps in synthetic collateralized debt obligations, which provide enhanced coupon rates as a result of selling credit protection; and conversion options in fixed income securities, which provide the Company with the right to convert the instrument into a predetermined number of shares of common stock.

When derivatives meet specific criteria, they may be designated as accounting hedges and accounted for as fair value, cash flow, foreign currency fair value or foreign currency cash flow hedges. Allstate Financial designates certain of its interest rate and foreign currency swap contracts and certain investment risk transfer reinsurance agreements as fair value hedges when the hedging instrument is highly effective in offsetting the risk of changes in the fair value of the hedged item. Allstate Financial designates certain of its foreign currency swap contracts as cash flow hedges when the hedging instrument is highly effective in offsetting the exposure of variations in cash flows for the hedged risk that could affect net income. Amounts are reclassified to net investment income or realized capital gains and losses as the hedged item affects net income.

The notional amounts specified in the contracts are used to calculate the exchange of contractual payments under the agreements and are generally not representative of the potential for gain or loss on these agreements. However, the notional amounts specified in credit default swaps where the Company has sold credit protection represent the maximum amount of potential loss, assuming no recoveries.

Fair value, which is equal to the carrying value, is the estimated amount that the Company would receive or pay to terminate the derivative contracts at the reporting date. The carrying value amounts for OTC derivatives are further adjusted for the effects, if any, of legally enforceable master netting agreements and are presented on a net basis, by counterparty agreement, in the Condensed Consolidated Statements of Financial Position. For certain exchange traded derivatives, the exchange requires margin deposits as well as daily cash settlements of margin accounts. As of September 30, 2012, the Company pledged \$9 million of cash and securities in the form of margin deposits.

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

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

The following table provides a summary of the volume and fair value positions of derivative instruments as well as their reporting location in the Condensed Consolidated Statement of Financial Position as of September 30, 2012.

(\$ in millions, except number of contracts)

(\$ in millions, except number of contracts)		Asset derivatives					
			Volume (1)				
	Balance sheet location	Notional amount	Number of contracts	Fair value, net	Gross asset	Gross liability	
Derivatives designated as accounting hedging instruments							
Foreign currency swap agreements	Other investments	\$ 101	n/a	\$ (6)	\$ 2	\$ (8)	
Total		101	n/a	(6)	2	(8)	
Derivatives not designated as accounting hedging instruments							
Interest rate contracts							
Interest rate swap agreements	Other investments	7,941	n/a	56	74	(18)	
Interest rate swaption agreements	Other investments	250	n/a	--	--	--	
Interest rate cap and floor agreements	Other investments	673	n/a	2	2	--	
Financial futures contracts and options	Other assets	--	2	--	--	--	
Equity and index contracts							
Options, futures and warrants (2)	Other investments	147	14,600	226	226	--	
Options, futures and warrants	Other assets	--	1,667	1	1	--	
Foreign currency contracts							
Foreign currency forwards and options	Other investments	206	n/a	4	5	(1)	
Embedded derivative financial instruments							
Conversion options	Fixed income securities	5	n/a	1	1	--	
Equity-indexed call options	Fixed income securities	90	n/a	10	10	--	
Credit default swaps	Fixed income securities	12	n/a	(12)	--	(12)	
Other embedded derivative financial instruments	Other investments	1,000	n/a	--	--	--	
Credit default contracts							
Credit default swaps - buying protection	Other investments	470	n/a	2	6	(4)	
Credit default swaps - selling protection	Other investments	275	n/a	2	2	--	
Other contracts							
Other contracts	Other assets	4	n/a	1	1	--	
Total		11,073	16,269	293	328	(35)	
Total asset derivatives		\$ 11,174	16,269	\$ 287	\$ 330	\$ (43)	

(1) Volume for OTC derivative contracts is represented by their notional amounts. Volume for exchange traded derivatives is represented by the number of contracts, which is the basis on which they are traded. (n/a = not applicable)

(2) In addition to the number of contracts presented in the table, the Company held 7,307 stock rights and 3,915,485 stock warrants. Stock rights and warrants can be converted to cash upon sale of those instruments or exercised for shares of common stock.

		Liability derivatives				
		Volume (1)		Fair value, net	Gross asset	Gross liability
Balance sheet location	Notional amount	Number of contracts				
Derivatives designated as accounting hedging instruments						
Foreign currency swap agreements	Other liabilities & accrued expenses	\$ 50	n/a	\$ (9)	\$ --	\$ (9)
Total		50	n/a	(9)	--	(9)
Derivatives not designated as accounting hedging instruments						
Interest rate contracts						
Interest rate swap agreements	Other liabilities & accrued expenses	85	n/a	9	9	--
Interest rate cap and floor agreements	Other liabilities & accrued expenses	359	n/a	--	--	--
Financial futures contracts and options	Other liabilities & accrued expenses	--	496	--	--	--
Equity and index contracts						
Options and futures	Other liabilities & accrued expenses	--	13,919	(106)	--	(106)
Foreign currency contracts						
Foreign currency forwards and options	Other liabilities & accrued expenses	222	n/a	6	6	--
Embedded derivative financial instruments						
Guaranteed accumulation benefits	Contractholder funds	853	n/a	(85)	--	(85)
Guaranteed withdrawal benefits	Contractholder funds	573	n/a	(44)	--	(44)
Equity-indexed and forward starting options in life and annuity product contracts	Contractholder funds	3,835	n/a	(413)	--	(413)
Other embedded derivative financial instruments	Contractholder funds	85	n/a	(9)	--	(9)
Credit default contracts						
Credit default swaps buying protection	Other liabilities & accrued expenses	314	n/a	(1)	2	(3)
Credit default swaps selling protection	Other liabilities & accrued expenses	338	n/a	(33)	1	(34)
Total		6,664	14,415	(676)	18	(694)
Total liability derivatives		6,714	14,415	(685)	\$ 18	\$ (703)
Total derivatives		\$ 17,888	30,684	\$ (398)		

(1) Volume for OTC derivative contracts is represented by their notional amounts. Volume for exchange traded derivatives is represented by the number of contracts, which is the basis on which they are traded. (n/a = not applicable)

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The following table provides a summary of the volume and fair value positions of derivative instruments as well as their reporting location in the Condensed Consolidated Statement of Financial Position as of December 31, 2011.

(\$ in millions, except number of contracts)

(\$ in millions, except number of contracts)		Asset derivatives				
			Volume (1)			
	Balance sheet location	Notional amount	Number of contracts	Fair value, net	Gross asset	Gross liability
Derivatives designated as accounting hedging instruments						
Interest rate swap agreements	Other investments	\$ 144	n/a	\$ (8)	\$ --	\$ (8)
Foreign currency swap agreements	Other investments	127	n/a	(5)	3	(8)
Total		271	n/a	(13)	3	(16)
Derivatives not designated as accounting hedging instruments						
Interest rate contracts						
Interest rate swap agreements	Other investments	8,028	n/a	122	137	(15)
Interest rate swaption agreements	Other investments	1,750	n/a	--	--	--
Interest rate cap and floor agreements	Other investments	1,591	n/a	(12)	--	(12)
Financial futures contracts and options	Other assets	n/a	40	--	--	--
Equity and index contracts						
Options, futures and warrants (2)	Other investments	163	15,180	104	104	--
Options, futures and warrants	Other assets	n/a	2,132	1	1	--
Foreign currency contracts						
Foreign currency swap agreements	Other investments	50	n/a	6	6	--
Foreign currency forwards and options	Other investments	190	n/a	1	3	(2)
Embedded derivative financial instruments						
Conversion options	Fixed income securities	5	n/a	--	--	--
Equity-indexed call options	Fixed income securities	150	n/a	11	11	--
Credit default swaps	Fixed income securities	172	n/a	(115)	--	(115)
Other embedded derivative financial instruments	Other investments	1,000	n/a	--	--	--
Credit default contracts						
Credit default swaps - buying protection	Other investments	265	n/a	3	6	(3)
Credit default swaps - selling protection	Other investments	167	n/a	(4)	1	(5)
Other contracts						
Other contracts	Other investments	5	n/a	--	--	--
Other contracts	Other assets	4	n/a	1	1	--
Total		13,540	17,352	118	270	(152)
Total asset derivatives		\$ 13,811	17,352	\$ 105	\$ 273	\$ (168)

- (1) Volume for OTC derivative contracts is represented by their notional amounts. Volume for exchange traded derivatives is represented by the number of contracts, which is the basis on which they are traded. (n/a = not applicable)
- (2) In addition to the number of contracts presented in the table, the Company held 10,798 stock rights and 4,392,937 stock warrants. Stock rights and warrants can be converted to cash upon sale of those instruments or exercised for shares of common stock.

		Liability derivatives					
		Volume (1)					
	Balance sheet location	Notional amount	Number of contracts	Fair value, net		Gross asset	Gross liability
Derivatives designated as accounting hedging instruments							
Interest rate swap agreements	Other liabilities & accrued expenses	\$ 28	n/a	\$ (5)	\$ --	\$ (5)	
Foreign currency swap agreements	Other liabilities & accrued expenses	50	n/a	(7)	--		(7)
Total		78	n/a	(12)	--		(12)
Derivatives not designated as accounting hedging instruments							
Interest rate contracts							
Interest rate swap agreements	Other liabilities & accrued expenses	85	n/a	8	8	--	
Interest rate swaption agreements	Other liabilities & accrued expenses	1,250	n/a	--	--	--	
Interest rate cap and floor agreements	Other liabilities & accrued expenses	914	n/a	(9)	--		(9)
Equity and index contracts							
Options and futures	Other liabilities & accrued expenses	n/a	15,677	(50)	--		(50)
Foreign currency contracts							
Foreign currency forwards and options	Other liabilities & accrued expenses	96	n/a	(1)	--		(1)
Embedded derivative financial instruments							
Guaranteed accumulation benefits	Contractholder funds	917	n/a	(105)	--		(105)
Guaranteed withdrawal benefits	Contractholder funds	613	n/a	(57)	--		(57)
Equity-indexed and forward starting options in life and annuity product contracts	Contractholder funds	3,996	n/a	(553)	--		(553)
Other embedded derivative financial instruments	Contractholder funds	85	n/a	(8)	--		(8)
Credit default contracts							
Credit default swaps buying protection	Other liabilities & accrued expenses	509	n/a	7	12		(5)
Credit default swaps selling protection	Other liabilities & accrued expenses	503	n/a	(77)	2		(79)
Total		8,968	15,677	(845)	22		(867)
Total liability derivatives		9,046	15,677	(857)	\$ 22	\$ (879)	
Total derivatives		\$ 22,857	33,029	\$ (752)			

(1) Volume for OTC derivative contracts is represented by their notional amounts. Volume for exchange traded derivatives is represented by the number of contracts, which is the basis on which they are traded. (n/a = not applicable)

The following table provides a summary of the impacts of the Company's foreign currency contracts in cash flow hedging relationships. Amortization of net losses from accumulated other comprehensive income related to cash flow hedges is expected to be less than \$1 million during the next twelve months.

(\$ in millions)	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Effective portion				
(Loss) gain recognized in OCI on derivatives during the period	\$ (3)	\$ 20	\$ (3)	\$ 7
Loss recognized in OCI on derivatives during the term of the hedging relationship	(19)	(15)	(19)	(15)
Loss reclassified from AOCI into income (net investment income)	--	(1)	--	--
Loss reclassified from AOCI into income (realized capital gains and losses)	--	--	(1)	--
Ineffective portion and amount excluded from effectiveness				
Gain recognized in income on derivatives (realized capital gains and losses)	--	--	--	--

The following tables present gains and losses from valuation, settlements and hedge ineffectiveness reported on derivatives used in fair value hedging relationships and derivatives not designated as accounting hedging instruments in the Condensed Consolidated Statements of Operations.

(\$ in millions)	Three months ended September 30, 2012						Total gain (loss) recognized in net income on derivatives
	Net investment income	Realized capital gains and losses	Life and annuity contract benefits	Interest credited to contractholder funds	Operating costs and expenses		
Derivatives in fair value accounting hedging relationships							
Interest rate contracts	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	
Subtotal	--	--	--	--	--	--	--
Derivatives not designated as accounting hedging instruments							
Interest rate contracts	--	(2)	--	--	--	--	(2)
Equity and index contracts	--	(6)	--	19	6	--	19
Embedded derivative financial instruments	--	2	18	138	--	--	158
Foreign currency contracts	--	1	--	--	5	--	6
Credit default contracts	--	3	--	--	--	--	3
Other contracts	--	--	--	1	--	--	1
Subtotal	--	(2)	18	158	11	--	185
Total	\$ --	\$ (2)	\$ 18	\$ 158	\$ 11	\$ --	185

Nine months ended September 30, 2012

	Net investment income	Realized capital gains and losses	Life and annuity contract benefits	Interest credited to contractholder funds	Operating costs and expenses	Total gain (loss) recognized in net income on derivatives
Derivatives in fair value accounting hedging relationships						
Interest rate contracts	\$ (1)	\$ --	\$ --	\$ --	\$ --	\$ (1)
Subtotal	(1)	--	--	--	--	(1)
Derivatives not designated as accounting hedging instruments						
Interest rate contracts	--	(1)	--	--	--	(1)
Equity and index contracts	--	(5)	--	56	15	66
Embedded derivative financial instruments	--	21	32	140	--	193
Foreign currency contracts	--	1	--	--	7	8
Credit default contracts	--	11	--	--	--	11
Other contracts	--	--	--	3	--	3
Subtotal	--	27	32	199	22	280
Total	\$ (1)	\$ 27	\$ 32	\$ 199	\$ 22	\$ 279

Three months ended September 30, 2011

	Net investment income	Realized capital gains and losses	Life and annuity contract benefits	Interest credited to contractholder funds	Operating costs and expenses	Total gain (loss) recognized in net income on derivatives
Derivatives in fair value accounting hedging relationships						
Interest rate contracts	\$ (1)	\$ --	\$ --	\$ --	\$ --	\$ (1)
Subtotal	(1)	--	--	--	--	(1)
Derivatives not designated as accounting hedging instruments						
Interest rate contracts	--	(202)	--	--	--	(202)
Equity and index contracts	--	1	--	(71)	(22)	(92)
Embedded derivative financial instruments	--	(50)	(55)	87	--	(18)
Foreign currency contracts	--	(9)	--	--	(1)	(10)
Credit default contracts	--	26	--	--	--	26
Other contracts	--	--	--	1	--	1
Subtotal	--	(234)	(55)	17	(23)	(295)
Total	\$ (1)	\$ (234)	\$ (55)	\$ 17	\$ (23)	\$ (296)

Nine months ended September 30, 2011

	Net investment income	Realized capital gains and losses	Life and annuity contract benefits	Interest credited to contractholder funds	Operating costs and expenses	Total gain (loss) recognized in net income on derivatives
Derivatives in fair value accounting hedging relationships						
Interest rate contracts	\$ (2)	\$ (8)	\$ --	\$ (5)	\$ --	\$ (15)
Foreign currency and interest rate contracts	--	--	--	(32)	--	(32)
Subtotal	(2)	(8)	--	(37)	--	(47)
Derivatives not designated as accounting hedging instruments						
Interest rate contracts	--	(306)	--	--	--	(306)
Equity and index contracts	--	(18)	--	(25)	(15)	(58)
Embedded derivative financial instruments	--	(45)	(18)	74	--	11
Foreign currency contracts	--	(14)	--	--	1	(13)
Credit default contracts	--	37	--	--	--	37
Other contracts	--	--	--	6	--	6
Subtotal	--	(346)	(18)	55	(14)	(323)
Total	\$ (2)	\$ (354)	\$ (18)	\$ 18	\$ (14)	\$ (370)

The following tables provide a summary of the changes in fair value of the Company's fair value hedging relationships in the Condensed Consolidated Statements of Operations.

(\$ in millions)	Gain (loss) on derivatives		Gain (loss) on hedged risk			
Location of gain or (loss) recognized in net income on derivatives	Interest rate contracts	Foreign currency & interest rate contracts	Contractholder funds	Investments		
Three months ended September 30, 2012						
Net investment income	\$ 1	\$ --	\$ --	\$	(1)	
Total	\$ 1	\$ --	\$ --	\$	(1)	
Nine months ended September 30, 2012						
Net investment income	\$ 3	\$ --	\$ --	\$	(3)	
Total	\$ 3	\$ --	\$ --	\$	(3)	
Three months ended September 30, 2011						
Net investment income	\$ 1	\$ --	\$ --	\$	(1)	
Total	\$ 1	\$ --	\$ --	\$	(1)	
Nine months ended September 30, 2011						
Interest credited to contractholder funds	\$ (7)	\$ (34)	\$ 41	\$	--	
Net investment income	24	--	--		(24)	
Realized capital gains and losses	(8)	--	--		--	
Total	\$ 9	\$ (34)	\$ 41	\$	(24)	

The Company manages its exposure to credit risk by utilizing highly rated counterparties, establishing risk control limits, executing legally enforceable master netting agreements (MNAs) and obtaining collateral where appropriate. The Company uses MNAs for OTC derivative transactions that permit either party to net payments due for transactions and collateral is either pledged or obtained when certain predetermined exposure limits are exceeded. As of September 30, 2012, counterparties pledged \$94 million in cash and securities to the Company, and the

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Company pledged \$38 million in securities to counterparties which includes \$20 million of collateral posted under MNAs for contracts containing credit-risk-contingent provisions that are in a liability position and \$18 million of collateral posted under MNAs for contracts without credit-risk-contingent liabilities. The Company has not incurred any losses on derivative financial instruments due to counterparty nonperformance. Other derivatives, including futures and certain option contracts, are traded on organized exchanges which require margin deposits and guarantee the execution of trades, thereby mitigating any potential credit risk.

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Counterparty credit exposure represents the Company's potential loss if all of the counterparties concurrently fail to perform under the contractual terms of the contracts and all collateral, if any, becomes worthless. This exposure is measured by the fair value of OTC derivative contracts with a positive fair value at the reporting date reduced by the effect, if any, of legally enforceable master netting agreements.

The following table summarizes the counterparty credit exposure by counterparty credit rating as it relates to the Company's OTC derivatives.

(\$ in millions)		September 30, 2012				December 31, 2011			
Rating (1)	Number of counter-parties	Notional amount (2)	Credit exposure (2)	Exposure, net of collateral (2)	Number of counter-parties	Notional amount (2)	Credit exposure (2)	Exposure, net of collateral (2)	
AA-	--	\$ --	\$ --	\$ --	1	\$ 25	\$ 1	\$ 1	
A+	2	1,578	8	3	4	3,026	26	5	
A	5	4,081	26	4	3	5,307	15	1	
A-	3	892	9	1	2	3,815	25	--	
BBB+	1	3,617	23	--	2	57	41	41	
Total	11	\$ 10,168	\$ 66	\$ 8	12	\$ 12,230	\$ 108	\$ 48	

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

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

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

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

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

(\$ in millions)	September 30, 2012	December 31, 2011
Gross liability fair value of contracts containing credit-risk-contingent features	\$ 61	\$ 153

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Gross asset fair value of contracts containing credit-risk-contingent features and subject to MNAs		(40)	(69)
Collateral posted under MNAs for contracts containing credit-risk-contingent features		(20)	(76)
Maximum amount of additional exposure for contracts with credit-risk-contingent features if all features were triggered concurrently	\$	1	\$ 8

Credit derivatives - selling protection

Free-standing credit default swaps (CDS) are utilized for selling credit protection against a specified credit event. A credit default swap is a derivative instrument, representing an agreement between two parties to exchange the credit risk of a specified entity (or a group of entities), or an index based on the credit risk of a group of entities (all commonly referred to as the reference entity or a portfolio of reference entities), in return for a periodic premium. In selling protection, CDS are used to replicate fixed income securities and to complement the cash market when credit exposure to certain issuers is not available or when the derivative alternative is less expensive than the cash market alternative. CDS typically have a five-year term.

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

(\$ in millions)		Notional amount					Fair value	
	AAA	AA	A	BBB	BB and lower	Total		
September 30, 2012								
Single name								
Investment grade								
corporate debt	\$ 5	\$ 20	\$ 48	\$ 105	\$ 10	\$ 188	\$	--
Municipal	--	25	--	--	--	25		(4)
Subtotal	5	45	48	105	10	213		(4)
Baskets								
First-to-default								
Municipal	--	--	100	--	--	100		(28)
Subtotal	--	--	100	--	--	100		(28)
Index								
Investment grade corporate debt	--	2	79	204	15	300		1
Total	\$ 5	\$ 47	\$ 227	\$ 309	\$ 25	\$ 613	\$	(31)
December 31, 2011								
Single name								
Investment grade								
corporate debt	\$ --	\$ 90	\$ 88	\$ 160	\$ 30	\$ 368	\$	(7)
High yield debt	--	--	--	--	2	2		--
Municipal	--	135	--	--	--	135		(12)
Subtotal	--	225	88	160	32	505		(19)
Baskets								
Tranche								
Investment grade								
corporate debt	--	--	--	--	65	65		(29)
First-to-default								
Municipal	--	--	100	--	--	100		(33)
Subtotal	--	--	100	--	65	165		(62)
Total	\$ --	\$ 225	\$ 188	\$ 160	\$ 97	\$ 670	\$	(81)

In selling protection with CDS, the Company sells credit protection on an identified single name, a basket of names in a first-to-default (FTD) structure or a specific tranche of a basket, or credit derivative index (CDX) that is generally investment grade, and in return receives periodic premiums through expiration or termination of the agreement. With single name CDS, this premium or credit spread generally corresponds to the difference between the yield on the reference entity's public fixed maturity cash instruments and swap rates at the time the agreement is executed. With a FTD basket or a tranche of a basket, because of the additional credit risk inherent in a basket of named reference entities, the premium generally corresponds to a high proportion of the sum of the credit spreads of the names in the basket and the correlation between the names. CDX index is utilized to take a position on multiple (generally 125) reference entities. Credit events are typically defined as bankruptcy, failure to pay, or restructuring, depending on the nature of the reference entities. If a credit event occurs, the Company settles with the counterparty, either through physical settlement or cash settlement. In a physical settlement, a reference asset is delivered by the buyer of protection to the Company, in exchange for cash payment at par, whereas in a cash settlement, the Company pays the difference between par and the prescribed value of the reference asset. When a credit event occurs in a single name or FTD basket (for FTD, the first credit event occurring for any one name in the basket), the contract terminates at the time of settlement. When a credit event occurs in a tranche of a basket, there is no immediate impact to the Company until cumulative losses in the basket exceed the contractual subordination. To date, realized losses have not exceeded the subordination. For CDX index, the reference entity's name incurring the credit event is removed from the index while the contract continues until expiration. The maximum payout on a CDS is the contract notional amount. A physical settlement may afford the Company with recovery rights as the new owner of the asset.

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

In addition to the CDS described above, the Company's synthetic collateralized debt obligations contain embedded credit default swaps which sell protection on a basket of reference entities. The synthetic collateralized debt obligations are fully funded; therefore, the Company is not obligated to contribute additional funds when credit events occur related to the reference entities named in the embedded credit default swaps. The Company's maximum amount at risk equals the amount of its aggregate initial investment in the synthetic collateralized debt obligations.

7. Reserve for Property-Liability Insurance Claims and Claims Expense

The Company establishes reserves for claims and claims expense on reported and unreported claims of insured losses. The Company's reserving process takes into account known facts and interpretations of circumstances and factors including the Company's experience with similar cases, actual claims paid, historical trends involving claim payment patterns and pending levels of unpaid claims, loss management programs, product mix and contractual terms, changes in law and regulation, judicial decisions, and economic conditions. In the normal course of business, the Company may also supplement its claims processes by utilizing third party adjusters, appraisers, engineers, inspectors, and other professionals and information sources to assess and settle catastrophe and non-catastrophe related claims. The effects of inflation are implicitly considered in the reserving process.

Because reserves are estimates of unpaid portions of losses that have occurred, including incurred but not reported losses, the establishment of appropriate reserves, including reserves for catastrophe losses, is an inherently uncertain and complex process. The ultimate cost of losses may vary materially from recorded amounts, which are based on management's best estimates. The highest degree of uncertainty is associated with reserves for losses incurred in the current reporting period as it contains the greatest proportion of losses that have not been reported or settled. The Company regularly updates its reserve estimates as new information becomes available and as events unfold that may affect the resolution of unsettled claims. Changes in prior year reserve estimates, which may be material, are reported in property-liability insurance claims and claims expense in the Condensed Consolidated Statements of Operations in the period such changes are determined.

Management believes that the reserve for property-liability insurance claims and claims expense, net of reinsurance recoverables, is appropriately established in the aggregate and adequate to cover the ultimate net cost of reported and unreported claims arising from losses which had occurred by the date of the Condensed Consolidated Statements of Financial Position based on available facts, technology, laws and regulations.

8. Reinsurance

Property-liability insurance premiums earned and life and annuity premiums and contract charges have been reduced by the reinsurance ceded amounts shown in the following table:

(\$ in millions)	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Property-liability insurance premiums earned	\$ 272	\$ 277	\$ 813	\$ 821

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Life and annuity premiums and contract charges	161	180	500	558
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Property-liability insurance claims and claims expense, life and annuity contract benefits and interest credited to contractholder funds have been reduced by the reinsurance ceded amounts shown in the following table.

(\$ in millions)	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Property-liability insurance claims and claims expense	\$ 188	\$ 287	\$ 327	\$ 485
Life and annuity contract benefits	184	207	388	343
Interest credited to contractholder funds	7	7	21	21

9. Company Restructuring

The Company undertakes various programs to reduce expenses. These programs generally involve a reduction in staffing levels, and in certain cases, office closures. Restructuring and related charges include employee termination and relocation benefits, and post-exit rent expenses in connection with these programs, and non-cash charges resulting from pension benefit payments made to agents in connection with the 1999 reorganization of Allstate's multiple agency programs to a single exclusive agency program. The expenses related to these activities are included in the Condensed Consolidated Statements of Operations as restructuring and related charges, and totaled \$9 million and \$8 million during the three months ended September 30, 2012 and 2011, respectively, and \$25 million and \$28 million during the nine months ended September 30, 2012 and 2011, respectively.

The following table presents changes in the restructuring liability during the nine months ended September 30, 2012.

(\$ in millions)	Employee costs		Exit costs		Total liability
Balance as of December 31, 2011	\$	5	\$	5	\$ 10
Expense incurred		6		3	9
Payments applied against liability		(6)		(3)	(9)
Balance as of September 30, 2012	\$	5	\$	5	\$ 10

The payments applied against the liability for employee costs primarily reflect severance costs, and the payments for exit costs generally consist of post-exit rent expenses and contract termination penalties. As of September 30, 2012, the cumulative amount incurred to date for active programs totaled \$81 million for employee costs and \$49 million for exit costs.

10. Guarantees and Contingent Liabilities

Shared markets and state facility assessments

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

Guarantees

The Company owns certain fixed income securities that obligate the Company to exchange credit risk or to forfeit principal due, depending on the nature or occurrence of specified credit events for the reference entities. In the event all such specified credit events were to occur, the Company's maximum amount at risk on these fixed income securities, as measured by the amount of the aggregate initial investment, was \$4 million as of September 30, 2012. The obligations associated with these fixed income securities expire at various dates on or before March 11, 2018.

Related to the disposal through reinsurance of substantially all of Allstate Financial's variable annuity business to Prudential in 2006, the Company and its consolidated subsidiaries, ALIC and ALNY, have agreed to indemnify Prudential for certain pre-closing contingent liabilities (including extra-contractual liabilities of ALIC and ALNY and liabilities specifically excluded from the transaction) that ALIC and ALNY have agreed to retain. In addition, the Company, ALIC and ALNY will each indemnify Prudential for certain post-closing liabilities that may arise from the acts of ALIC, ALNY and their agents, including in connection with ALIC's and ALNY's provision of transition services. The reinsurance agreements contain no limitations or indemnifications with regard to insurance risk transfer, and transferred all of the future risks and responsibilities for performance on the underlying variable annuity contracts to Prudential, including those related to benefit guarantees. Management does not believe this agreement will have a material effect on results of operations, cash flows or financial position of the Company.

The Company provides residual value guarantees on Company leased automobiles. If all outstanding leases were terminated effective September 30, 2012, the Company's maximum obligation pursuant to these guarantees, assuming the automobiles have no residual value, would be \$42 million as of September 30, 2012. The remaining term of each residual value guarantee is equal to the term of the underlying lease that ranges from less than one year to three years. Historically, the Company has not made any material payments pursuant to these guarantees.

In the normal course of business, the Company provides standard indemnifications to contractual counterparties in connection with numerous transactions, including acquisitions and divestitures. The types of indemnifications typically provided include indemnifications for breaches of representations and warranties, taxes and certain other liabilities, such as third party lawsuits. The indemnification clauses are often standard contractual terms and are entered into in the normal course of business based on an assessment that the risk of loss would be remote. The terms of the indemnifications vary in duration and nature. In many cases, the maximum obligation is not explicitly stated and the contingencies triggering the obligation to indemnify have not occurred and are not expected to occur. Consequently, the maximum amount of the obligation under such indemnifications is not determinable. Historically, the Company has not made any material payments pursuant to these obligations.

The aggregate liability balance related to all guarantees was not material as of September 30, 2012.

Regulation and Compliance

The Company is subject to changing social, economic and regulatory conditions. From time to time, regulatory authorities or legislative bodies seek to influence and restrict premium rates, require premium refunds to policyholders, require reinstatement of terminated policies, restrict the ability of insurers to cancel or non-renew policies, require insurers to continue to write new policies or limit their ability to write new policies, limit insurers' ability to change coverage terms or to impose underwriting standards, impose additional regulations regarding agent and broker compensation, regulate the nature of and amount of investments, and otherwise expand overall regulation of insurance products and the insurance industry. The Company has established procedures and policies to facilitate compliance with laws and regulations, to foster prudent business operations, and to support financial reporting. The Company routinely reviews its practices to validate compliance with laws and regulations and with internal procedures and policies. As a result of these reviews, from time to time the Company may decide to modify some of its procedures and policies. Such modifications, and the reviews that led to them, may be accompanied by payments being made and costs being incurred. The ultimate changes and eventual effects of these actions on the Company's business, if any, are uncertain.

Legal and regulatory proceedings and inquiries

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

Background

These matters raise difficult and complicated factual and legal issues and are subject to many uncertainties and complexities, including the underlying facts of each matter; novel legal issues; variations between jurisdictions in which matters are being litigated, heard, or investigated; differences in applicable laws and judicial interpretations; the length of time before many of these matters might be resolved by settlement, through litigation, or otherwise; the fact that some of the lawsuits are putative class actions in which a class has not been certified and in which the purported class may not be clearly defined; the fact that some of the lawsuits involve multi-state class actions in which the applicable law(s) for the claims at issue is in dispute and therefore unclear; and the current challenging legal environment faced by large corporations and insurance companies.

The outcome of these matters may be affected by decisions, verdicts, and settlements, and the timing of such decisions, verdicts, and settlements, in other individual and class action lawsuits that involve the Company, other insurers, or other entities and by other legal, governmental, and

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regulatory actions that involve the Company, other insurers, or other entities. The outcome may also be affected by future state or federal legislation, the timing or substance of which cannot be predicted.

In the lawsuits, plaintiffs seek a variety of remedies which may include equitable relief in the form of injunctive and other remedies and monetary relief in the form of contractual and extra-contractual damages. In some cases, the monetary damages sought may include punitive or treble damages. Often specific information about the relief sought, such as the amount of damages, is not available because plaintiffs have not requested specific relief in their pleadings. When specific monetary demands are made, they are often set just below a state court jurisdictional limit in order to seek the maximum amount available in state court, regardless of the specifics of the case, while still avoiding the risk of removal to federal court. In Allstate's experience, monetary demands in pleadings bear little relation to the ultimate loss, if any, to the Company.

In connection with regulatory examinations and proceedings, government authorities may seek various forms of relief, including penalties, restitution, and changes in business practices. The Company may not be advised of the nature and extent of relief sought until the final stages of the examination or proceeding.

Accrual and disclosure policy

The Company reviews its lawsuits, regulatory inquiries, and other legal proceedings on an ongoing basis and follows appropriate accounting guidance when making accrual and disclosure decisions. The Company establishes accruals for such matters at management's best estimate when the Company assesses that it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated. The Company does not establish accruals for such matters when the Company does not believe both that it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated. The Company's assessment of whether a loss is reasonably possible or probable is based on its assessment of the ultimate outcome of the matter following all appeals. The Company does not include potential recoveries in its estimates of reasonably possible or probable losses. Legal fees are expensed as incurred.

The Company continues to monitor its lawsuits, regulatory inquiries, and other legal proceedings for further developments that would make the loss contingency both probable and estimable, and accordingly accruable, or that could affect the amount of accruals that have been previously established. There may continue to be exposure to loss in excess of any amount accrued. Disclosure of the nature and amount of an accrual is made when there have been sufficient legal and factual developments such that the Company's ability to resolve the matter would not be impaired by the disclosure of the amount of accrual.

When the Company assesses it is reasonably possible or probable that a loss has been incurred, it discloses the matter. When it is possible to estimate the reasonably possible loss or range of loss above the amount accrued, if any, for the matters disclosed, that estimate is aggregated and disclosed. Disclosure is not required when an estimate of the reasonably possible loss or range of loss cannot be made.

For certain of the matters described below in the *Claims related proceedings* and *Other proceedings* subsections, the Company is able to estimate the reasonably possible loss or range of loss above the amount accrued, if any. In determining whether it is possible to estimate the reasonably possible loss or range of loss, the Company reviews and evaluates the disclosed matters, in conjunction with counsel, in light of potentially relevant factual and legal developments.

These developments may include information learned through the discovery process, rulings on dispositive motions, settlement discussions, information obtained from other sources, experience from managing these and other matters, and other rulings by courts, arbitrators or others. When the Company possesses sufficient appropriate information to develop an estimate of the reasonably possible loss or range of loss above the amount accrued, if any, that estimate is aggregated and disclosed below. There may be other disclosed matters for which a loss is probable or reasonably possible but such an estimate is not possible. Disclosure of the estimate of the reasonably possible loss or range of loss above the amount accrued, if any, for any individual matter would only be considered when there have been sufficient legal and factual developments such that the Company's ability to resolve the matter would not be impaired by the disclosure of the individual estimate.

As of September 30, 2012, the Company estimates that the aggregate range of reasonably possible loss in excess of the amount accrued, if any, for the disclosed matters where such an estimate is possible is zero to \$855 million, pre-tax. This disclosure is not an indication of expected loss, if any. Under accounting guidance, an event is *reasonably possible* if the chance of the future event or events occurring is more than remote but less than likely and an event is *remote* if the chance of the future event or events occurring is slight. This estimate is based upon currently available information and is subject to significant judgment and a variety of assumptions, and known and unknown uncertainties. The matters

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underlying the estimate will change from time to time, and actual results may vary significantly from the current estimate. The estimate does not include matters or losses for which an estimate is not possible. Therefore, this estimate represents an estimate of possible loss only for certain matters meeting these criteria. It does not represent the Company's maximum possible loss exposure. Information is provided below regarding the nature of all of the disclosed matters and, where specified, the amount, if any, of plaintiff claims associated with these loss contingencies.

Due to the complexity and scope of the matters disclosed in the Claims related proceedings and Other proceedings subsections below and the many uncertainties that exist, the ultimate outcome of these matters cannot be predicted. In the event of an unfavorable outcome in one or more of these matters, the ultimate liability may be

in excess of amounts currently accrued, if any, and may be material to the Company's operating results or cash flows for a particular quarterly or annual period. However, based on information currently known to it, management believes that the ultimate outcome of all matters described below, as they are resolved over time, is not likely to have a material effect on the financial position of the Company.

Claims related proceedings

Allstate is vigorously defending a lawsuit filed in the aftermath of Hurricane Katrina and currently pending in the United States District Court for the Eastern District of Louisiana (District Court). This matter was filed by the Louisiana Attorney General against Allstate and every other homeowner insurer doing business in the State of Louisiana, on behalf of the State of Louisiana, as assignee, and on behalf of certain Road Home fund recipients. Although this lawsuit was originally filed as a class action, the Louisiana Attorney General moved to dismiss the class in 2011 and that motion was granted. In this matter the State alleged that the insurers failed to pay all damages owed under their policies. The claims currently pending in this matter are for breach of contract and for declaratory relief on the alleged underpayment of claims by the insurers. All other claims, including extra-contractual claims, have been dismissed. The Company had moved to dismiss the complaint on the grounds that the State had no standing to bring the lawsuit as an assignee of insureds because of anti-assignment language in the underlying insurance policies. The Louisiana Supreme Court denied the motion.

The District Court has issued a case management order requiring the State to produce specific detail by property supporting its allegations of breach of contract. Additionally, the case management order requires the State to deliver a settlement proposal to Allstate and the other defendant insurance companies. There are many potential individual claims at issue in this matter, each of which will require individual analysis and a number of which may be subject to individual defenses, including release, accord and satisfaction, prescription, waiver, and estoppel. The Company has filed a motion seeking to force the State to provide more specificity as to its claims in this matter. The Company believes that its adjusting practices in connection with Katrina homeowners claims were sound and in accordance with industry standards and state law. There remain significant questions of Louisiana law that have yet to be decided. In the Company's judgment, given the issues discussed above, a loss is not probable.

Allstate is vigorously defending a class action lawsuit in Montana state court challenging aspects of its claim handling practices in Montana. The plaintiff alleges that the Company adjusts claims made by individuals who do not have attorneys in a manner that unfairly resulted in lower payments compared to claimants who were represented by attorneys. In January 2012, the court certified a class of Montana claimants who were not represented by attorneys with respect to the resolution of auto accident claims. The court certified the class to cover an indefinite period that commences in the mid-1990's. The certified claims include claims for declaratory judgment, injunctive relief and punitive damages in an unspecified amount. Injunctive relief may include a claim process by which unrepresented claimants could request that their claims be readjusted. No compensatory damages are sought on behalf of the class. To date no discovery has occurred related to the potential value of the class members' claims. The Company has asserted various defenses with respect to the plaintiff's claims which have not been finally resolved, and has appealed the order certifying the class. The proposed injunctive relief claim process would be subject to defenses and offsets ordinarily associated with the adjustment of claims. Any differences in amounts paid to class members compared to what class members might be paid under a different process would be speculative and subject to individual variation and determination dependent upon the individual circumstances presented by each class claimant. In the Company's judgment a loss is not probable.

Allstate has been vigorously defending a lawsuit in regards to certain claims employees involving worker classification issues. This lawsuit is a certified class action challenging a state wage and hour law. In this case, plaintiffs sought actual damages in an amount to be proven at trial, liquidated damages in an amount equal to an unspecified percentage of the aggregate underpayment of wages to be proven at trial, as well as attorneys' fees and costs. Plaintiffs have not made a settlement demand nor have they alleged the amount of damages with any specificity. The case was bifurcated between liability and damages and is currently focused only on liability issues. No discovery has taken place regarding plaintiffs' alleged damages. In December 2009, the liability phase of the case was tried, and, in July 2010, the trial court issued its decision finding in favor of Allstate on all claims. The plaintiffs appealed the decision in favor of Allstate to the first level appellate court. In May 2012, the court heard oral argument on the plaintiffs' appeal and affirmed the trial court's decision. The plaintiffs have subsequently filed a petition for review with the Illinois Supreme Court asking it to review the lower courts' decisions. Only liability

issues are being addressed on appeal and no damages may be awarded at this stage of the proceedings. In the event the trial court's order were to be overturned, however, the parties would need to conduct damages discovery, and a trial on damages would have to take place, before any damages could be awarded. In the Company's judgment a loss is not probable.

Other proceedings

The Company is defending certain matters relating to the Company's agency program reorganization announced in 1999. Although these cases have been pending for many years, they currently are in the early stages of litigation because of appellate court proceedings and threshold procedural issues.

- These matters include a lawsuit filed in 2001 by the U.S. Equal Employment Opportunity Commission (EEOC) alleging retaliation under federal civil rights laws (EEOC I) and a class action filed in 2001 by former employee agents alleging retaliation and age discrimination under the Age Discrimination in Employment Act (ADEA), breach of contract and ERISA violations (Romero I). In 2004, in the consolidated EEOC I and Romero I litigation, the trial court issued a memorandum and order that, among other things, certified classes of agents, including a mandatory class of agents who had signed a release, for purposes of effecting the court's declaratory judgment that the release was voidable at the option of the release signer. The court also ordered that an agent who voided the release must return to Allstate any and all benefits received by the [agent] in exchange for signing the release. The court also stated that, on the undisputed facts of record, there is no basis for claims of age discrimination. The EEOC and plaintiffs asked the court to clarify and/or reconsider its memorandum and order and in January 2007, the judge denied their request. In June 2007, the court reversed its prior ruling that the release was voidable and granted the Company's motions for summary judgment, ruling that the asserted claims were barred by the release signed by most plaintiffs. Plaintiffs filed a notice of appeal with the U.S. Court of Appeals for the Third Circuit (Third Circuit). In July 2009, the Third Circuit vacated the trial court's entry of summary judgment in the Company's favor and remanded the cases to the trial court for additional discovery, including additional discovery related to the validity of the release and waiver. In its opinion, the Third Circuit held that if the release and waiver is held to be valid, then all of the claims in Romero I and EEOC I are barred. Thus, if the waiver and release is upheld, then only the claims in Romero I asserted by the small group of employee agents who did not sign the release and waiver would remain for adjudication. In January 2010, following the remand, the cases were assigned to a new judge for further proceedings in the trial court. Plaintiffs filed their Second Amended Complaint on July 28, 2010. Plaintiffs seek broad but unspecified make whole relief, including back pay, compensatory and punitive damages, liquidated damages, lost investment capital, attorneys' fees and costs, and equitable relief, including reinstatement to employee agent status with all attendant benefits for up to approximately 6,500 former employee agents. Despite the length of time that these matters have been pending, to date only limited discovery has occurred related to the damages claimed by individual plaintiffs, and no damages discovery has occurred related to the claims of the putative class. Nor have plaintiffs provided any calculations of the putative class's alleged back pay or the alleged liquidated, compensatory or punitive damages, instead asserting that such calculations will be provided at a later stage during expert discovery. Damage claims are subject to reduction by amounts and benefits received by plaintiffs and putative class members subsequent to their employment termination. Little to no discovery has occurred with respect to amounts earned or received by plaintiffs and putative class members in mitigation of their alleged losses. Alleged damage amounts and lost benefits of the approximately 6,500 putative class members also are subject to individual variation and determination dependent upon retirement dates, participation in employee benefit programs, and years of service. Discovery limited to the validity of the waiver and release is in process and the court is currently considering various motions relating to discovery. At present, no class is certified. Summary judgment proceedings on the validity of the waiver and release are expected to occur in the first half of 2013.
- A putative nationwide class action has also been filed by former employee agents alleging various violations of ERISA, including a worker classification issue (Romero II). These plaintiffs are challenging certain amendments to the Agents Pension Plan and are seeking to have exclusive agent independent contractors treated as employees for benefit purposes. Romero II was dismissed with prejudice by the trial court, was the subject of further proceedings on appeal, and was reversed and remanded to the trial court in 2005. In June 2007, the court granted the Company's motion to dismiss the case. Plaintiffs filed a notice of appeal with the Third Circuit. In July 2009, the Third Circuit vacated the district court's dismissal of the case and remanded the case to the trial court for additional discovery, and

directed that the case be reassigned to another trial court judge. In its opinion, the Third Circuit held that if the release and waiver is held to be valid, then one of plaintiffs' three claims asserted in *Romero II* is barred. The Third Circuit directed the district court to consider on remand whether the other two claims asserted in *Romero II* are barred by the release and waiver. In January 2010, following the remand, the case was assigned to a new judge (the same judge for the *Romero I* and *EEOC I* cases) for further proceedings in the trial court. On April 23, 2010, plaintiffs filed their First Amended Complaint. Plaintiffs seek broad but unspecified "make whole" or other equitable relief, including losses of income and benefits as a result of their decision to retire from the Company between November 1, 1999 and December 31, 2000. They also seek repeal of the challenged amendments to the Agents Pension Plan with all attendant benefits revised and recalculated for thousands of former employee agents, and attorney's fees and costs. Despite the length of time that this matter has been pending, to date only limited discovery has occurred related to the damages claimed by individual plaintiffs, and no damages discovery has occurred related to the claims of the putative class. Nor have plaintiffs provided any calculations of the putative class's alleged losses, instead asserting that such calculations will be provided at a later stage during expert discovery. Damage claims are subject to reduction by amounts and benefits received by plaintiffs and putative class members subsequent to their employment termination. Little to no discovery has occurred with respect to amounts earned or received by plaintiffs and putative class members in mitigation of their alleged losses. Alleged damage amounts and lost benefits of the putative class members also are subject to individual variation and determination dependent upon retirement dates, participation in employee benefit programs, and years of service. As in *Romero I* and *EEOC I*, discovery at this time is limited to issues relating to the validity of the waiver and release and the court is considering various motions related to discovery. Class certification has not been decided. Summary judgment proceedings on the validity of the waiver and release are expected to occur in the first half of 2013.

In these agency program reorganization matters, the threshold issue of the validity and scope of the waiver and release is yet to be decided and, if decided in favor of the Company, would preclude any damages being awarded in *Romero I* and *EEOC I* and may also preclude damages from being awarded in *Romero II*. In the Company's judgment a loss is not probable. Allstate has been vigorously defending these lawsuits and other matters related to its agency program reorganization.

Asbestos and environmental

Allstate's reserves for asbestos claims were \$1.05 billion and \$1.08 billion, net of reinsurance recoverables of \$502 million and \$529 million, as of September 30, 2012 and December 31, 2011, respectively. Reserves for environmental claims were \$201 million and \$185 million, net of reinsurance recoverables of \$48 million and \$40 million, as of September 30, 2012 and December 31, 2011, respectively. Approximately 59% of the total net asbestos and environmental reserves as of September 30, 2012 were for incurred but not reported estimated losses with no change from December 31, 2011.

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

actuarial techniques and databases have assisted in its ability to estimate asbestos, environmental, and other discontinued lines net loss reserves, these refinements may subsequently prove to be inadequate indicators of the extent of probable losses. Due to the uncertainties and factors described above, management believes it is not practicable to develop a meaningful range for any such additional net loss reserves that may be required.

11. Components of Net Periodic Pension and Postretirement Benefit Costs

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

(\$ in millions)	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Pension benefits				
Service cost	\$ 38	\$ 37	\$ 114	\$ 113
Interest cost	74	81	223	242
Expected return on plan assets	(98)	(92)	(295)	(276)
Amortization of:				
Prior service credit	(1)	--	(2)	(1)
Net actuarial loss	45	39	134	116
Settlement loss	10	9	29	26
Net periodic pension cost	\$ 68	\$ 74	\$ 203	\$ 220
Postretirement benefits				
Service cost	\$ 3	\$ 2	\$ 9	\$ 8
Interest cost	9	9	27	27
Amortization of:				
Prior service credit	(6)	(6)	(17)	(17)
Net actuarial gain	(5)	(7)	(15)	(22)
Settlement loss	--	1	--	1
Net periodic postretirement benefit cost (credit)	\$ 1	\$ (1)	\$ 4	\$ (3)

12. Business Segments

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

(\$ in millions)	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Revenues				
<i>Property-Liability</i>				
Property-liability insurance premiums				
Standard auto	\$ 4,310	\$ 4,070	\$ 12,875	\$ 12,251
Non-standard auto	177	196	544	613
Total auto	4,487	4,266	13,419	12,864
Homeowners	1,595	1,553	4,747	4,640
Other personal lines	614	613	1,826	1,834
Allstate Protection	6,696	6,432	19,992	19,338
Discontinued Lines and Coverages	1	--	1	(1)
Total property-liability insurance premiums	6,697	6,432	19,993	19,337
Net investment income	299	298	964	892
Realized capital gains and losses	(16)	24	192	73
Total Property-Liability	6,980	6,754	21,149	20,302
<i>Allstate Financial</i>				
Life and annuity premiums and contract charges				
Traditional life insurance	117	111	347	328
Immediate annuities with life contingencies	10	16	36	74
Accident and health insurance	164	160	486	483
Total life and annuity premiums	291	287	869	885
Interest-sensitive life insurance	267	258	790	759
Fixed annuities	5	7	16	24
Total contract charges	272	265	806	783
Total life and annuity premiums and contract charges	563	552	1,675	1,668
Net investment income	632	682	1,982	2,060
Realized capital gains and losses	(56)	219	(69)	320
Total Allstate Financial	1,139	1,453	3,588	4,048
<i>Corporate and Other</i>				
Service fees	1	1	3	5
Net investment income	9	14	31	44
Realized capital gains and losses	--	21	--	24
Total Corporate and Other before reclassification of service fees	10	36	34	73
Reclassification of service fees (1)	(1)	(1)	(3)	(5)
Total Corporate and Other	9	35	31	68
Consolidated revenues	\$ 8,128	\$ 8,242	\$ 24,768	\$ 24,418

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

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

(\$ in millions)	Three months ended September 30,			Nine months ended September 30,		
	2012		2011	2012		2011
Net income						
<i>Property-Liability</i>						
Underwriting income (loss)						
Allstate Protection	\$ 701	\$	(297)	\$ 1,365	\$	(1,461)
Discontinued Lines and Coverages	(42)		(12)	(49)		(22)
Total underwriting income (loss)	659		(309)	1,316		(1,483)
Net investment income	299		298	964		892
Income tax (expense) benefit on operations	(308)		37	(717)		316
Realized capital gains and losses, after-tax	(11)		15	125		47
Property-Liability net income (loss)	639		41	1,688		(228)
<i>Allstate Financial</i>						
Life and annuity premiums and contract charges	563		552	1,675		1,668
Net investment income	632		682	1,982		2,060
Periodic settlements and accruals on non-hedge derivative instruments	15		18	45		54
Contract benefits and interest credited to contractholder funds	(810)		(850)	(2,441)		(2,563)
Operating costs and expenses and amortization of deferred policy acquisition costs	(264)		(212)	(703)		(661)
Restructuring and related charges	--		--	--		2
Income tax expense on operations	(39)		(61)	(173)		(183)
Operating income	97		129	385		377
Realized capital gains and losses, after-tax	(36)		142	(45)		207
Valuation changes on embedded derivatives that are not hedged, after-tax	97		(4)	88		1
DAC and DSI amortization related to realized capital gains and losses and valuation changes on embedded derivatives that are not hedged, after-tax	(28)		(65)	(38)		(92)
DAC and DSI unlocking related to realized capital gains and losses, after-tax	4		--	4		3
Reclassification of periodic settlements and accruals on non-hedge derivative instruments, after-tax	(9)		(12)	(29)		(35)
Gain (loss) on disposition of operations, after-tax	6		2	10		(6)
Allstate Financial net income	131		192	375		455
<i>Corporate and Other</i>						
Service fees (1)	1		1	3		5
Net investment income	9		14	31		44
Operating costs and expenses (1)	(91)		(117)	(286)		(310)
Income tax benefit on operations	34		31	101		94
Operating loss	(47)		(71)	(151)		(167)
Realized capital gains and losses, after-tax	--		13	--		15
Corporate and Other net loss	(47)		(58)	(151)		(152)
Consolidated net income	\$ 723	\$	175	\$ 1,912	\$	75

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

13. Other Comprehensive Income

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

(\$ in millions)

(\$ in millions)	2012		Three months ended September 30,		2011		After-tax
	Pre-tax	Tax	After-tax	Pre-tax	Tax		
Unrealized net holding gains and losses arising during the period, net of related offsets	\$ 1,177	\$ (412)	\$ 765	\$ (103)	\$ 36		\$ (67)
Less: reclassification adjustment of realized capital gains and losses	(70)	25	(45)	527	(184)		343
Unrealized net capital gains and losses	1,247	(437)	810	(630)	220		(410)
Unrealized foreign currency translation adjustments	19	(7)	12	(51)	18		(33)
Unrecognized pension and other postretirement benefit cost	30	(10)	20	32	(11)		21
Other comprehensive income (loss)	\$ 1,296	\$ (454)	842	\$ (649)	\$ 227		(422)
Net income			723				175
Comprehensive income (loss)			\$ 1,565				\$ (247)

	2012		Nine months ended September 30,				After-tax
	Pre-tax	Tax	After-tax	2011			
				Pre-tax	Tax		
Unrealized net holding gains arising during the period, net of related offsets	\$ 2,337	\$ (816)	\$ 1,521	\$ 869	\$ (305)	\$ 564	
Less: reclassification adjustment of realized capital gains and losses	63	(22)	41	688	(241)	447	
Unrealized net capital gains and losses	2,274	(794)	1,480	181	(64)	117	
Unrealized foreign currency translation adjustments	22	(8)	14	(29)	10	(19)	
Unrecognized pension and other postretirement benefit cost	96	(32)	64	79	(26)	53	
Other comprehensive income	\$ 2,392	\$ (834)	1,558	\$ 231	\$ (80)	151	
Net income			1,912			75	
Comprehensive income			\$ 3,470			\$ 226	

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of

The Allstate Corporation

Northbrook, IL 60062

We have reviewed the accompanying condensed consolidated statement of financial position of The Allstate Corporation and subsidiaries (the Company) as of September 30, 2012, and the related condensed consolidated statements of operations and comprehensive income for the three-month and nine-month periods ended September 30, 2012 and 2011, and of cash flows for the nine-month periods ended September 30, 2012 and 2011. These interim financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to such condensed consolidated interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statement of financial position of The Allstate Corporation and subsidiaries as of December 31, 2011, and the related consolidated statements of operations, comprehensive income, shareholders' equity, and cash flows for the year then ended (not presented herein); and in our report dated February 22, 2012 (which report includes an explanatory paragraph relating to a change in the Company's recognition and presentation for other-than-temporary impairments of debt securities in 2009 and dated May 2, 2012 as to the effects of the retrospective adoption of a change in accounting for costs associated with acquiring or renewing insurance contracts), we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated statement of financial position as of December 31, 2011 is fairly stated, in all material respects, in relation to the consolidated statement of financial position from which it has been derived.

/s/ Deloitte & Touche LLP

Chicago, Illinois

October 31, 2012

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE THREE-MONTH AND NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2012 AND 2011

OVERVIEW

The following discussion highlights significant factors influencing the consolidated financial position and results of operations of The Allstate Corporation (referred to in this document as we, our, us, the Company or Allstate). It should be read in conjunction with the condensed consolidated financial statements and notes thereto found under Part I. Item 1. contained herein, and with the discussion, analysis, consolidated financial statements and notes thereto in Part I. Item 1. and Part II. Item 7. and Item 8. of The Allstate Corporation Annual Report on Form 10-K for 2011 and Current Report on Form 8-K filed May 2, 2012. Further analysis of our insurance segments is provided in the Property-Liability Operations (which includes the Allstate Protection and the Discontinued Lines and Coverages segments) and in the Allstate Financial Segment sections of Management's Discussion and Analysis (MD&A). The segments are consistent with the way in which we use financial information to evaluate business performance and to determine the allocation of resources.

Allstate is focused on the following priorities:

- maintain auto profitability;
- raise returns in homeowners and annuity businesses;
- grow insurance premiums; and
- proactively manage investments and capital.

HIGHLIGHTS

- Consolidated net income was \$723 million in the third quarter of 2012 compared to \$175 million in the third quarter of 2011, and \$1.91 billion in the first nine months of 2012 compared to \$75 million in the first nine months of 2011. Net income per diluted share was \$1.48 in the third quarter of 2012 compared to \$0.34 in the third quarter of 2011, and \$3.86 in the first nine months of 2012 compared to \$0.14 in the first nine months of 2011.
- Property-Liability net income was \$639 million in the third quarter of 2012 compared to \$41 million in the third quarter of 2011, and net income was \$1.69 billion in the first nine months of 2012 compared to a net loss of \$228 million in the first nine months of 2011.
- The Property-Liability combined ratio was 90.2 in the third quarter of 2012 compared to 104.8 in the third quarter of 2011 and 93.4 in the first nine months of 2012 compared to 107.7 in the first nine months of 2011.
- Allstate Financial net income was \$131 million in the third quarter of 2012 compared to \$192 million in the third quarter of 2011, and \$375 million in the first nine months of 2012 compared to \$455 million in the first nine months of 2011.

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- Total revenues were \$8.13 billion in the third quarter of 2012 compared to \$8.24 billion in the third quarter of 2011, and \$24.77 billion in the first nine months of 2012 compared to \$24.42 billion in the first nine months of 2011.
- Property-Liability premiums earned totaled \$6.70 billion in the third quarter of 2012, an increase of 4.1% from \$6.43 billion in the third quarter of 2011, and \$19.99 billion in the first nine months of 2012, an increase of 3.4% from \$19.34 billion in the first nine months of 2011.
- Net realized capital losses were \$72 million in the third quarter of 2012 compared to net realized capital gains of \$264 million in the third quarter of 2011, and net realized capital gains were \$123 million in the first nine months of 2012 compared to \$417 million in the first nine months of 2011.
- Investments totaled \$98.52 billion as of September 30, 2012, an increase of 3.0% from \$95.62 billion as of December 31, 2011. Net investment income in the third quarter of 2012 was \$940 million, a decrease of 5.4% from \$994 million in the third quarter of 2011, and \$2.98 billion in the first nine months of 2012, a decrease of 0.6% from \$3.00 billion in the first nine months of 2011.
- Book value per diluted share (ratio of shareholders' equity to total shares outstanding and dilutive potential shares outstanding) was \$42.64 as of September 30, 2012, an increase of 22.4% from \$34.84 as of September 30, 2011 and an increase of 17.9% from \$36.18 as of December 31, 2011.
- For the twelve months ended September 30, 2012, return on the average of beginning and ending period shareholders' equity was 13.6%, an increase of 11.6 points from 2.0% for the twelve months ended September 30, 2011.
- As of September 30, 2012, shareholders' equity was \$20.84 billion. This total included \$2.34 billion in deployable invested assets at the parent holding company level.

CONSOLIDATED NET INCOME

(\$ in millions)

	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Revenues				
Property-liability insurance premiums	\$ 6,697	\$ 6,432	\$ 19,993	\$ 19,337
Life and annuity premiums and contract charges	563	552	1,675	1,668
Net investment income	940	994	2,977	2,996
Realized capital gains and losses:				
Total other-than-temporary impairment losses	(39)	(197)	(195)	(435)
Portion of loss recognized in other comprehensive income	(7)	(6)	16	(37)
Net other-than-temporary impairment losses recognized in earnings	(46)	(203)	(179)	(472)
Sales and other realized capital gains and losses	(26)	467	302	889
Total realized capital gains and losses	(72)	264	123	417
Total revenues	8,128	8,242	24,768	24,418
Costs and expenses				
Property-liability insurance claims and claims expense	(4,293)	(5,132)	(13,442)	(15,963)
Life and annuity contract benefits	(453)	(455)	(1,354)	(1,331)
Interest credited to contractholder funds	(215)	(405)	(959)	(1,240)
Amortization of deferred policy acquisition costs	(1,016)	(1,046)	(2,937)	(2,990)
Operating costs and expenses	(1,010)	(888)	(3,023)	(2,656)
Restructuring and related charges	(9)	(8)	(25)	(28)
Interest expense	(93)	(92)	(281)	(275)
Total costs and expenses	(7,089)	(8,026)	(22,021)	(24,483)
Gain (loss) on disposition of operations	9	3	15	(10)
Income tax (expense) benefit	(325)	(44)	(850)	150
Net income	\$ 723	\$ 175	\$ 1,912	\$ 75
Property-Liability	\$ 639	\$ 41	\$ 1,688	\$ (228)
Allstate Financial	131	192	375	455
Corporate and Other	(47)	(58)	(151)	(152)
Net income	\$ 723	\$ 175	\$ 1,912	\$ 75

PROPERTY-LIABILITY HIGHLIGHTS

- Premiums written increased 5.0% to \$7.06 billion in the third quarter of 2012 from \$6.73 billion in the third quarter of 2011, and increased 4.3% to \$20.39 billion in the first nine months of 2012 from \$19.55 billion in the first nine months of 2011.

Allstate brand standard auto premiums written of \$3.99 billion in the third quarter of 2012 were comparable to \$4.00 billion in the third quarter of 2011, and decreased 0.5% to \$11.83 billion in the first nine months of 2012 from \$11.89 billion in the first nine months of 2011.

Allstate brand homeowners premiums written increased 3.2% to \$1.69 billion in the third quarter of 2012 from \$1.63 billion in the third quarter of 2011, and increased 2.6% to \$4.58 billion in the first nine months of 2012 from \$4.47 billion in the first nine months of 2011.

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Encompass brand premiums written increased 5.3% to \$297 million in the third quarter of 2012 from \$282 million in the third quarter of 2011, and 4.4% to \$835 million in the first nine months of 2012 from \$800 million in the first nine months of 2011.

Esurance brand premiums written were \$282 million and \$768 million in the third quarter and first nine months of 2012, respectively. Esurance began offering renters insurance in third quarter 2012.

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- Premium measures and statistics contributing to overall Allstate brand standard auto premiums written results were the following:

2.0% decrease in policies in force (PIF) as of September 30, 2012 compared to September 30, 2011

0.9% increase in the six month policy term average gross premium before reinsurance to \$450 in the third quarter of 2012 from \$446 in the third quarter of 2011, and 1.4% increase in the six month policy term average gross premium before reinsurance to \$448 in the first nine months of 2012 from \$442 in the first nine months of 2011

0.1 point decrease in the six month renewal ratio to 89.0% in the third quarter of 2012 compared to 89.1% in the third quarter of 2011, and a 0.2 point decrease in the six month renewal ratio to 88.9% in the first nine months of 2012 compared to 89.1% in the first nine months of 2011

1.3% and 5.2% decrease in new issued applications in the third quarter and first nine months of 2012, respectively, compared to the same periods of 2011

- Premium measures and statistics contributing to overall Allstate brand homeowners premiums written increase were the following:

6.5% decrease in PIF as of September 30, 2012 compared to September 30, 2011

9.5% increase in the twelve month policy term average gross premium before reinsurance to \$1,096 in the third quarter of 2012 from \$1,001 in the third quarter of 2011, and 9.3% increase in the twelve month policy term average gross premium before reinsurance to \$1,081 in the first nine months of 2012 from \$989 in the first nine months of 2011

1.2 point decrease in the twelve month renewal ratio to 87.2% in the third quarter and first nine months of 2012 compared to 88.4% in the same periods of 2011

new issued applications of 116 thousand in the third quarter of 2012 was comparable to the same period of prior year and decreased 5.7% in the first nine months of 2012 compared to the same period of 2011

\$7 million decrease in catastrophe reinsurance costs to \$117 million in the third quarter of 2012 from \$124 million in the third quarter of 2011, and \$17 million decrease in catastrophe reinsurance costs to \$358 million in the first nine months of 2012 from \$375 million in the first nine months of 2011

- Factors comprising the Allstate brand standard auto loss ratio decrease of 2.4 points to 66.9 in the third quarter of 2012 from 69.3 in the third quarter of 2011, and a decrease of 2.1 points to 68.8 in the first nine months of 2012 from 70.9 in the first nine months of 2011 were the following:

1.6 point decrease in the effect of catastrophe losses to 1.3 points in the third quarter of 2012 compared to 2.9 points in the third quarter of 2011, and 1.2 point decrease in the effect of catastrophe losses to 2.1 points in the first nine months of 2012 compared to 3.3 points in the first nine months of 2011

1.2% and 1.3% decrease in standard auto claim frequency (rate of claim occurrence per policy in force) for property damage in the third quarter and first nine months of 2012, respectively, compared to the same periods of 2011

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1.2% and 0.5% decrease in standard auto claim frequency for bodily injury in the third quarter and first nine months of 2012, respectively, compared to the same periods of 2011

3.9% increase in auto paid claim severities (average cost per claim) for property damage in the third quarter and first nine months of 2012 compared to the same periods of 2011

6.8% and 3.8% increase in auto paid claim severities for bodily injury in the third quarter and first nine months of 2012, respectively, compared to the same periods of 2011

- Factors comprising the Allstate brand homeowners loss ratio, which includes catastrophe losses, decrease of 59.6 points to 49.0 in the third quarter of 2012 from 108.6 in the third quarter of 2011, and a decrease of 53.4 points to 62.5 in the first nine months of 2012 from 115.9 in the first nine months of 2011 were the following:

48.0 point decrease in the effect of catastrophe losses to 7.8 points in the third quarter of 2012 compared to 55.8 points in the third quarter of 2011, and 45.6 point decrease in the effect of catastrophe losses to 20.1 points in the first nine months of 2012 compared to 65.7 points in the first nine months of 2011

11.4% and 7.9% decrease in homeowner claim frequency, excluding catastrophe losses, in the third quarter and first nine months of 2012, respectively, compared to the same periods of 2011

5.8% and 2.6% increase in paid claim severity, excluding catastrophe losses, in the third quarter and first nine months of 2012, respectively, compared to the same periods of 2011

- Factors comprising the \$871 million decrease in catastrophe losses to \$206 million in the third quarter of 2012 compared to \$1.08 billion in the third quarter of 2011, and \$2.47 billion decrease to \$1.28 billion in the first nine months of 2012 compared to \$3.75 billion in the first nine months of 2011 were the following:

29 events with losses of \$313 million in the third quarter of 2012 compared to 23 events with losses of \$1.10 billion in the third quarter of 2011, and 74 events with losses of \$1.61 billion in the first nine months of 2012 compared to 72 events with losses of \$3.85 billion in the first nine months of 2011. There were no events with losses greater than \$250 million in third quarter of 2012, compared to one event with losses greater than \$250 million in third quarter of 2011.

\$31 million of favorable prior quarter reserve reestimates in the third quarter of 2012 compared to \$29 million unfavorable reserve reestimates in the third quarter of 2011

\$76 million favorable prior year reserve reestimates in the third quarter of 2012 compared to \$47 million favorable reserve reestimates in the third quarter of 2011, and \$330 million favorable reserve reestimates in the first nine months of 2012 compared to \$98 million favorable reserve reestimates in the first nine months of 2011

- Factors comprising the \$149 million favorable prior year reserve reestimates in the third quarter of 2012 compared to \$117 million favorable in the third quarter of 2011, and favorable prior year reserve reestimates of \$511 million in the first nine months of 2012 compared to \$205 million favorable in the first nine months of 2011 included:

prior year reserve reestimates related to auto, homeowners and other personal lines in the third quarter of 2012 contributed \$134 million favorable, \$72 million favorable and \$15 million unfavorable, respectively, compared to prior year reserve reestimates in the third quarter of 2011 of \$136 million favorable, \$4 million favorable and \$12 million unfavorable, respectively, and prior year reserve reestimates related to auto, homeowners and other personal lines in the first nine months of 2012 contributed \$265 million favorable, \$247 million favorable and \$47 million favorable, respectively, compared to prior year reserve reestimates in the first nine months of 2011 of \$245 million favorable, \$39 million favorable and \$61 million unfavorable, respectively

prior year reestimates in the third quarter and first nine months of 2012 and 2011 are largely attributable to prior year catastrophes and severity development that was better than expected

- Our 2012 annual review resulted in a \$26 million unfavorable reestimate of asbestos reserves, a \$22 million unfavorable reestimate of environmental reserves and a \$5 million unfavorable reestimate of other reserves, partially offset by a \$14 million decrease in our allowance for future uncollectable reinsurance in the third quarter of 2012 compared to \$26 million unfavorable reestimate of asbestos reserves and a \$5 million unfavorable reestimate of other reserves, partially offset by a \$26 million decrease of the allowance for future uncollectable reinsurance in the third quarter of 2011. Environmental reserves were essentially unchanged in the third quarter of 2011.

- Property-Liability underwriting income was \$659 million in the third quarter of 2012 compared to an underwriting loss of \$309 million in the third quarter of 2011, and Property-Liability underwriting income was \$1.32 billion in the first nine months of 2012 compared to an underwriting loss of \$1.48 billion in the first nine months of 2011. Underwriting income (loss), a measure not based on accounting principles generally accepted in the United States of America (GAAP), is defined below.

- Property-Liability investments as of September 30, 2012 were \$38.01 billion, an increase of 5.6% from \$36.00 billion as of December 31, 2011. Net investment income of \$299 million in the third quarter of 2012 was comparable to \$298 million in the third quarter of 2011, and increased 8.1% to \$964 million in the first nine months of 2012 from \$892 million in the first nine months of 2011.

- Net realized capital losses were \$16 million in the third quarter of 2012 compared to net realized capital gains of \$24 million in the third quarter of 2011, and net realized capital gains were \$192 million in the first nine months of 2012 compared to \$73 million in the first nine months of 2011.

PROPERTY-LIABILITY OPERATIONS

Overview Our Property-Liability operations consist of two reporting segments: Allstate Protection and Discontinued Lines and Coverages. Allstate Protection comprises three brands: Allstate, Encompass and Esurance. Allstate Protection is principally engaged in the sale of personal property and casualty insurance, primarily private passenger auto and homeowners insurance, to individuals in the United States and Canada. Discontinued Lines and Coverages includes results from insurance coverage that we no longer write and results for certain commercial and

other businesses in run-off. These segments are consistent with the groupings of financial information that management uses to evaluate performance and to determine the allocation of resources.

Underwriting income (loss), a measure that is not based on GAAP and is reconciled to net income (loss) below, is calculated as premiums earned, less claims and claims expense (losses), amortization of deferred policy acquisition costs (DAC), operating costs and expenses and restructuring and related charges, as determined using GAAP. We use this measure in our evaluation of results of operations to analyze the profitability of the Property-Liability insurance operations separately from investment results. It is also an integral component of incentive compensation. It is useful for investors to evaluate the components of income separately and in the aggregate when reviewing performance. Net income (loss) is the GAAP measure most directly comparable to underwriting income (loss). Underwriting income (loss) should not be considered as a substitute for net income and does not reflect the overall profitability of the business.

The table below includes GAAP operating ratios we use to measure our profitability. We believe that they enhance an investor's understanding of our profitability. They are calculated as follows:

- Claims and claims expense (loss) ratio - the ratio of claims and claims expense to premiums earned. Loss ratios include the impact of catastrophe losses.
- Expense ratio - the ratio of amortization of DAC, operating costs and expenses, and restructuring and related charges to premiums earned.
- Combined ratio - the ratio of claims and claims expense, amortization of DAC, operating costs and expenses, and restructuring and related charges to premiums earned. The combined ratio is the sum of the loss ratio and the expense ratio. The difference between 100% and the combined ratio represents underwriting income (loss) as a percentage of premiums earned, or underwriting margin.

We have also calculated the following impacts of specific items on the GAAP operating ratios because of the volatility of these items between fiscal periods.

- Effect of catastrophe losses on combined ratio - the percentage of catastrophe losses included in claims and claims expense to premiums earned. This ratio includes prior year reserve reestimates of catastrophe losses.
- Effect of prior year reserve reestimates on combined ratio - the percentage of prior year reserve reestimates included in claims and claims expense to premiums earned. This ratio includes prior year reserve reestimates of catastrophe losses.
- Effect of business combination expenses and the amortization of purchased intangible assets on combined and expense ratio - the percentage of business combination expenses and the amortization of purchased intangible assets to premiums earned.
- Effect of restructuring and related charges on combined ratio - the percentage of restructuring and related charges to premiums earned.
- Effect of Discontinued Lines and Coverages on combined ratio - the ratio of claims and claims expense and operating costs and expenses in the Discontinued Lines and Coverages segment to Property-Liability premiums earned. The sum of the effect of Discontinued Lines and Coverages on the combined ratio and the Allstate Protection combined ratio is equal to the Property-Liability combined ratio.

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

(\$ in millions, except ratios)	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Premiums written	\$ 7,063	\$ 6,728	\$ 20,390	\$ 19,554
Revenues				
Premiums earned	\$ 6,697	\$ 6,432	\$ 19,993	\$ 19,337
Net investment income	299	298	964	892
Realized capital gains and losses	(16)	24	192	73
Total revenues	6,980	6,754	21,149	20,302
Costs and expenses				
Claims and claims expense	(4,293)	(5,132)	(13,442)	(15,963)
Amortization of DAC	(870)	(866)	(2,613)	(2,597)
Operating costs and expenses	(866)	(735)	(2,597)	(2,230)
Restructuring and related charges	(9)	(8)	(25)	(30)
Total costs and expenses	(6,038)	(6,741)	(18,677)	(20,820)
Loss on disposition of operations	--	(1)	--	(1)
Income tax (expense) benefit	(303)	29	(784)	291
Net income (loss)	\$ 639	\$ 41	\$ 1,688	\$ (228)
Underwriting income (loss)	\$ 659	\$ (309)	\$ 1,316	\$ (1,483)
Net investment income	299	298	964	892
Income tax (expense) benefit on operations	(308)	37	(717)	316
Realized capital gains and losses, after-tax	(11)	15	125	47
Net income (loss)	\$ 639	\$ 41	\$ 1,688	\$ (228)
Catastrophe losses (1)	\$ 206	\$ 1,077	\$ 1,284	\$ 3,749
GAAP operating ratios				
Claims and claims expense ratio	64.1	79.8	67.2	82.6
Expense ratio	26.1	25.0	26.2	25.1
Combined ratio	90.2	104.8	93.4	107.7
Effect of catastrophe losses on combined ratio (1)	3.1	16.7	6.4	19.4
Effect of prior year reserve reestimates on combined ratio (1)	(2.2)	(1.8)	(2.6)	(1.1)
Effect of business combination expenses and the amortization of purchased intangible assets on combined ratio	0.4	--	0.5	--
Effect of restructuring and related charges on combined ratio	0.1	0.1	0.1	0.2
Effect of Discontinued Lines and Coverages on combined ratio	0.7	0.2	0.2	0.1

(1) Prior year reserve reestimates included in catastrophe losses totaled \$76 million and \$330 million favorable in the three months and nine months ended September 30, 2012, respectively, compared to \$47 million and \$98 million favorable in the three months and nine months ended September 30, 2011, respectively.

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

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

(\$ in millions)	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Premiums written:				
Allstate Protection	\$ 7,064	\$ 6,728	\$ 20,390	\$ 19,555
Discontinued Lines and Coverages	(1)	--	--	(1)
Property-Liability premiums written	7,063	6,728	20,390	19,554
Increase in unearned premiums	(411)	(276)	(442)	(207)
Other	45	(20)	45	(10)
Property-Liability premiums earned	\$ 6,697	\$ 6,432	\$ 19,993	\$ 19,337
Premiums earned:				
Allstate Protection	\$ 6,696	\$ 6,432	\$ 19,992	\$ 19,338
Discontinued Lines and Coverages	1	--	1	(1)
Property-Liability	\$ 6,697	\$ 6,432	\$ 19,993	\$ 19,337

ALLSTATE PROTECTION SEGMENT

Premiums written by brand are shown in the following table.

(\$ in millions)			Three months ended September 30,					
	Allstate brand		Encompass brand		Esurance brand (2)		Allstate Protection	
	2012	2011	2012	2011	2012	2012	2011	
Standard auto	\$ 3,988	\$ 3,996	\$ 163	\$ 159	\$ 282	\$ 4,433	\$ 4,155	
Non-standard auto	176	194	--	--	--	176	194	
Homeowners	1,686	1,634	108	100	--	1,794	1,734	
Other personal lines	635	622	26	23	--	661	645	
(1)								
Total	\$ 6,485	\$ 6,446	\$ 297	\$ 282	\$ 282	\$ 7,064	\$ 6,728	
			Nine months ended September 30,					
	Allstate brand		Encompass brand		Esurance brand (2)		Allstate Protection	
	2012	2011	2012	2011	2012	2012	2011	
Standard auto	\$ 11,828	\$ 11,891	\$ 465	\$ 457	\$ 768	\$ 13,061	\$ 12,348	
Non-standard auto	539	601	--	1	--	539	602	
Homeowners	4,583	4,465	297	273	--	4,880	4,738	
Other personal lines	1,837	1,798	73	69	--	1,910	1,867	
(1)								
Total	\$ 18,787	\$ 18,755	\$ 835	\$ 800	\$ 768	\$ 20,390	\$ 19,555	

-
- (1) Other personal lines include commercial, condominium, renters, involuntary auto and other personal lines.
- (2) Esurance brand business was acquired on October 7, 2011.

Premiums earned by brand are shown in the following table.

(\$ in millions)

	Three months ended September 30,							
	Allstate brand		Encompass brand		Esurance brand		Allstate Protection	
	2012	2011	2012	2011	2012	2011	2012	2011
Standard auto	\$ 3,910	\$ 3,916	\$ 152	\$ 154	\$ 248	\$ 248	\$ 4,310	\$ 4,070
Non-standard auto	177	196	--	--	--	--	177	196
Homeowners	1,499	1,462	96	91	--	--	1,595	1,553
Other personal lines	591	590	23	23	--	--	614	613
Total	\$ 6,177	\$ 6,164	\$ 271	\$ 268	\$ 248	\$ 248	\$ 6,696	\$ 6,432

	Nine months ended September 30,							
	Allstate brand		Encompass brand		Esurance brand		Allstate Protection	
	2012	2011	2012	2011	2012	2011	2012	2011
Standard auto	\$ 11,716	\$ 11,782	\$ 456	\$ 469	\$ 703	\$ 703	\$ 12,875	\$ 12,251
Non-standard auto	544	611	--	2	--	--	544	613
Homeowners	4,466	4,367	281	273	--	--	4,747	4,640
Other personal lines	1,757	1,765	69	69	--	--	1,826	1,834
Total	\$ 18,483	\$ 18,525	\$ 806	\$ 813	\$ 703	\$ 703	\$ 19,992	\$ 19,338

Premium measures and statistics that are used to analyze the business are calculated and described below. Measures and statistics presented exclude Allstate Canada and specialty auto.

- **PIF:** Policy counts are based on items rather than customers. A multi-car customer would generate multiple item (policy) counts, even if all cars were insured under one policy.
- **Average premium-gross written:** Gross premiums written divided by issued item count. Gross premiums written include the impacts from discounts and surcharges and exclude the impacts from mid-term premium adjustments, ceded reinsurance premiums, and premium refund accruals. Allstate brand average gross premiums represent the appropriate policy term for each line, which is 6 months for standard and non-standard auto and 12 months for homeowners. Encompass brand average gross premiums represent the appropriate policy term for each line, which is 12 months for standard auto and homeowners and 6 months for non-standard auto. Esurance brand average gross premiums represent the appropriate policy term, which is 6 months for standard auto.
- **Renewal ratio:** Renewal policies issued during the period, based on contract effective dates, divided by the total policies issued 6 months prior for standard and non-standard auto (12 months prior for Encompass brand standard auto) or 12 months prior for homeowners.
- **New issued applications:** Item counts of automobiles or homeowners insurance applications for insurance policies that were issued during the period, regardless of whether the customer was previously insured by another Allstate Protection market segment. Does not include automobiles that are added by existing customers.

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Standard auto premiums written totaled \$4.43 billion in the third quarter of 2012, an increase of 6.7% from \$4.16 billion in the third quarter of 2011, and \$13.06 billion in the first nine months of 2012, an increase of 5.8% from \$12.35 billion in the first nine months of 2011.

	Allstate brand		Encompass brand		Esurance brand
	2012	2011	2012	2011	2012
Standard auto					
Three months ended September 30,					
PIF (thousands)	16,941	17,286	697	671	962
Average premium-gross written (1)	\$ 450	\$ 446	\$ 912	\$ 929	\$ 485
Renewal ratio (%) (1)	89.0	89.1	77.0	69.8	77.0
Approved rate changes (2):					
# of states	13	10	3	8	7
Countrywide (%) (3)	0.3	0.9	0.7	0.7	1.2
State specific (%) (4) (5)	1.8	7.3 (6)	4.5	3.9	4.2
Nine months ended September 30,					
PIF (thousands)	16,941	17,286	697	671	962
Average premium-gross written (1)	\$ 448	\$ 442	\$ 914	\$ 940	\$ 496
Renewal ratio (%) (1)	88.9	89.1	74.7	70.4	78.3
Approved rate changes (2):					
# of states	34	25	18	14	28
Countrywide (%) (3)	2.3	3.9	2.4	1.6	2.4
State specific (%) (4) (5)	4.2	7.2 (6)	4.2	4.3	3.8

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

(2) Rate changes that are indicated based on loss trend analysis to achieve a targeted return will continue to be pursued. Rate changes do not include rating plan enhancements, including the introduction of discounts and surcharges that result in no change in the overall rate level in the state. These rate changes do not reflect initial rates filed for insurance subsidiaries initially writing business in a state. Rate changes exclude Allstate Canada and specialty auto.

(3) Represents the impact in the states where rate changes were approved during the three months and nine months ended September 30, 2012 and 2011, respectively, as a percentage of total countrywide prior year-end premiums written.

(4) Represents the impact in the states where rate changes were approved during the three months and nine months ended September 30, 2012 and 2011, respectively, as a percentage of its respective total prior year-end premiums written in those states.

(5) Based on historical premiums written in those states, rate changes approved for standard auto totaled \$62 million and \$384 million in the three months and nine months ended September 30, 2012, respectively, compared to \$134 million and \$608 million in the three months and nine months ended September 30, 2011, respectively.

(6) Three months ended September 30, 2011 includes the impact of a New York rate increase averaging 9.9%. Nine months ended September 30, 2011 includes the impact of Florida rate increases averaging 16.1%, and New York rate increases averaging 10.4%.

Allstate brand standard auto premiums written totaled \$3.99 billion in the third quarter of 2012, comparable to \$4.00 billion in the third quarter of 2011 and \$11.83 billion in the first nine months of 2012, a decrease of 0.5% from \$11.89 billion in the first nine months of 2011. Excluding Florida and New York, Allstate brand standard auto premiums written totaled \$3.23 billion in the third quarter of 2012, an increase of 1.4% from \$3.19 billion in the third quarter of 2011 and \$9.55 billion in the first nine months of 2012, an increase of 1.1% from \$9.45 billion in the first nine months of 2011. Contributing to the Allstate brand standard auto premiums written results in the third quarter and first nine months of 2012

compared to the same periods of 2011 were the following:

2.0% decrease in PIF as of September 30, 2012 compared to September 30, 2011 due to fewer new issued applications and fewer policies available to renew. Excluding Florida and New York, PIF decreased 1.0% as of September 30, 2012 compared to September 30, 2011.

1.3% decrease in new issued applications on a countrywide basis to 460 thousand in the third quarter of 2012 from 466 thousand in the third quarter of 2011, and 5.2% decrease to 1,381 thousand in the first nine months of 2012 from 1,457 thousand in the first nine months of 2011. Excluding Florida and New York, new issued applications on a countrywide basis decreased 3.1% to 405 thousand in the third quarter of 2012 from 418 thousand in the third quarter of 2011, and decreased 5.4% to 1,220 thousand in the first nine months of 2012 from 1,289 thousand in the first nine months of 2011. New issued applications increased in 11 states in the first nine months of 2012 compared to the same period of 2011.

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increase in average gross premium in the third quarter and first nine months of 2012 compared to the same periods of 2011.

0.1 point and 0.2 point decrease in the renewal ratio in the third quarter and first nine months of 2012, respectively, compared to the same periods of 2011. In the first nine months of 2012, 28 states are showing favorable comparisons to prior year.

Encompass brand standard auto premiums written totaled \$163 million in the third quarter of 2012, an increase of 2.5% from \$159 million in the third quarter of 2011 and \$465 million in the first nine months of 2012, an increase of 1.8% from \$457 million in the first nine months of 2011. The increases are primarily due to a 3.9% increase in PIF as of September 30, 2012 compared to September 30, 2011 and actions taken to enhance our premier package policy. New issued applications increased 23.3% in the third quarter of 2012 compared to the third quarter of 2011 and 28.0% in the first nine months of 2012 compared to the first nine months of 2011. The renewal ratio increased 7.2 points and 4.3 points in the third quarter and first nine months of 2012, respectively, compared to the same periods of 2011 driven primarily by retaining more package business.

Esurance brand standard auto premiums written totaled \$282 million, \$224 million and \$262 million in the third, second and first quarter of 2012, respectively, reflecting expected seasonality in this business. PIF as of September 30, 2012 increased 7.8% compared to June 30, 2012 and 22.4% compared to December 31, 2011.

Non-standard auto premiums written totaled \$176 million in the third quarter of 2012, a decrease of 9.3% from \$194 million in the third quarter of 2011, and \$539 million in the first nine months of 2012, a decrease of 10.5% from \$602 million in the first nine months of 2011.

	Three months ended		Nine months ended	
	September 30,		September 30,	
Allstate brand	2012	2011	2012	2011
<u>Non-standard auto</u>				
PIF (thousands)	528	599	528	599
Average premium-gross written (6 months)	\$ 596	\$ 586	\$ 598	\$ 609
Renewal ratio (%) (6 months)	70.1	70.6	70.1	70.6
Approved rate changes:				
# of states	4	3	8	9
Countrywide (%)	0.2	0.9	0.8	4.9
State specific (%) (1)	5.8	11.5	3.8	14.4

(1) Based on historical premiums written in those states, rate changes approved for non-standard auto totaled \$1 million and \$5 million in the three months and nine months ended September 30, 2012, respectively, compared to \$8 million and \$41 million in the three months and nine months ended September 30, 2011, respectively.

Allstate brand non-standard auto premiums written totaled \$176 million in the third quarter of 2012, a decrease of 9.3% from \$194 million in the third quarter of 2011, and \$539 million in the first nine months of 2012, a decrease of 10.3% from \$601 million in the first nine months of 2011. Contributing to the Allstate brand non-standard auto premiums written decrease in the third quarter and first nine months of 2012 compared to the same periods of 2011 were the following:

decrease in PIF as of September 30, 2012 compared to September 30, 2011 due to fewer number of policies available to renew

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8.2% decrease in new issued applications to 56 thousand in the third quarter of 2012 from 61 thousand in the third quarter of 2011, and 2.5% decrease to 193 thousand in the first nine months of 2012 from 198 thousand in the first nine months of 2011

increase in average gross premium in the third quarter of 2012 compared to the same period of 2011 and decrease in average gross premium in the first nine months of 2012 compared to the same period of 2011

0.5 point decrease in the renewal ratio in the third quarter and first nine months of 2012 compared to the same periods of 2011

Homeowners premiums written totaled \$1.79 billion in the third quarter of 2012, an increase of 3.5% from \$1.73 billion in the third quarter of 2011, and \$4.88 billion in the first nine months of 2012, an increase of 3.0% from \$4.74 billion in the first nine months of 2011. Excluding the cost of catastrophe reinsurance, premiums written increased 2.9% and 2.4% in the third quarter and first nine months of 2012, respectively, compared to the same periods of 2011.

<u>Homeowners</u>	Allstate brand		Encompass brand	
	2012	2011	2012	2011
Three months ended September 30,				
PIF (thousands) (1)	6,042	6,459	320	306
Average premium-gross written (12 months)	\$ 1,096	\$ 1,001	\$ 1,323	\$ 1,306
Renewal ratio (%) (12 months)	87.2	88.4	84.5	79.6
Approved rate changes (2):				
# of states	10	15	5 (4)	7
Countrywide (%)	0.8	2.3	0.3	0.7
State specific (%) (3)	7.3	13.9	2.5	3.0
Nine months ended September 30,				
PIF (thousands) (1)	6,042	6,459	320	306
Average premium-gross written (12 months)	\$ 1,081	\$ 989	\$ 1,311	\$ 1,300
Renewal ratio (%) (12 months)	87.2	88.4	82.3	80.9
Approved rate changes (2):				
# of states	28	37 (4)	19 (4)	22 (4)
Countrywide (%)	4.0	5.6	3.0	2.3
State specific (%) (3)	8.9	10.5	5.1	3.5

(1) Beginning in first quarter 2012, excess and surplus lines PIF are not included in the homeowners PIF totals. Previously, these policy counts were included in the homeowners totals. Excess and surplus lines represent policies written by North Light Specialty Insurance Company. All other total homeowners measures and statistics include excess and surplus lines except for new issued applications.

(2) Includes rate changes approved based on our net cost of reinsurance. Rate changes exclude excess and surplus lines.

(3) Based on historical premiums written in those states, rate changes approved for homeowners totaled \$48 million and \$257 million in the three months and nine months ended September 30, 2012, respectively, compared to \$140 million and \$350 million in the three months and nine months ended September 30, 2011, respectively.

(4) Includes Washington D.C.

Allstate brand homeowners premiums written totaled \$1.69 billion in the third quarter of 2012, an increase of 3.2% from \$1.63 billion in the third quarter of 2011, and \$4.58 billion in the first nine months of 2012, an increase of 2.6% from \$4.47 billion in the first nine months of 2011. Contributing to the Allstate brand homeowners premiums written increase in the third quarter and first nine months of 2012 compared to the same periods of 2011 were the following:

6.5% decrease in PIF as of September 30, 2012 compared to September 30, 2011 due to fewer policies available to renew and fewer new issued applications

new issued applications of 116 thousand in the third quarter of 2012 were comparable to the third quarter of 2011, and decreased 5.7% to 333 thousand in the first nine months of 2012 from 353 thousand in the first nine months of 2011. We have new business underwriting

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restrictions in certain states. We also continue to take actions to maintain an appropriate level of exposure to catastrophic events while continuing to meet the needs of our customers, including selectively not offering continuing coverage in coastal areas of certain states.

increase in average gross premium in the third quarter and first nine months of 2012 compared to the same periods of 2011 primarily due to rate changes

1.2 point decrease in the renewal ratio in the third quarter and first nine months of 2012 compared to the same periods of 2011

decrease in the cost of our catastrophe reinsurance program in the third quarter and first nine months of 2012 compared to the same periods of 2011

Allstate House and HomeSM premiums written totaled \$27 million and \$38 million in the third quarter and first nine months of 2012, respectively. Our Allstate House and Home product provides greater options of coverage for roof damage including depreciated value versus replacement value and uses a number of factors to determine the pricing, some of which relate to underwriting information normally obtained to evaluate auto insurance risks. The Allstate House and Home product has been rolled out to 12 states as of September 30, 2012 and we expect a continued countrywide roll out for new business over the next two years.

Encompass brand homeowners premiums written totaled \$108 million in the third quarter of 2012, an increase of 8.0% from \$100 million in the third quarter of 2011 and \$297 million in the first nine months of 2012, an increase of 8.8% from \$273 million in the first nine months of 2011. The increases are primarily due to a 4.6% increase in PIF as of September 30, 2012 compared to September 30, 2011 and actions taken to enhance our premier package policy. New issued applications increased 35.7% in the third quarter of 2012 compared to the third quarter of 2011 and 40.5% in the first nine months of 2012 compared to the first nine months of 2011. The renewal ratio increased 4.9 points and 1.4 points in the third quarter and first nine months of 2012, respectively, compared to the same periods of 2011 driven primarily by retaining more package business.

Other personal lines Allstate brand other personal lines premium written totaled \$635 million in the third quarter of 2012, an increase of 2.1% from \$622 million in the third quarter of 2011 and \$1.84 billion in the first nine months of 2012, an increase of 2.2% from \$1.80 billion in the first nine months of 2011. Allstate brand other personal lines includes Emerging Businesses other personal lines (renters, condominium, other property, Allstate Roadside Services and Allstate Dealer Services) for which premiums written increased \$18 million to \$496 million and \$55 million to \$1.41 billion in the third quarter and first nine months of 2012, respectively, compared to the same periods of 2011.

Underwriting results are shown in the following table.

(\$ in millions)	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Premiums written	\$ 7,064	\$ 6,728	\$ 20,390	\$ 19,555
Premiums earned	\$ 6,696	\$ 6,432	\$ 19,992	\$ 19,338
Claims and claims expense	(4,251)	(5,121)	(13,395)	(15,945)
Amortization of DAC	(870)	(866)	(2,613)	(2,597)
Other costs and expenses	(865)	(734)	(2,594)	(2,227)
Restructuring and related charges	(9)	(8)	(25)	(30)
Underwriting income (loss)	\$ 701	\$ (297)	\$ 1,365	\$ (1,461)
Catastrophe losses	\$ 206	\$ 1,077	\$ 1,284	\$ 3,749
Underwriting income (loss) by line of business				
Standard auto	\$ 256	\$ 206	\$ 493	\$ 451
Non-standard auto	33	34	79	75
Homeowners	416	(512)	652	(1,779)
Other personal lines	(4)	(25)	141	(208)
Underwriting income (loss)	\$ 701	\$ (297)	\$ 1,365	\$ (1,461)
Underwriting income (loss) by brand				
Allstate brand	\$ 746	\$ (226)	\$ 1,514	\$ (1,335)
Encompass brand	1	(71)	(3)	(126)
Esurance brand	(46)	--	(146)	--
Underwriting income (loss)	\$ 701	\$ (297)	\$ 1,365	\$ (1,461)

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Allstate Protection had underwriting income of \$701 million in the third quarter of 2012 compared to an underwriting loss of \$297 million in the third quarter of 2011 primarily due to underwriting income for homeowners compared to an underwriting loss in the prior year, an increase in standard auto underwriting income and a decrease in other personal lines underwriting loss. Allstate Protection had underwriting income of \$1.37 billion in the first nine months of 2012 compared to an underwriting loss of \$1.46 billion in the first nine months of 2011 primarily due to underwriting income in homeowners and other personal lines compared to underwriting losses in the prior year and

an increase in standard auto underwriting income. Homeowners underwriting income was \$416 million in the third quarter of 2012 compared to an underwriting loss of \$512 million in the third quarter of 2011, and homeowners underwriting income was \$652 million in the first nine months of 2012 compared to an underwriting loss of \$1.78 billion in the first nine months of 2011. Both periods were primarily impacted by decreases in catastrophe losses and average earned premiums increasing faster than loss costs, partially offset by higher expenses. Other personal lines underwriting loss was \$4 million in the third quarter of 2012 compared to \$25 million in the third quarter of 2011, and other personal lines underwriting income was \$141 million in the first nine months of 2012 compared to an underwriting loss of \$208 million in the first nine months of 2011, primarily due to decreases in catastrophe losses. Standard auto underwriting income increased \$50 million to \$256 million in the third quarter of 2012 from \$206 million in the third quarter of 2011 primarily due to decreases in catastrophe losses, partially offset by higher expenses and inclusion of Esurance brand's underwriting loss of \$46 million in the third quarter of 2012. Standard auto underwriting income increased \$42 million to \$493 million in the first nine months of 2012 from \$451 million in the first nine months of 2011 primarily due to decreases in catastrophe losses and favorable reserve reestimates, partially offset by higher expenses and inclusion of Esurance brand's underwriting loss of \$146 million in the first nine months of 2012.

Catastrophe losses in the third quarter and first nine months of 2012 were \$206 million and \$1.28 billion, respectively, as detailed in the table below. This compares to catastrophe losses in the third quarter and first nine months of 2011 of \$1.08 billion and \$3.75 billion, respectively.

We define a catastrophe as an event that produces pre-tax losses before reinsurance in excess of \$1 million and involves multiple first party policyholders, or an event that produces a number of claims in excess of a preset, per-event threshold of average claims in a specific area, occurring within a certain amount of time following the event. Catastrophes are caused by various natural events including high winds, winter storms, tornadoes, hailstorms, wildfires, tropical storms, hurricanes, earthquakes and volcanoes. We are also exposed to man-made catastrophic events, such as certain types of terrorism or industrial accidents. The nature and level of catastrophes in any period cannot be reliably predicted.

Catastrophe losses related to events that occurred by the size of the event are shown in the following table.

(\$ in millions)

			Three months ended September 30, 2012			
	Number of events		Claims and claims expense		Combined ratio impact	Average catastrophe loss per event
Size of catastrophe loss						
\$101 million to \$250 million	--	--%	\$ --	--%	--	\$ --
\$50 million to \$100 million	1	3.4	81	39.3	1.2	81
Less than \$50 million	28	96.6	232	112.6	3.5	8
Total	29	100.0%	313	151.9	4.7	11
Prior year reserve reestimates			(76)	(36.9)	(1.1)	
Prior quarter reserve reestimates			(31)	(15.0)	(0.5)	
Total catastrophe losses			\$ 206	100.0%	3.1	
			Nine months ended September 30, 2012			
	Number of events		Claims and claims expense		Combined ratio impact	Average catastrophe loss per event
Size of catastrophe loss						
\$101 million to \$250 million	5	6.8%	\$ 685	53.4%	3.4	\$ 137
\$50 million to \$100 million	4	5.4	316	24.6	1.6	79
Less than \$50 million	65	87.8	613	47.7	3.1	9
Total	74	100.0%	1,614	125.7	8.1	22

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Prior year reserve reestimates		(330)	(25.7)	(1.7)
Total catastrophe losses	\$	1,284	100.0%	6.4

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

(\$ in millions)		Three months ended September 30,			Nine months ended September 30,				
	2012	Number of events	2011	Number of events	2012	Number of events	2011	Number of events	
Hurricanes/Tropical storms	\$ 81	1	\$ 632	2	\$ 89	2	\$ 632	2	
Tornadoes	--	--	--	--	295	5	1,280	6	
Wind/Hail	225	26	413	17	1,156	56	1,689	52	
Wildfires	7	2	50	3	67	10	65	8	
Other events	--	--	--	1	7	1	181	4	
Prior year reserve reestimates	(76)		(47)		(330)		(98)		
Prior quarter reserve reestimates	(31)		29		--		--		
Total catastrophe losses	\$ 206	29	\$ 1,077	23	\$ 1,284	74	\$ 3,749	72	

Catastrophe losses, including prior year reserve reestimates, excluding hurricanes named or numbered by the National Weather Service, fires following earthquakes and earthquakes totaled \$1.30 billion in the first nine months of 2012.

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Combined ratio Loss ratios are a measure of profitability. Loss ratios by product, and expense and combined ratios by brand, are shown in the following table. These ratios are defined in the Property-Liability Operations section of the MD&A.

	Three months ended September 30,						Nine months ended September 30,						Effect of business combination expenses and the amortization of purchased intangible assets on combined ratio	
	Loss ratio (1)		Effect of catastrophe losses on combined ratio		Effect of prior year reserve reestimates on combined ratio		Loss ratio (1)		Effect of catastrophe losses on combined ratio		Effect of prior year reserve reestimates on combined ratio			
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011		
Allstate brand loss ratio:														
Standard auto	66.9	69.3	1.3	2.9	(3.2)	(3.3)		68.8	70.9	2.1	3.3	(2.2)	(2.0)	
Non-standard auto	58.2	57.1	1.1	0.5	(4.5)	(8.7)		62.1	63.8	0.9	1.5	(2.0)	(4.3)	
Homeowners	49.0	108.6	7.8	55.8	(4.3)	--		62.5	115.9	20.1	65.7	(5.2)	(0.8)	
Other personal lines	70.4	76.3	3.6	13.1	2.7	2.4		62.6	81.4	4.6	18.4	(2.3)	3.7	
Total Allstate brand loss ratio	62.7	78.9	3.1	16.3	(2.9)	(2.1)		66.5	82.3	6.7	19.4	(2.9)	(1.2)	
Allstate brand expense ratio	25.2	24.8	--	--	--	--	0.1	25.3	24.9	--	--	--	--	0.1
Allstate brand combined ratio	87.9	103.7	3.1	16.3	(2.9)	(2.1)	0.1	91.8	107.2	6.7	19.4	(2.9)	(1.2)	0.1
Encompass brand loss ratio:														
Standard auto	79.6	87.6	1.3	3.2	0.7	6.5		79.8	80.6	1.5	2.1	0.4	3.2	
Non-standard auto	--	--	--	--	--	--		--	150.0	--	--	--	(50.0)	
Homeowners	58.3	119.8	13.5	70.3	(8.3)	(4.4)		60.1	97.8	11.7	49.5	(5.0)	(1.5)	
Other personal lines	56.5	65.2	--	8.7	(4.3)	(8.7)		62.3	78.2	--	11.6	(10.1)	(5.8)	
Total Encompass brand loss ratio	69.4	97.0	5.5	26.5	(3.7)	1.5		71.2	86.3	5.0	18.8	(2.7)	0.7	
Encompass brand expense ratio	30.2	29.5	--	--	--	--	--	29.2	29.2	--	--	--	--	--
Encompass brand combined ratio	99.6	126.5	5.5	26.5	(3.7)	1.5	--	100.4	115.5	5.0	18.8	(2.7)	0.7	--
Esurance brand loss ratio:														
Standard auto	77.4	--	0.8	--	--	--		75.5	--	1.3	--	--	--	
Total Esurance brand loss ratio	77.4	--	0.8	--	--	--		75.5	--	1.3	--	--	--	
Esurance brand expense ratio	41.1	--	--	--	--	--	8.1	45.3	--	--	--	--	--	11.2
Esurance brand combined ratio	118.5	--	0.8	--	--	--	8.1	120.8	--	1.3	--	--	--	11.2
Allstate Protection loss ratio	63.5	79.6	3.1	16.7	(2.9)	(2.0)		67.0	82.5	6.4	19.4	(2.8)	(1.2)	
	26.0	25.0	--	--	--	--	0.4	26.2	25.1	--	--	--	--	0.5

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Allstate Protection
expense ratio
Allstate Protection
combined ratio

89.5	104.6	3.1	16.7	(2.9)	(2.0)	0.4	93.2	107.6	6.4	19.4	(2.8)	(1.2)	0.5
------	-------	-----	------	-------	-------	-----	------	-------	-----	------	-------	-------	-----

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

Standard auto loss ratio for the Allstate brand decreased 2.4 points in the third quarter of 2012 compared to the same period of 2011 primarily due to lower catastrophe losses. Standard auto loss ratio for the Allstate brand decreased 2.1 points in the first nine months of 2012 compared to the same period of 2011 primarily due to lower catastrophe losses and favorable reserve reestimates. Excluding the impact of catastrophe losses, the Allstate brand standard auto loss ratio improved 0.8 points and 0.9 points in the third quarter and first nine months of 2012, respectively, compared to the same periods of 2011. Florida and New York results have shown improvement with

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loss ratios, including prior year reserve reestimates, of 65.6 and 67.8, respectively, in the third quarter of 2012 compared to 70.4 and 83.9, respectively, in the third quarter of 2011, and 67.9 and 66.9, respectively, in the first nine months of 2012 compared to 73.8 and 77.4, respectively, in the first nine months of 2011. Although the combined impact of these two states on countrywide results has improved as a result of management actions, including rate increases, underwriting restrictions, increased claims staffing and review, and on-going efforts to combat fraud and abuse, we continue to focus on profitability given ongoing developments in these two states. In the third quarter and first nine months of 2012, claim frequencies in the bodily injury and property damage coverages decreased compared to the same periods of 2011. Bodily injury and property damage coverage severity results increased in the third quarter and first nine months of 2012. In the first nine months of 2012 severity increased in line with historical Consumer Price Index trends.

Encompass brand standard auto loss ratio decreased 8.0 points and 0.8 points in the third quarter and first nine months of 2012, respectively, compared to the same periods of 2011 due to lower unfavorable reserve reestimates and lower catastrophe losses.

Esurance brand standard auto loss ratio increased 1.3 points in the third quarter of 2012 compared to second quarter 2012. The increase was primarily due to unfavorable results on personal injury protection coverage in New Jersey and Florida. New Jersey was impacted by an increase in the number of large personal injury protection claims. Florida was impacted by delays in reporting of smaller personal injury protection claims. Florida results improved slightly in third quarter 2012 compared to the first half of 2012, although the Florida loss ratio continues to be higher than countrywide. In third quarter 2012, Esurance implemented a number of profitability management actions, including rate increases in Florida, Michigan, Texas and certain other states, and underwriting actions in Florida and Michigan.

Homeowners loss ratio for the Allstate brand decreased 59.6 points to 49.0 in the third quarter of 2012 from 108.6 in the third quarter of 2011, and 53.4 points to 62.5 in the first nine months of 2012 from 115.9 in the first nine months of 2011 due to lower catastrophe losses and average earned premiums increasing faster than loss costs.

Encompass brand homeowners loss ratio decreased 61.5 points and 37.7 points in the third quarter and first nine months of 2012, respectively, compared to the same periods of 2011 due to lower catastrophe losses and favorable reserve reestimates.

Expense ratio for Allstate Protection increased 1.0 point and 1.1 points in the third quarter and first nine months of 2012, respectively, compared to the same periods of 2011. The increase in both periods was primarily due to additional marketing costs and the amortization of purchased intangible assets related to Esurance in the current year period. Other costs and expenses include Esurance advertising expense which had a 16.5 point and 17.6 point impact on the Esurance brand expense ratio in the third quarter and first nine months of 2012, respectively, and a 0.6 point impact on the Allstate Protection expense ratio in both periods. Esurance present value of future profits balance of \$21 million as of December 31, 2011 was fully amortized in first quarter 2012. Based on our analysis, Esurance's acquisition costs, primarily advertising, are in line with other distribution channels when considering the cumulative earned premiums of policies sold.

The impact of specific costs and expenses on the expense ratio are included in the following table.

	Three months ended September 30,						
	Allstate brand		Encompass brand		Esurance Brand	Allstate Protection	
	2012	2011	2012	2011	2012	2012	2011
Amortization of DAC	13.2	13.3	17.7	17.5	2.4	13.0	13.5
Other costs and expenses	11.8	11.4	12.5	12.0	30.6	12.5	11.4

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Business combination expenses and amortization of purchased intangible assets	0.1	--	--	--	8.1	0.4	--
Restructuring and related charges	0.1	0.1	--	--	--	0.1	0.1
Total expense ratio	25.2	24.8	30.2	29.5	41.1	26.0	25.0

	Nine months ended September 30,						
	Allstate brand		Encompass brand		Esurance brand	Allstate Protection	
	2012	2011	2012	2011	2012	2012	2011
Amortization of DAC	13.2	13.3	17.5	17.5	2.4	13.0	13.4
Other costs and expenses	11.9	11.4	11.7	11.7	31.7	12.6	11.5
Business combination expenses and amortization of purchased intangible assets	0.1	--	--	--	11.2	0.5	--
Restructuring and related charges	0.1	0.2	--	--	--	0.1	0.2
Total expense ratio	25.3	24.9	29.2	29.2	45.3	26.2	25.1

Reserve reestimates The tables below show Allstate Protection net reserves representing the estimated cost of outstanding claims as they were recorded at the beginning of years 2012 and 2011, and the effect of reestimates in each year.

(\$ in millions)		January 1 reserves	
		2012	2011
Auto	\$	11,404	\$ 11,034
Homeowners		2,439	2,442
Other personal lines		2,237	2,141
Total Allstate Protection	\$	16,080	\$ 15,617

(\$ in millions, except ratios)		Three months ended September 30,				Nine months ended September 30,			
		Reserve reestimates (1)		Effect on combined ratio		Reserve reestimates (1)		Effect on combined ratio	
		2012	2011	2012	2011	2012	2011	2012	2011
Auto	\$	(134)	\$ (136)	(2.0)	(2.1)	\$ (265)	\$ (245)	(1.4)	(1.3)
Homeowners		(72)	(4)	(1.1)	(0.1)	(247)	(39)	(1.2)	(0.2)
Other personal lines		15	12	0.2	0.2	(47)	61	(0.2)	0.3
Total Allstate Protection (2)	\$	(191)	\$ (128)	(2.9)	(2.0)	\$ (559)	\$ (223)	(2.8)	(1.2)
Allstate brand	\$	(181)	\$ (132)	(2.7)	(2.1)	\$ (537)	\$ (229)	(2.7)	(1.2)
Encompass brand		(10)	4	(0.2)	0.1	(22)	6	(0.1)	--
Esurance brand		--	--	--	--	--	--	--	--
Total Allstate Protection (2)	\$	(191)	\$ (128)	(2.9)	(2.0)	\$ (559)	\$ (223)	(2.8)	(1.2)

(1) Favorable reserve reestimates are shown in parentheses.

(2) Reserve reestimates included in catastrophe losses totaled \$76 million and \$330 million favorable in the three months and nine months ended September 30, 2012, respectively, compared to \$47 million and \$98 million favorable in the three months and nine months ended September 30, 2011, respectively.

DISCONTINUED LINES AND COVERAGES SEGMENT

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

Summarized underwriting results are presented in the following table.

(\$ in millions)	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Premiums written	\$ (1)	\$ --	\$ --	\$ (1)
Premiums earned	\$ 1	\$ --	\$ 1	\$ (1)
Claims and claims expense	(42)	(11)	(47)	(18)
Operating costs and expenses	(1)	(1)	(3)	(3)
Underwriting loss	\$ (42)	\$ (12)	\$ (49)	\$ (22)

Underwriting losses of \$42 million and \$49 million in the third quarter and first nine months of 2012, respectively, were primarily related to our annual review using established industry and actuarial best practices resulting in a \$26 million unfavorable reestimate of asbestos reserves, a \$22 million unfavorable reestimate of environmental reserves and a \$5 million unfavorable reestimate of other reserves, partially offset by a \$14 million decrease in our allowance for future uncollectable reinsurance. Underwriting losses of \$12 million and \$22 million in the third quarter and first nine months of 2011, respectively, were primarily related to an \$26 million unfavorable reestimate of asbestos reserves and a \$5 million unfavorable reestimate of other reserves, partially offset by a \$26 million decrease of the allowance for future uncollectable reinsurance and environmental reserves essentially unchanged.

For asbestos exposures, our 2012 annual review resulted in an increase in estimated reserves of \$26 million for products related coverage due to increases for the assumed reinsurance portion of discontinued lines where we are reliant on our ceding companies to report claims. Reserves for asbestos claims were \$1.05 billion and \$1.08 billion, net of reinsurance recoverables of \$502 million and \$529 million, as of September 30, 2012 and December 31, 2011, respectively. We continue to be encouraged that the pace of industry claim activity has slowed, reflecting various state legislative actions and increased legal scrutiny of the legitimacy of claims. Incurred but not reported (IBNR) represents 58% of total net asbestos reserves as of September 30, 2012 with no change from December 31, 2011. IBNR provides for estimated probable future unfavorable reserve development of known claims and future reporting of additional unknown claims from current and new policyholders and ceding companies. In the third quarter of 2011, our review resulted in an increase in estimated reserves of \$26 million.

For environmental exposures, our 2012 annual review resulted in an increase in estimated reserves of \$22 million primarily related to site-specific remediations where the clean-up cost estimates and responsibility for the clean-up were more fully determined. Reserves for environmental claims were \$201 million and \$185 million, net of reinsurance recoverables of \$48 million and \$40 million, as of September 30, 2012 and December 31, 2011, respectively. IBNR represents 66% of total net environmental reserves, 2 points higher than as of December 31, 2011. In the third quarter of 2011, normal environmental claim activity resulted in essentially no change in estimated reserves.

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As of September 30, 2012, the allowance for uncollectible reinsurance was \$87 million, or approximately 12.3% of total recoverables from reinsurers in the Discontinued Lines and Coverages segment, compared to \$103 million or 13.4% of total recoverables as of December 31, 2011.

We believe that our reserves are appropriately established based on available facts, technology, laws, regulations, and assessments of other pertinent factors and characteristics of exposure (i.e. claim activity, potential liability, jurisdiction, products versus non-products exposure) presented by individual policyholders, assuming no change in the legal, legislative or economic environment.

PROPERTY-LIABILITY INVESTMENT RESULTS

Net investment income of \$299 million in the third quarter of 2012 was comparable to \$298 million in the third quarter of 2011 as higher average investment balances were offset by lower fixed income yields and lower limited partnership income. Net investment income increased 8.1% or \$72 million to \$964 million in the first nine months of 2012 from \$892 million in the first nine months of 2011 primarily due to income from limited partnerships and higher average investment balances, partially offset by lower fixed income yields. We continue to reduce interest rate risk by selling longer term fixed income securities and investing the proceeds in securities with shorter maturities, resulting in realized capital gains and lower net investment income, and positioning for reinvestment when interest rates rise.

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

(\$ in millions)	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Impairment write-downs	\$ (31)	\$ (105)	\$ (93)	\$ (196)
Change in intent write-downs	(2)	(10)	(31)	(48)
Net other-than-temporary impairment losses recognized in earnings	(33)	(115)	(124)	(244)
Sales	27	186	324	387
Valuation of derivative instruments	3	(56)	7	(42)
Settlements of derivative instruments	(13)	11	(15)	(91)
EMA limited partnership income (1)	--	(2)	--	63
Realized capital gains and losses, pre-tax	(16)	24	192	73
Income tax benefit (expense)	5	(9)	(67)	(26)
Realized capital gains and losses, after-tax	\$			
	(11)	\$ 15	\$ 125	\$ 47

(1) Income from limited partnerships accounted for under the equity method of accounting (EMA) is reported in net investment income in 2012 and realized capital gains and losses in 2011.

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

ALLSTATE FINANCIAL HIGHLIGHTS

- Net income was \$131 million and \$375 million in the third quarter and first nine months of 2012, respectively, compared to \$192 million and \$455 million in the third quarter and first nine months of 2011, respectively.
- Premiums and contract charges on underwritten products, including traditional life, interest-sensitive life and accident and health insurance, totaled \$548 million in the third quarter of 2012, an increase of 3.6% from the prior year period, and \$1.62 billion in the first nine months of 2012, an increase of 3.4% from the prior year period.
- Investments totaled \$58.16 billion as of September 30, 2012, reflecting an increase in carrying value of \$782 million from \$57.37 billion as of December 31, 2011. Net investment income decreased 7.3% to \$632 million in the third quarter of 2012 and 3.8% to \$1.98 billion

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in the first nine months of 2012 from \$682 million and \$2.06 billion in the third quarter and first nine months of 2011, respectively.

- Net realized capital losses totaled \$56 million in the third quarter of 2012 compared to net realized capital gains of \$219 million in the third quarter of 2011. Net realized capital losses totaled \$69 million in the first nine months of 2012 compared to net realized capital gains of \$320 million in the first nine months of 2011.
- During third quarter 2012, a \$27 million pre-tax charge to income was recorded related to our annual comprehensive review of the DAC, deferred sales inducement costs and secondary guarantee liability balances. This compares to a \$6 million pre-tax charge to income in the first quarter of 2011.
- Valuation changes on derivatives embedded in equity-indexed annuity contracts resulted in a \$75 million after-tax credit to net income in third quarter 2012 and a \$66 million after-tax credit to net income in the first nine months of 2012, compared to a \$5 million after-tax charge to net income in third quarter 2011 and a \$5 million after-tax charge to net income in the first nine months of 2011.
- Contractholder funds totaled \$40.11 billion as of September 30, 2012, reflecting decreases of \$2.22 billion from \$42.33 billion as of December 31, 2011 and \$3.67 billion from \$43.78 billion as of September 30, 2011.

ALLSTATE FINANCIAL SEGMENT

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

(\$ in millions)	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Revenues				
Life and annuity premiums and contract charges	\$ 563	\$ 552	\$ 1,675	\$ 1,668
Net investment income	632	682	1,982	2,060
Realized capital gains and losses	(56)	219	(69)	320
Total revenues	1,139	1,453	3,588	4,048
Costs and expenses				
Life and annuity contract benefits	(453)	(455)	(1,354)	(1,331)
Interest credited to contractholder funds	(215)	(405)	(959)	(1,240)
Amortization of DAC	(146)	(180)	(324)	(393)
Operating costs and expenses	(147)	(129)	(424)	(396)
Restructuring and related charges	--	--	--	2
Total costs and expenses	(961)	(1,169)	(3,061)	(3,358)
Gain (loss) on disposition of operations	9	4	15	(9)
Income tax expense	(56)	(96)	(167)	(226)
Net income	\$ 131	\$ 192	\$ 375	\$ 455
Investments as of September 30			\$ 58,155	\$ 59,068
Net income				
Life insurance	\$ 42		\$ 165	
Accident and health insurance	23		62	
Annuities and institutional products	66		148	
Net income	\$			
	131		\$ 375	

Net income was \$131 million in the third quarter of 2012 compared to \$192 million in the same period of 2011. Net income was \$375 million in the first nine months of 2012 compared to \$455 million in the first nine months of 2011. The decreases in both periods were primarily due to net realized capital losses in the current year compared to net realized capital gains in the prior year and lower net investment income, partially offset by decreased interest credited to contractholder funds and lower amortization of DAC.

Analysis of revenues Total revenues decreased 21.6% or \$314 million in the third quarter of 2012 and 11.4% or \$460 million in the first nine months of 2012 compared to the same periods of 2011 due to net realized capital losses in the current year periods compared to net realized capital gains in the prior year periods 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.

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

(\$ in millions)	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Underwritten products				
Traditional life insurance premiums	\$ 117	\$ 111	\$ 347	\$ 328
Accident and health insurance premiums	164	160	486	483
Interest-sensitive life insurance contract charges	267	258	790	759
Subtotal	548	529	1,623	1,570
Annuities				
Immediate annuities with life contingencies premiums	10	16	36	74
Other fixed annuity contract charges	5	7	16	24
Subtotal	15	23	52	98
Life and annuity premiums and contract charges (1)	\$ 563	552	1,675	1,668
		\$	\$	\$

(1) Contract charges related to the cost of insurance totaled \$180 million and \$167 million in the third quarter of 2012 and 2011, respectively, and \$523 million and \$491 million in the first nine months of 2012 and 2011, respectively.

Total premiums and contract charges increased 2.0% in the third quarter of 2012 and 0.4% in the first nine months of 2012 compared to the same periods of 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. Sales of immediate annuities with life contingencies fluctuate with changes in our pricing competitiveness relative to other insurers.

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

(\$ in millions)	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Contractholder funds, beginning balance	\$ 40,832	\$ 45,078	\$ 42,332	\$ 48,195
Deposits				
Fixed annuities	272	133	610	439
Interest-sensitive life insurance	323	320	990	966
Bank deposits	--	33	--	342
Total deposits	595	486	1,600	1,747
Interest credited	213	400	961	1,223
Maturities, benefits, withdrawals and other adjustments				
Maturities of and interest payments on institutional products	(1)	(26)	(90)	(819)
Benefits	(341)	(396)	(1,029)	(1,135)
Surrenders and partial withdrawals	(941)	(1,351)	(2,833)	(3,883)
Bank withdrawals	--	(162)	--	(646)
Contract charges	(264)	(257)	(794)	(763)
Net transfers from separate accounts	3	3	7	9
Fair value hedge adjustments for institutional products	--	--	--	(34)
Other adjustments (1)	14	1	(44)	(118)
Total maturities, benefits, withdrawals and other adjustments	(1,530)	(2,188)	(4,783)	(7,389)
Contractholder funds, ending balance	\$ 40,110	43,776	40,110	43,776
		\$	\$	\$

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

Contractholder funds decreased 1.8% and 5.2% in the third quarter and first nine months of 2012, respectively, compared to decreases of 2.9% and 9.2% in the third quarter and first nine months of 2011, respectively, reflecting our continuing strategy to reduce our concentration in spread-based products. Average contractholder funds decreased 8.9% and 10.4% in the third quarter and first nine months of 2012, respectively, compared to the same periods of 2011.

Contractholder deposits increased 22.4% in the third quarter of 2012 compared to the same period of 2011 primarily due to increased fixed annuity deposits on new equity-indexed annuity products launched in second quarter 2012. Contractholder deposits decreased 8.4% in the first nine months of 2012 compared to the same period of 2011 primarily due to the absence of Allstate Bank deposits in the current year period, partially offset by increased fixed annuity and interest-sensitive life deposits. In September 2011, Allstate Bank stopped opening new customer accounts and all funds were returned to Allstate Bank account holders prior to December 31, 2011.

Maturities of and interest payments on institutional products decreased 96.2% to \$1 million in the third quarter of 2012 and 89.0% to \$90 million in the first nine months of 2012 from \$26 million and \$819 million in the same periods of 2011, respectively, reflecting the continuing decline in these obligations.

Surrenders and partial withdrawals on deferred fixed annuities and interest-sensitive life insurance products decreased 30.3% to \$941 million in the third quarter of 2012 and 27.0% to \$2.83 billion in the first nine months of 2012 from \$1.35 billion and \$3.88 billion in the third quarter and first nine months of 2011, respectively. The prior year periods had elevated surrenders on fixed annuities resulting from 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 as well as

crediting rate actions taken by management. The annualized surrender and partial withdrawal rate on deferred fixed annuities and interest-sensitive life insurance products, based on the beginning of year contractholder funds, was 10.7% in the first nine months of 2012 compared to 13.2% in the same period of 2011.

Net investment income decreased 7.3% or \$50 million to \$632 million in the third quarter of 2012 and 3.8% or \$78 million to \$1.98 billion in the first nine months of 2012 from \$682 million and \$2.06 billion in the third quarter and first nine months of 2011, respectively, primarily due to lower average investment balances and lower yields on fixed income securities. The decrease in the first nine months of 2012 was partially offset by income from limited partnerships.

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

(\$ in millions)	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Impairment write-downs	\$ (12)	\$ (85)	\$ (38)	\$ (178)
Change in intent write-downs	(1)	(3)	(17)	(50)
Net other-than-temporary impairment losses recognized in earnings	(13)	(88)	(55)	(228)
Sales	(51)	485	(49)	708
Valuation of derivative instruments	(3)	(198)	(6)	(240)
Settlements of derivative instruments	11	9	41	19
EMA limited partnership income (1)	--	11	--	61
Realized capital gains and losses, pre-tax	(56)	219	(69)	320
Income tax benefit (expense)	20	(77)	24	(113)
Realized capital gains and losses, after-tax	\$		\$	
	(36)	\$ 142	\$ (45)	\$ 207

(1) Income from EMA limited partnerships is reported in net investment income in 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 17.8% or \$208 million in the third quarter of 2012 and 8.8% or \$297 million in the first nine months of 2012 compared to the same periods of 2011 primarily due to lower interest credited to contractholder funds and amortization of DAC.

Life and annuity contract benefits decreased 0.4% or \$2 million in the third quarter of 2012 compared to the same period of 2011 primarily due to better mortality experience on annuities and a reduction in reserves for secondary guarantees on interest-sensitive life insurance, partially offset by worse mortality experience on life insurance. Our annual review of assumptions in third quarter 2012 resulted in a \$13 million decrease in the reserves for secondary guarantees on interest-sensitive life insurance due to favorable projected mortality. Life and annuity contract benefits increased 1.7% or \$23 million in the first nine months of 2012 compared to the same period of 2011 primarily due to worse mortality experience on life insurance, partially offset by lower sales of immediate annuities with life contingencies and the reduction in reserves for secondary guarantees on interest-sensitive life insurance.

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We analyze our mortality and morbidity results using the difference between premiums and contract charges earned for the cost of insurance and life and annuity contract benefits excluding the portion related to the implied interest on immediate annuities with life contingencies (benefit spread). This implied interest totaled \$135 million in both the third quarters of 2012 and 2011 and \$405 million in both the first nine months of 2012 and 2011.

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

(\$ in millions)	Three months ended		Nine months ended	
	September 30,		September 30,	
	2012	2011	2012	2011
Life insurance	\$ 90	\$ 90	\$ 268	\$ 281
Accident and health insurance	76	70	221	215
Annuities	(13)	(26)	(46)	(46)