ALLSTATE CORP
Form 10-Q
May 01, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

/X/ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF

THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2013

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE

SECURITIES EXCHANGE ACT OF 1934

For the transition period from ___ to ___

Commission file number 1-11840

THE ALLSTATE CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**36-3871531**

(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

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

(847) 402-5000

(Registrant s telephone number, including area code)

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

Yes _X_ No ___

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

Yes _X_ No ___

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

Large accelerated filer _X_ Accelerated filer ____

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

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

Yes ___ No _X_

As of April 16, 2013, the registrant had 468,643,839 common shares, $.01 par value, outstanding.

THE ALLSTATE CORPORATION

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March 31, 2013

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PART I. FINANCIAL INFORMATION

ITEM I. FINANCIAL INFORMATION

THE ALLSTATE CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

($ in millions, except per share data)	**Three months ended March 31**	
	2013	**2012**
	(unaudited)	
Revenues		
Property-liability insurance premiums	$ 6,770	$ 6,630
Life and annuity premiums and contract charges	579	553
Net investment income	983	1,011
Realized capital gains and losses:		
Total other-than-temporary impairment losses	(27)	(87)
Portion of loss recognized in other comprehensive income	(10)	4
Net other-than-temporary impairment losses recognized in earnings	(37)	(83)
Sales and other realized capital gains and losses	168	251
Total realized capital gains and losses	131	168
	8,463	8,362
Costs and expenses		
Property-liability insurance claims and claims expense	4,460	4,339
Life and annuity contract benefits	458	439
Interest credited to contractholder funds	345	378
Amortization of deferred policy acquisition costs	946	979
Operating costs and expenses	1,102	1,017
Restructuring and related charges	26	6
Interest expense	98	95
	7,435	7,253
Gain on disposition of operations	2	3
Income from operations before income tax expense	1,030	1,112
Income tax expense	321	346
Net income	$ 709	$ 766
Earnings per share:		
Net income per share - Basic	$ 1.49	$ 1.54
Weighted average shares - Basic	475.4	498.7
Net income per share - Diluted	$ 1.47	$ 1.53
Weighted average shares - Diluted	480.8	501.5

Cash dividends declared per share	$	0.25	$	0.22

See notes to condensed consolidated financial statements.

THE ALLSTATE CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

($ in millions)	**Three months ended March 31, 2013**	**2012**
	(unaudited)	
Net income	$ 709	$ 766
Other comprehensive income, after-tax		
Changes in:		
Unrealized net capital gains and losses	71	474
Unrealized foreign currency translation adjustments	(12)	9
Unrecognized pension and other postretirement benefit cost	45	20
Other comprehensive income, after-tax	104	503
Comprehensive income	$ 813	$ 1,269

See notes to condensed consolidated financial statements.

THE ALLSTATE CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

($ in millions, except par value data)		**March 31, 2013**		**December 31, 2012**
Assets		**(unaudited)**		
Investments				
Fixed income securities, at fair value (amortized cost $70,957 and $71,915)	$	75,806	$	77,017
Equity securities, at fair value (cost $3,777 and $3,577)		4,439		4,037
Mortgage loans		6,434		6,570
Limited partnership interests		4,931		4,922
Short-term, at fair value (amortized cost $3,169 and $2,336)		3,169		2,336
Other		2,603		2,396
Total investments		97,382		97,278
Cash		820		806
Premium installment receivables, net		5,066		5,051
Deferred policy acquisition costs		3,660		3,621
Reinsurance recoverables, net		8,316		8,767
Accrued investment income		792		781
Property and equipment, net		998		989
Goodwill		1,239		1,240
Other assets		1,589		1,804
Separate Accounts		6,750		6,610
Total assets	$	126,612	$	126,947
Liabilities				
Reserve for property-liability insurance claims and claims expense	$	20,920	$	21,288
Reserve for life-contingent contract benefits		14,767		14,895
Contractholder funds		38,807		39,319
Unearned premiums		10,218		10,375
Claim payments outstanding		757		797
Deferred income taxes		782		597
Other liabilities and accrued expenses		6,436		6,429
Long-term debt		6,556		6,057
Separate Accounts		6,750		6,610
Total liabilities		105,993		106,367
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, 468 million and 479 million shares outstanding		9		9
Additional capital paid-in		3,028		3,162
Retained income		34,375		33,783
Deferred ESOP expense		(39)		(41)
Treasury stock, at cost (432 million and 421 million shares)		(18,033)		(17,508)
Accumulated other comprehensive income:				
Unrealized net capital gains and losses:				
Unrealized net capital gains and losses on fixed income securities with OTTI		30		(11)
Other unrealized net capital gains and losses		3,543		3,614
Unrealized adjustment to DAC, DSI and insurance reserves		(668)		(769)
Total unrealized net capital gains and losses		2,905		2,834
Unrealized foreign currency translation adjustments		58		70
Unrecognized pension and other postretirement benefit cost		(1,684)		(1,729)
Total accumulated other comprehensive income		1,279		1,175
Total shareholders equity		20,619		20,580
Total liabilities and shareholders equity	$	126,612	$	126,947

See notes to condensed consolidated financial statements.

THE ALLSTATE CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

($ in millions)	**Three months ended March 31,**	
	2013	**2012**
Cash flows from operating activities	**(unaudited)**	
Net income	$ 709	$ 766
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and other non-cash items	87	96
Realized capital gains and losses	(131)	(168)
Gain on disposition of operations	(2)	(3)
Interest credited to contractholder funds	345	378
Changes in:		
Policy benefits and other insurance reserves	(514)	(346)
Unearned premiums	(146)	(180)
Deferred policy acquisition costs	(30)	52
Premium installment receivables, net	(22)	19
Reinsurance recoverables, net	406	57
Income taxes	277	333
Other operating assets and liabilities	(239)	(197)
Net cash provided by operating activities	740	807
Cash flows from investing activities		
Proceeds from sales		
Fixed income securities	5,474	5,689
Equity securities	210	1,059
Limited partnership interests	160	403
Mortgage loans	2	6
Other investments	15	36
Investment collections		
Fixed income securities	1,745	966
Mortgage loans	237	170
Other investments	54	23
Investment purchases		
Fixed income securities	(6,084)	(7,008)
Equity securities	(317)	(128)
Limited partnership interests	(255)	(318)
Mortgage loans	(75)	(216)
Other investments	(196)	(163)
Change in short-term investments, net	(808)	(379)
Change in other investments, net	34	(9)
Purchases of property and equipment, net	(60)	(51)
Disposition of operations	--	(1)
Net cash provided by investing activities	136	79
Cash flows from financing activities		
Proceeds from issuance of long-term debt	492	493
Repayment of long-term debt	--	(350)
Contractholder fund deposits	591	485
Contractholder fund withdrawals	(1,259)	(1,299)
Dividends paid	--	(106)
Treasury stock purchases	(739)	(309)
Shares reissued under equity incentive plans, net	17	15
Excess tax benefits on share-based payment arrangements	23	(1)
Other	13	(13)
Net cash used in financing activities	(862)	(1,085)
Net increase (decrease) in cash	14	(199)
Cash at beginning of period	806	776
Cash at end of period	$ 820	$ 577

See notes to condensed consolidated financial statements.

THE ALLSTATE CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. General

Basis of presentation

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

The condensed consolidated financial statements and notes as of March 31, 2013 and for the three-month periods ended March 31, 2013 and 2012 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, 2012. The results of operations for the interim periods should not be considered indicative of results to be expected for the full year. All significant intercompany accounts and transactions have been eliminated.

Adopted accounting standards

Disclosures about Offsetting Assets and Liabilities

In December 2011 and January 2013, the Financial Accounting Standards Board (FASB) issued guidance requiring expanded disclosures, including both gross and net information, for derivatives, repurchase and reverse repurchase agreements, and securities borrowing and securities lending transactions 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 Company adopted the new guidance in the first quarter of 2013. The new guidance affects disclosures only and therefore had no impact on the Company s results of operations or financial position.

Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income

In February 2013, the FASB issued guidance requiring expanded disclosures about the amounts reclassified out of accumulated other comprehensive income by component. The guidance requires the presentation of significant amounts reclassified out of accumulated other comprehensive income by income statement line item but only if the amount reclassified is required under accounting principles generally accepted in the United States of America (GAAP) to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under GAAP to be reclassified in their entirety to net income, cross-reference to other disclosures that provide additional detail about those amounts is required. The Company adopted the new guidance in the first quarter of 2013. The new guidance affects disclosures only and therefore had 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.

The computation of basic and diluted earnings per share for the three months ended March 31 is presented in the following table.

($ in millions, except per share data)		**2013**		**2012**
Numerator:				
Net income	$	709	$	766
Denominator:				
Weighted average common shares outstanding		475.4		498.7
Effect of dilutive potential common shares:				
Stock options		3.7		2.0
Restricted stock units and performance stock awards (non-participating)		1.7		0.8
Weighted average common and dilutive potential common shares outstanding		480.8		501.5
Earnings per share - Basic	$	1.49	$	1.54
Earnings per share - Diluted	$	1.47	$	1.53

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 17.0 million and 28.5 million Allstate common shares, with exercise prices ranging from $37.40 to $62.84 and $25.91 to $62.84, were outstanding for the three-month periods ended March 31, 2013 and 2012, 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 $57 million and $22 million for the three months ended March 31, 2013 and 2012, respectively. Non-cash financing activities include $87 million and $39 million related to the issuance of Allstate shares for vested restricted stock units for the three months ended March 31, 2013 and 2012, respectively.

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 for the three months ended March 31 are as follows:

($ in millions)		**2013**		**2012**
Net change in proceeds managed				
Net change in short-term investments	$	(25)	$	(210)
Operating cash flow used		(25)		(210)
Net change in cash		6		(2)
Net change in proceeds managed	$	(19)	$	(212)
Net change in liabilities				

Liabilities for collateral, beginning of year	$	(808)	$	(462)
Liabilities for collateral, end of period		(827)		(674)
Operating cash flow provided	$	19	$	212

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	Gross unrealized Gains	Gross unrealized Losses	Fair value
March 31, 2013				
U.S. government and agencies	$ 3,960	$ 297	$ --	$ 4,257
Municipal	10,933	975	(46)	11,862
Corporate	46,267	3,428	(128)	49,567
Foreign government	2,165	203	(3)	2,365
Asset-backed securities (ABS)	3,579	104	(86)	3,597
Residential mortgage-backed securities (RMBS)	2,685	142	(77)	2,750
Commercial mortgage-backed securities (CMBS)	1,345	78	(42)	1,381
Redeemable preferred stock	23	4	--	27
Total fixed income securities	$ 70,957	$ 5,231	$ (382)	$ 75,806
December 31, 2012				
U.S. government and agencies	$ 4,387	$ 326	$ --	$ 4,713
Municipal	12,139	1,038	(108)	13,069
Corporate	44,943	3,721	(127)	48,537
Foreign government	2,290	228	(1)	2,517
ABS	3,623	108	(107)	3,624
RMBS	3,000	142	(110)	3,032
CMBS	1,510	65	(77)	1,498
Redeemable preferred stock	23	4	--	27
Total fixed income securities	$ 71,915	$ 5,632	$ (530)	$ 77,017

Scheduled maturities

The scheduled maturities for fixed income securities are as follows as of March 31, 2013:

($ in millions)	Amortized cost	Fair value
Due in one year or less	$ 3,149	$ 3,187
Due after one year through five years	24,722	25,905
Due after five years through ten years	23,511	25,450
Due after ten years	11,966	13,536
	63,348	68,078
ABS, RMBS and CMBS	7,609	7,728
Total	$ 70,957	$ 75,806

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

Net investment income

Net investment income for the three months ended March 31 is as follows:

($ in millions)		2013		2012
Fixed income securities	$	762	$	806
Equity securities		25		21
Mortgage loans		98		93
Limited partnership interests		107		109
Short-term investments		2		1
Other		37		30
Investment income, before expense		1,031		1,060
Investment expense		(48)		(49)
Net investment income	$	983	$	1,011

Realized capital gains and losses

Realized capital gains and losses by asset type for the three months ended March 31 are as follows:

($ in millions)		2013		2012
Fixed income securities	$	72	$	(29)
Equity securities		29		159
Mortgage loans		31		(1)
Limited partnership interests		5		10
Derivatives		(4)		21
Other		(2)		8
Realized capital gains and losses	$	131	$	168

Realized capital gains and losses by transaction type for the three months ended March 31 are as follows:

($ in millions)		2013		2012
Impairment write-downs	$	(10)	$	(39)
Change in intent write-downs		(27)		(44)
Net other-than-temporary impairment losses recognized in earnings		(37)		(83)
Sales		172		229
Valuation of derivative instruments		(4)		11
Settlements of derivative instruments		--		11
Realized capital gains and losses	$	131	$	168

Gross gains of $134 million and $115 million and gross losses of $20 million and $90 million were realized on sales of fixed income securities during the three months ended March 31, 2013 and 2012, respectively.

Other-than-temporary impairment losses by asset type for the three months ended March 31 are as follows:

($ in millions)	2013			2012		
	Gross	Included in OCI	Net	Gross	Included in OCI	Net
Fixed income securities:						
Municipal	$ (13)	$ (2)	$ (15)	$ (1)	$ --	$ (1)
Corporate	--	--	--	(18)	--	(18)
RMBS	--	(1)	(1)	(43)	4	(39)
CMBS	(19)	(7)	(26)	(6)	--	(6)
Total fixed income securities	(32)	(10)	(42)	(68)	4	(64)
Equity securities	(19)	--	(19)	(16)	--	(16)
Mortgage loans	26	--	26	(3)	--	(3)
Limited partnership interests	--	--	--	(2)	--	(2)
Other	(2)	--	(2)	2	--	2
Other-than-temporary impairment losses	$ (27)	$ (10)	$ (37)	$ (87)	$ 4	$ (83)

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 $252 million and $219 million as of March 31, 2013 and December 31, 2012, respectively, of net unrealized gains related to changes in valuation of the fixed income securities subsequent to the impairment measurement date.

($ in millions)		**March 31, 2013**		**December 31, 2012**
Municipal	$	(14)	$	(20)
Corporate		(1)		(1)
ABS		(12)		(14)
RMBS		(167)		(182)
CMBS		(12)		(19)
Total	$	(206)	$	(236)

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 March 31,**			
		2013		**2012**
Beginning balance	$	(617)	$	(944)
Additional credit loss for securities previously other-than-temporarily impaired		(15)		(20)
Additional credit loss for securities not previously other-than-temporarily impaired		(15)		(9)
Reduction in credit loss for securities disposed or collected		47		146
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
Change in credit loss due to accretion of increase in cash flows		--		--
Ending balance	$	(600)	$	(820)

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) March 31, 2013	Fair value	Gross unrealized Gains	Gross unrealized Losses	Unrealized net gains (losses)
Fixed income securities	$ 75,806	$ 5,231	$ (382)	$ 4,849
Equity securities	4,439	677	(15)	662
Short-term investments	3,169	--	--	--
Derivative instruments (1)	(14)	3	(22)	(19)
EMA limited partnerships (2)				8
Unrealized net capital gains and losses, pre-tax				5,500
Amounts recognized for:				
Insurance reserves (3)				(623)
DAC and DSI (4)				(404)
Amounts recognized				(1,027)
Deferred income taxes				(1,568)
Unrealized net capital gains and losses, after-tax				$ 2,905

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(1) Included in the fair value of derivative instruments are $3 million classified as assets and $17 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.

December 31, 2012	Fair value	Gross unrealized Gains	Gross unrealized Losses	Unrealized net gains (losses)
Fixed income securities	$ 77,017	$ 5,632	$ (530)	$ 5,102
Equity securities	4,037	494	(34)	460
Short-term investments	2,336	--	--	--
Derivative instruments (1)	(17)	2	(24)	(22)
EMA limited partnerships				7
Unrealized net capital gains and losses, pre-tax				5,547
Amounts recognized for:				
Insurance reserves				(771)
DAC and DSI				(412)
Amounts recognized				(1,183)
Deferred income taxes				(1,530)
Unrealized net capital gains and losses, after-tax				$ 2,834

(1) Included in the fair value of derivative instruments are $2 million classified as assets and $19 million classified as liabilities.

Change in unrealized net capital gains and losses

The change in unrealized net capital gains and losses for the three months ended March 31, 2013 is as follows:

($ in millions)		
Fixed income securities	$	(253)
Equity securities		202
Derivative instruments		3
EMA limited partnerships		1
Total		(47)
Amounts recognized for:		
Insurance reserves		148
DAC and DSI		8
Amounts recognized		156
Deferred income taxes		(38)
Increase in unrealized net capital gains and losses	$	71

Portfolio monitoring

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

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

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

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

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

to earnings.

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

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

($ in millions)	Less than 12 months			12 months or more			Total
	Number of issues	Fair value	Unrealized losses	Number of issues	Fair value	Unrealized losses	Total unrealized losses
March 31, 2013							
Fixed income securities							
U.S. government and agencies	6	$ 229	$ --	--	$ --	$ --	$ --
Municipal	102	709	(8)	44	242	(38)	(46)
Corporate	197	2,845	(38)	66	841	(90)	(128)
Foreign government	18	170	(3)	--	--	--	(3)
ABS	17	332	--	76	799	(86)	(86)
RMBS	141	34	(1)	346	549	(76)	(77)
CMBS	7	58	(1)	28	230	(41)	(42)
Total fixed income securities	488	4,377	(51)	560	2,661	(331)	(382)
Equity securities	489	127	(12)	48	28	(3)	(15)
Total fixed income and equity securities	977	$ 4,504	$ (63)	608	$ 2,689	$ (334)	$ (397)
Investment grade fixed income securities	412	$ 3,878	$ (39)	395	$ 1,620	$ (148)	$ (187)
Below investment grade fixed income securities	76	499	(12)	165	1,041	(183)	(195)
Total fixed income securities	488	$ 4,377	$ (51)	560	$ 2,661	$ (331)	$ (382)
December 31, 2012							
Fixed income securities							
U.S. government and agencies	6	$ 85	$ --	--	$ --	$ --	$ --
Municipal	130	1,012	(13)	80	717	(95)	(108)
Corporate	133	1,989	(33)	70	896	(94)	(127)
Foreign government	22	190	(1)	--	--	--	(1)
ABS	12	145	(1)	77	794	(106)	(107)
RMBS	117	50	(1)	336	638	(109)	(110)
CMBS	11	68	--	44	357	(77)	(77)
Redeemable preferred stock	--	--	--	1	--	--	--
Total fixed income securities	431	3,539	(49)	608	3,402	(481)	(530)
Equity securities	803	284	(27)	96	69	(7)	(34)
Total fixed income and equity securities	1,234	$ 3,823	$ (76)	704	$ 3,471	$ (488)	$ (564)
Investment grade fixed income securities	387	$ 3,141	$ (39)	409	$ 2,172	$ (217)	$ (256)
Below investment grade fixed income securities	44	398	(10)	199	1,230	(264)	(274)
Total fixed income securities	431	$ 3,539	$ (49)	608	$ 3,402	$ (481)	$ (530)

As of March 31, 2013, $220 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 $220 million, $142 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, Kroll or Realpoint, a rating of aaa, aa, a or bbb from A.M. Best, or a comparable internal rating if an externally provided rating is not available. Unrealized losses on investment grade securities are principally related to widening credit spreads or rising interest rates since the time of initial purchase.

As of March 31, 2013, the remaining $177 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 $45 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 $177 million, $127 million are related to below investment grade

fixed income securities and $5 million are related to equity securities. Of these amounts, $119 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 March 31, 2013. Unrealized losses on below investment grade securities are principally related to ABS, RMBS and CMBS 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 ABS, RMBS and CMBS securities.

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

As of March 31, 2013, 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 March 31, 2013, 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 March 31, 2013 and December 31, 2012, the carrying value of equity method limited partnerships totaled $3.51 billion and $3.52 billion, respectively. The Company recognizes an impairment loss for equity method limited partnerships when evidence demonstrates that the loss is other than temporary. Evidence of a loss in value that is other than temporary may include the absence of an ability to recover the carrying amount of the investment or the inability of the investee to sustain a level of earnings that would justify the carrying amount of the investment. The Company had no write-downs related to equity method limited partnerships for the three months ended March 31, 2013 and 2012.

As of March 31, 2013 and December 31, 2012, the carrying value for cost method limited partnerships was $1.43 billion and $1.41 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 no write-downs related to cost method limited partnerships for the three months ended March 31, 2013. The Company had $2 million of write-downs for the three months ended March 31, 2012.

Mortgage loans

Mortgage loans are evaluated for impairment on a specific loan basis through a quarterly credit monitoring process and review of key credit quality indicators. Mortgage loans are considered impaired when it is probable that the Company will not collect the contractual principal and interest. Valuation allowances are established for impaired loans to reduce the carrying value to the fair value of the collateral less costs to sell or the present value of the loan s expected future repayment cash flows discounted at the loan s original effective interest rate. Impaired mortgage

loans may not have a valuation allowance when the fair value of the collateral less costs to sell is higher than the carrying value. Valuation allowances are adjusted for subsequent changes in the fair value of the collateral less costs to sell. Mortgage loans are charged off against their corresponding valuation allowances when there is no reasonable expectation of recovery. The impairment evaluation is non-statistical in respect to the aggregate portfolio but considers facts and circumstances attributable to each loan. It is not considered probable that additional impairment losses, beyond those identified on a specific loan basis, have been incurred as of March 31, 2013.

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)	March 31, 2013			December 31, 2012		
Debt service coverage ratio distribution	Fixed rate mortgage loans	Variable rate mortgage loans	Total	Fixed rate mortgage loans	Variable rate mortgage loans	Total
Below 1.0	$ 232	$ --	$ 232	$ 267	$ --	$ 267
1.0 - 1.25	1,095	20	1,115	1,208	20	1,228
1.26 - 1.50	1,471	41	1,512	1,458	46	1,504
Above 1.50	3,389	144	3,533	3,268	148	3,416
Total non-impaired mortgage loans	$ 6,187	$ 205	$ 6,392	$ 6,201	$ 214	$ 6,415

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)	March 31, 2013	December 31, 2012
Impaired mortgage loans with a valuation allowance	$ 24	$ 147
Impaired mortgage loans without a valuation allowance	18	8
Total impaired mortgage loans	$ 42	$ 155
Valuation allowance on impaired mortgage loans	$ 15	$ 42

The average balance of impaired loans was $99 million and $236 million for the three months ended March 31, 2013 and 2012, respectively.

The rollforward of the valuation allowance on impaired mortgage loans for the three months ended March 31 is as follows:

($ in millions)	2013	2012
Beginning balance	$ 42	$ 63
Net (decrease) increase in valuation allowance	(26)	3
Charge offs	(1)	(6)
Ending balance	$ 15	$ 60

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

($ in millions)	March 31, 2013	December 31, 2012
Less than 90 days past due	$ 38	$ 21
90 days or greater past due	4	4
Total past due	42	25
Current loans	6,392	6,545
Total mortgage loans	$ 6,434	$ 6,570

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.

- 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.

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

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

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

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

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

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

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

Level 3 measurements

- Fixed income securities:

Municipal: Auction rate securities (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.

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

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

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

- 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 March 31, 2013.

($ in millions)	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Counterparty and cash collateral netting	Balance as of March 31, 2013
Assets					
Fixed income securities:					
U.S. government and agencies	$ 2,583	$ 1,667	$ 7		$ 4,257
Municipal	--	11,202	660		11,862
Corporate	--	47,991	1,576		49,567
Foreign government	--	2,365	--		2,365
ABS	--	3,321	276		3,597
RMBS	--	2,747	3		2,750
CMBS	--	1,344	37		1,381
Redeemable preferred stock	--	26	1		27
Total fixed income securities	2,583	70,663	2,560		75,806
Equity securities	3,408	859	172		4,439
Short-term investments	811	2,358	--		3,169
Other investments:					
Free-standing derivatives	--	269	4	$ (50)	223
Separate account assets	6,750	--	--		6,750
Other assets	1	--	1		2
Total recurring basis assets	13,553	74,149	2,737	(50)	90,389
Non-recurring basis (1)	--	--	20		20
Total assets at fair value	$ 13,553	$ 74,149	$ 2,757	$ (50)	$ 90,409
% of total assets at fair value	15.0 %	82.0 %	3.0 %	-- %	100.0 %
Liabilities					
Contractholder funds:					
Derivatives embedded in life and annuity contracts	$ --	$ --	$ (567)		$ (567)
Other liabilities:					
Free-standing derivatives	--	(163)	(24)	$ 29	(158)
Total liabilities at fair value	$ --	$ (163)	$ (591)	$ 29	$ (725)
% of total liabilities at fair value	-- %	22.5 %	81.5 %	(4.0) %	100.0 %

(1) Includes $20 million of other investments written-down to fair value in connection with recognizing other-than-temporary impairments.

The following table summarizes the Company s assets and liabilities measured at fair value on a recurring and non-recurring basis as of December 31, 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 December 31, 2012**
Assets					
Fixed income securities:					
U.S. government and agencies	$ 2,790	$ 1,915	$ 8		$ 4,713
Municipal	--	12,104	965		13,069
Corporate	--	46,920	1,617		48,537
Foreign government	--	2,517	--		2,517
ABS	--	3,373	251		3,624
RMBS	--	3,029	3		3,032
CMBS	--	1,446	52		1,498
Redeemable preferred stock	--	26	1		27
Total fixed income securities	2,790	71,330	2,897		77,017
Equity securities	3,008	858	171		4,037
Short-term investments	703	1,633	--		2,336
Other investments:					
Free-standing derivatives	--	187	3	$ (57)	133
Separate account assets	6,610	--	--		6,610
Other assets	5	--	1		6
Total recurring basis assets	13,116	74,008	3,072	(57)	90,139
Non-recurring basis (1)	--	--	9		9
Total assets at fair value	$ 13,116	$ 74,008	$ 3,081	$ (57)	$ 90,148
% of total assets at fair value	14.6 %	82.1 %	3.4 %	(0.1) %	100.0 %
Liabilities					
Contractholder funds:					
Derivatives embedded in life and annuity contracts	$ --	$ --	$ (553)		$ (553)
Other liabilities:					
Free-standing derivatives	--	(98)	(30)	$ 33	(95)
Total liabilities at fair value	$ --	$ (98)	$ (583)	$ 33	$ (648)
% of total liabilities at fair value	-- %	15.1 %	90.0 %	(5.1) %	100.0 %

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(1) Includes $4 million of mortgage loans, $4 million of limited partnership interests and $1 million of other investments written-down to fair value in connection with recognizing other-than-temporary impairments.

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

($ in millions)	Fair value		Valuation technique	Unobservable input	Range	Weighted average
March 31, 2013						
ARS backed by student loans	$	213	Discounted cash flow model	Anticipated date liquidity will return to the market	18 - 60 months	31 - 43 months
Derivatives embedded in life and annuity contracts Equity-indexed and forward starting options	$	(459)	Stochastic cash flow model	Projected option cost	1.0 - 2.0 %	1.89%
December 31, 2012						
ARS backed by student loans	$	394	Discounted cash flow model	Anticipated date liquidity will return to the market	18 - 60 months	31 - 43 months
Derivatives embedded in life and annuity contracts Equity-indexed and forward starting options	$	(419)	Stochastic cash flow model	Projected option cost	1.0 - 2.0 %	1.92%

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 March 31, 2013 and December 31, 2012, Level 3 fair value measurements include $1.74 billion and $1.87 billion, respectively, of fixed income securities valued based on non-binding broker quotes where the inputs have not been corroborated to be market observable and $303 million and $395 million, respectively, 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.

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 March 31, 2013.

($ in millions)	Balance as of December 31, 2012	Total gains (losses) included in: Net income (1)	OCI	Transfers into Level 3	Transfers out of Level 3
Assets					
Fixed income securities:					
U.S. government and agencies	$ 8	$ --	$ --	$ --	$ --
Municipal	965	(24)	54	6	--
Corporate	1,617	12	(1)	25	(125)
ABS	251	1	7	18	--
RMBS	3	--	--	--	--
CMBS	52	--	2	--	--
Redeemable preferred stock	1	--	--	--	--
Total fixed income securities	2,897	(11)	62	49	(125)
Equity securities	171	1	1	--	--
Other investments:					
Free-standing derivatives, net	(27)	7	--	--	--
Other assets	1	--	--	--	--
Total recurring Level 3 assets	$ 3,042	$ (3)	$ 63	$ 49	$ (125)
Liabilities					
Contractholder funds:					
Derivatives embedded in life and annuity contracts	$ (553)	$ 6	$ --	$ --	$ --
Total recurring Level 3 liabilities	$ (553)	$ 6	$ --	$ --	$ --

	Purchases	Sales	Issues	Settlements	Balance as of March 31, 2013
Assets					
Fixed income securities:					
U.S. government and agencies	$ --	$ --	$ --	$ (1)	$ 7
Municipal	--	(339)	--	(2)	660
Corporate	264	(199)	--	(17)	1,576
ABS	56	(49)	--	(8)	276
RMBS	--	--	--	--	3
CMBS	1	(17)	--	(1)	37
Redeemable preferred stock	--	--	--	--	1
Total fixed income securities	321	(604)	--	(29)	2,560
Equity securities	--	(1)	--	--	172
Other investments:					
Free-standing derivatives, net	1	--	--	(1)	(20)(2)
Other assets	--	--	--	--	1
Total recurring Level 3 assets	$ 322	$ (605)	$ --	$ (30)	$ 2,713
Liabilities					
Contractholder funds:					
Derivatives embedded in life and annuity contracts	$ --	$ --	$ (24)	$ 4	$ (567)
Total recurring Level 3 liabilities	$ --	$ --	$ (24)	$ 4	$ (567)

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(1) The effect to net income totals $3 million and is reported in the Condensed Consolidated Statements of Operations as follows: $(10) million in realized capital gains and losses, $7 million in net investment income, $(20) million in interest credited to contractholder funds and $26 million in life and annuity contract benefits.

(2) Comprises $4 million of assets and $24 million of liabilities.

The following table presents the rollforward of Level 3 assets and liabilities held at fair value on a recurring basis during the three months ended March 31, 2012.

($ in millions)	Balance as of December 31, 2011	Total gains (losses) included in: Net income (1)	OCI	Transfers into Level 3	Transfers out of Level 3
Assets					
Fixed income securities:					
Municipal	$ 1,332	$ (2)	$ 7	$ --	$ (6)
Corporate	1,405	5	28	56	(18)
ABS	297	13	13	--	(35)
RMBS	51	--	--	--	(47)
CMBS	60	(1)	6	--	--
Redeemable preferred stock	1	--	--	--	--
Total fixed income securities	3,146	15	54	56	(106)
Equity securities	43	--	--	--	--
Other investments:					
Free-standing derivatives, net	(95)	17	--	--	--
Other assets	1	--	--	--	--
Total recurring Level 3 assets	$ 3,095	$ 32	$ 54	$ 56	$ (106)
Liabilities					
Contractholder funds:					
Derivatives embedded in life and annuity contracts	$ (723)	$ (25)	$ --	$ --	$ --
Total recurring Level 3 liabilities	$ (723)	$ (25)	$ --	$ --	$ --

	Purchases	Sales	Issues	Settlements	Balance as of March 31, 2012
Assets					
Fixed income securities:					
Municipal	$ 42	$ (105)	$ --	$ (1)	$ 1,267
Corporate	76	(58)	--	(33)	1,461
ABS	16	--	--	(5)	299
RMBS	--	--	--	--	4
CMBS	--	--	--	(15)	50
Redeemable preferred stock	--	--	--	--	1
Total fixed income securities	134	(163)	--	(54)	3,082
Equity securities	70	--	--	--	113
Other investments:					
Free-standing derivatives, net	3	--	--	5	(70)(2)
Other assets	--	--	--	--	1
Total recurring Level 3 assets	$ 207	$ (163)	$ --	$ (49)	$ 3,126
Liabilities					
Contractholder funds:					
Derivatives embedded in life and annuity contracts	$ --	$ --	$ (12)	$ 30	$ (730)
Total recurring Level 3 liabilities	$ --	$ --	$ (12)	$ 30	$ (730)

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(1) The effect to net income totals $7 million and is reported in the Condensed Consolidated Statements of Operations as follows: $26 million in realized capital gains and losses, $6 million in net investment income, $(56) million in interest credited to contractholder funds and $31 million in life and annuity contract benefits.

(2) Comprises $2 million of assets and $72 million of liabilities.

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

There were no transfers between Level 1 and Level 2 during the three months ended March 31, 2013 or 2012.

Transfers into Level 3 during the three months ended March 31, 2013 and 2012 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 months ended March 31, 2013 and 2012 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 March 31.

($ in millions)		**2013**		**2012**
Assets				
Fixed income securities:				
Municipal	$	(14)	$	(1)
Corporate		5		3
ABS		--		13
CMBS		(1)		(1)
Total fixed income securities		(10)		14
Equity securities		1		--
Other investments:				
Free-standing derivatives, net		7		15
Total recurring Level 3 assets	$	(2)	$	29
Liabilities				
Contractholder funds:				
Derivatives embedded in life and annuity contracts	$	6	$	(25)
Total recurring Level 3 liabilities	$	6	$	(25)

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 $4 million for the three months ended March 31, 2013 and are reported as follows: $(8) million in realized capital gains and losses, $6 million in net investment income, $(20) million in interest credited to contractholder funds and $26 million in life and annuity contract benefits. These gains and losses total $4 million for the three months ended March 31, 2012 and are reported as follows: $24 million in realized capital gains and losses, $5 million in net investment income, $(56) million in interest credited to contractholder funds and $31 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)	**March 31, 2013**				**December 31, 2012**			
		Carrying value		**Fair value**		**Carrying value**		**Fair value**
Mortgage loans	$	6,434	$	6,846	$	6,570	$	6,886

Cost method limited partnerships	1,425	1,748	1,406	1,714
Bank loans	809	818	682	684
Agent loans	318	311	319	314

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 of agent loans, which are reported in other investments, is based on discounted cash flow calculations that use discount rates with a

spread over U.S. Treasury rates. Assumptions used in developing estimated cash flows and discount rates consider the loan s credit and liquidity risks. The fair value measurements for mortgage loans, cost method limited partnerships, bank loans and agent loans are categorized as Level 3.

Financial liabilities

($ in millions)	**March 31, 2013**		**December 31, 2012**	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Contractholder funds on investment contracts	$ 26,439	$ 27,215	$ 27,014	$ 28,019
Long-term debt	6,556	7,616	6,057	7,141
Liability for collateral	827	827	808	808

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. Portfolio duration management is a risk management strategy that is principally employed by Property-Liability wherein financial futures and interest rate swaps are utilized to change the duration of the portfolio in order to offset the economic effect that interest rates would otherwise have on the fair value of its fixed income securities. Equity index futures and options are used by Property-Liability to offset valuation losses in the equity portfolio during periods of declining equity market values. Credit default swaps are typically used to mitigate the credit risk within the Property-Liability fixed income portfolio. Property-Liability uses equity futures to hedge the market risk related to deferred compensation liability contracts and forward contracts to hedge foreign currency risk associated with holding foreign currency denominated investments and foreign operations.

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

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

credit default swap and one or more highly rated fixed income securities to synthetically replicate the economic characteristics of one or more cash market securities.

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

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

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

Fair value, which is equal to the carrying value, is the estimated amount that the Company would receive or pay to terminate the derivative contracts at the reporting date. The carrying value amounts for OTC derivatives are further adjusted for the effects, if any, of enforceable master netting agreements and are presented on a net basis, by counterparty agreement, in the Condensed Consolidated Statements of Financial Position. For certain exchange traded derivatives, the exchange requires margin deposits as well as daily cash settlements of margin accounts. As of March 31, 2013, 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.

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 March 31, 2013.

($ 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	$ 16	n/a	$ 3	$ 3	$ --
Total		16	n/a	3	3	--
Derivatives not designated as accounting hedging instruments						
Interest rate contracts						
Interest rate swap agreements	Other investments	4,284	n/a	18	26	(8)
Interest rate cap agreements	Other investments	159	n/a	1	1	--
Financial futures contracts	Other assets	n/a	238	--	--	--
Equity and index contracts						
Options and warrants (2)	Other investments	10	12,230	212	212	--
Financial futures contracts	Other assets	n/a	934	1	1	--
Foreign currency contracts						
Foreign currency forwards	Other investments	191	n/a	(2)	--	(2)
Embedded derivative financial instruments						
Conversion options	Fixed income securities	5	n/a	--	--	--
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	176	n/a	--	2	(2)
Credit default swaps - selling protection	Other investments	180	n/a	3	3	--
Other contracts						
Other contracts	Other assets	4	n/a	1	1	--
Total		6,021	13,402	222	246	(24)
Total asset derivatives		$ 6,037	13,402	$ 225	$ 249	$ (24)

(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 3,960 stock rights and 878,968 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						
Foreign currency swap agreements	Other liabilities & accrued expenses	$ 132	n/a	$ (17)	$ --	$ (17)
Total		132	n/a	(17)	--	(17)
Derivatives not designated as accounting hedging instruments						
Interest rate contracts						
Interest rate swap agreements	Other liabilities & accrued expenses	2,185	n/a	20	22	(2)
Interest rate swaption agreements	Other liabilities & accrued expenses	250	n/a	--	--	--
Interest rate cap agreements	Other liabilities & accrued expenses	380	n/a	2	2	--
Equity and index contracts						
Options and futures	Other liabilities & accrued expenses	125	12,825	(125)	1	(126)
Foreign currency contracts						
Foreign currency forwards	Other liabilities & accrued expenses	148	n/a	(2)	1	(3)
Embedded derivative financial instruments						
Guaranteed accumulation benefits	Contractholder funds	939	n/a	(70)	--	(70)
Guaranteed withdrawal benefits	Contractholder funds	635	n/a	(30)	--	(30)
Equity-indexed and forward starting options in life and annuity product contracts	Contractholder funds	3,998	n/a	(459)	--	(459)
Other embedded derivative financial instruments	Contractholder funds	85	n/a	(8)	--	(8)
Credit default contracts						
Credit default swaps buying protection	Other liabilities & accrued expenses	313	n/a	(3)	--	(3)
Credit default swaps selling protection	Other liabilities & accrued expenses	155	n/a	(24)	--	(24)
Total		9,213	12,825	(699)	26	(725)
Total liability derivatives		9,345	12,825	(716)	$ 26	$ (742)
Total derivatives		$ 15,382	26,227	$ (491)		

(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 volume and fair value positions of derivative instruments as well as their reporting location in the Consolidated Statement of Financial Position as of December 31, 2012.

($ 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	$ 16	n/a	$ 2	$ 2	$ --
Total		16	n/a	2	2	--
Derivatives not designated as accounting hedging instruments						
Interest rate contracts						
Interest rate swap agreements	Other investments	5,541	n/a	19	28	(9)
Interest rate cap agreements	Other investments	372	n/a	1	1	--
Financial futures contracts	Other assets	n/a	2	--	--	--
Equity and index contracts						
Options and warrants (2)	Other investments	146	12,400	125	125	--
Financial futures contracts	Other assets	n/a	1,087	5	5	--
Foreign currency contracts						
Foreign currency forwards and options	Other investments	258	n/a	6	6	--
Embedded derivative financial instruments						
Conversion options	Fixed income securities	5	n/a	--	--	--
Equity-indexed call options	Fixed income securities	90	n/a	9	9	--
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	209	n/a	--	2	(2)
Credit default swaps - selling protection	Other investments	308	n/a	2	3	(1)
Other contracts						
Other contracts	Other assets	4	n/a	1	1	--
Total		7,945	13,489	156	180	(24)
Total asset derivatives		$ 7,961	13,489	$ 158	$ 182	$ (24)

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(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 34,634 stock rights and 879,158 stock warrants. Stock rights and warrants can be converted to cash upon sale of those instruments or exercised for shares of common stock.

	Balance sheet location	Liability derivatives Volume (1) Notional amount	Number of contracts	Fair value, net	Gross asset	Gross liability
Derivatives designated as accounting hedging instruments						
Foreign currency swap agreements	Other liabilities & accrued expenses	$ 135	n/a	$ (19)	$ --	$ (19)
Total		135	n/a	(19)	--	(19)
Derivatives not designated as accounting hedging instruments						
Interest rate contracts						
Interest rate swap agreements	Other liabilities & accrued expenses	1,185	n/a	16	18	(2)
Interest rate swaption agreements	Other liabilities & accrued expenses	250	n/a	--	--	--
Interest rate cap agreements	Other liabilities & accrued expenses	429	n/a	1	1	--
Financial futures contracts	Other liabilities & accrued expenses	--	357	--	--	--
Equity and index contracts						
Options and futures	Other liabilities & accrued expenses	--	12,262	(58)	--	(58)
Foreign currency contracts						
Foreign currency forwards and options	Other liabilities & accrued expenses	139	n/a	(1)	1	(2)
Embedded derivative financial instruments						
Guaranteed accumulation benefits	Contractholder funds	820	n/a	(86)	--	(86)
Guaranteed withdrawal benefits	Contractholder funds	554	n/a	(39)	--	(39)
Equity-indexed and forward starting options in life and annuity product contracts	Contractholder funds	3,916	n/a	(419)	--	(419)
Other embedded derivative financial instruments	Contractholder funds	85	n/a	(9)	--	(9)
Credit default contracts						
Credit default swaps buying protection	Other liabilities & accrued expenses	420	n/a	(3)	2	(5)
Credit default swaps selling protection	Other liabilities & accrued expenses	285	n/a	(29)	1	(30)
Total		8,083	12,619	(627)	23	(650)
Total liability derivatives		8,218	12,619	(646)	$ 23	$ (669)
Total derivatives		$ 16,179	26,108	$ (488)		

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

($ in millions)	Gross amount	Offsets Counter-party		Cash collateral	Net amount on	Securities collateral	Net amount

		netting	(received) pledged	balance sheet	(received) pledged	
March 31, 2013						
Asset derivatives	$ 61	$ (38)	$ (12)	$ 11	$ (10)	$ 1
Liability derivatives	(61)	38	(9)	(32)	27	(5)
December 31, 2012						
Asset derivatives	$ 66	$ (35)	$ (22)	$ 9	$ (4)	$ 5
Liability derivatives	(70)	35	(2)	(37)	25	(12)

The following table provides a summary of the impacts of the Company s foreign currency contracts in cash flow hedging relationships for the three months ended March 31. Amortization of net losses from accumulated other comprehensive income related to cash flow hedges is expected to be $2 million during the next twelve months. There was no hedge ineffectiveness reported in realized gains and losses for the three months ended March 31, 2013 or 2012.

($ in millions)	**2013**	**2012**
Gain (loss) recognized in OCI on derivatives during the period	$ 3	$ (5)
Loss recognized in OCI on derivatives during the term of the hedging relationship	(19)	(21)
Loss reclassified from AOCI into income (realized capital gains and losses)	--	(1)

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 for the three months ended March 31. As of March 31, 2013, the Company has no derivatives used in fair value hedging relationships.

($ in millions)	2013					
	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 not designated as accounting hedging instruments						
Equity and index contracts	$ --	$ (9)	$ --	$ 38	$ 11	$ 40
Embedded derivative financial instruments	--	(1)	26	(40)	--	(15)
Foreign currency contracts	--	1	--	--	(7)	(6)
Credit default contracts	--	5	--	--	--	5
Total	$ --	$ (4)	$ 26	$ (2)	$ 4	$ 24

	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	--	(3)	--	53	13	63
Embedded derivative financial instruments	--	15	31	(38)	--	8
Foreign currency contracts	--	3	--	--	3	6
Credit default contracts	--	8	--	--	--	8
Other contracts	--	--	--	2	--	2
Subtotal	--	22	31	17	16	86
Total	$ (1)	$ 22	$ 31	$ 17	$ 16	$ 85

The following table provides a summary of the changes in fair value of the Company s fair value hedging relationships in the Condensed Consolidated Statements of Operations for the three months ended March 31, 2012.

($ 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**	**Investments**
Net investment income	$ 1	$ (1)

The Company manages its exposure to credit risk by utilizing highly rated counterparties, establishing risk control limits, executing 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 March 31, 2013, counterparties pledged $33 million in cash and securities to the Company, and the Company pledged $29 million in cash and securities to counterparties which includes $26 million of collateral posted under MNAs for contracts containing credit-risk-contingent provisions that are in a liability position and $3 million of collateral posted under MNAs for contracts without credit-risk-contingent liabilities. The Company has not incurred any losses on derivative financial instruments due to counterparty nonperformance. Other derivatives, including futures and certain option contracts, are traded on organized exchanges which require margin deposits and guarantee the execution of trades, thereby mitigating any potential credit risk.

Counterparty credit exposure represents the Company s potential loss if all of the counterparties concurrently fail to perform under the contractual terms of the contracts and all collateral, if any, becomes worthless. This exposure is measured by the fair value of OTC derivative contracts with a positive fair value at the reporting date reduced by the effect, if any, of 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)	**March 31, 2013**				**December 31, 2012**			
Rating (1)	**Number of counter-parties**	**Notional amount (2)**	**Credit exposure (2)**	**Exposure, net of collateral (2)**	**Number of counter-parties**	**Notional amount (2)**	**Credit exposure (2)**	**Exposure, net of collateral (2)**
A+	1	$ 918	$ 3	$ 1	2	$ 29	$ 1	$ 1
A	4	2,270	14	--	4	2,450	13	2
A-	3	269	2	1	3	797	8	2
BBB+	1	3,360	14	--	1	3,617	11	--
Total	9	$ 6,817	$ 33	$ 2	10	$ 6,893	$ 33	$ 5

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

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

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

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

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

($ in millions)	**March 31, 2013**	**December 31, 2012**
Gross liability fair value of contracts containing credit-risk-contingent features	$ 55	$ 65
Gross asset fair value of contracts containing credit-risk-contingent features and subject to MNAs	(26)	(31)
Collateral posted under MNAs for contracts containing credit-risk-contingent features	(26)	(25)

Maximum amount of additional exposure for contracts with credit-risk-contingent features if all features were triggered concurrently	$ 3	$ 9

Credit derivatives - selling protection

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

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

($ in millions)	Notional amount						
	AAA	AA	A	BBB	BB and lower	Total	Fair value
March 31, 2013							
Single name							
Investment grade corporate debt (1)	$ --	$ 20	$ 30	$ 60	$ --	$ 110	$ 1
Municipal	--	25	--	--	--	25	(2)
Subtotal	--	45	30	60	--	135	(1)
Baskets							
First-to-default							
Municipal	--	--	100	--	--	100	(21)
Subtotal	--	--	100	--	--	100	(21)
Index							
Investment grade corporate debt (1)	--	1	26	67	6	100	1
Total	$ --	$ 46	$ 156	$ 127	$ 6	$ 335	$ (21)
December 31, 2012							
Single name							
Investment grade corporate debt (1)	$ 5	$ 20	$ 53	$ 80	$ 10	$ 168	$ --
Municipal	--	25	--	--	--	25	(3)
Subtotal	5	45	53	80	10	193	(3)
Baskets							
First-to-default							
Municipal	--	--	100	--	--	100	(26)
Subtotal	--	--	100	--	--	100	(26)
Index							
Investment grade corporate debt (1)	--	3	79	204	14	300	2
Total	$ 5	$ 48	$ 232	$ 284	$ 24	$ 593	$ (27)

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(1) Investment grade corporate debt categorization is based on the rating of the underlying name(s) at initial purchase.

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

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

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 March 31,**	
	2013	**2012**

Property-liability insurance premiums earned	$ 273	$ 271
Life and annuity premiums and contract charges	158	172

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 March 31,**	
	2013	**2012**
Property-liability insurance claims and claims expense	$ 218	$ 68
Life and annuity contract benefits	88	66
Interest credited to contractholder funds	6	7

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 $26 million and $6 million during the three months ended March 31, 2013 and 2012, respectively. Restructuring and related charges in the first quarter of 2013 primarily related to the technology organization, which is fundamentally changing its organizational structure leveraging centralization, global sourcing, automation and changes to oversight to meet contemporary business needs.

The following table presents changes in the restructuring liability during the three months ended March 31, 2013.

($ in millions)	**Employee costs**	**Exit costs**	**Total liability**
Balance as of December 31, 2012	$ 6	$ 3	$ 9
Expense incurred	22	--	22
Payments applied against liability	(2)	(1)	(3)
Balance as of March 31, 2013	$ 26	$ 2	$ 28

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 March 31, 2013, the cumulative amount incurred to date for active programs totaled $93 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 provides residual value guarantees on Company leased automobiles. If all outstanding leases were terminated effective March 31, 2013, the Company s maximum obligation pursuant to these guarantees, assuming the automobiles have no residual value, would be $44 million as of March 31, 2013. The remaining term of each residual value guarantee is equal to the term of the underlying lease that ranges from less

than one year to three years. Historically, the Company has not made any material payments pursuant to these guarantees.

The Company owns certain fixed income securities that obligate the Company to exchange credit risk or to forfeit principal due, depending on the nature or occurrence of specified credit events for the reference entities. In the event all such specified credit events were to occur, the Company s maximum amount at risk on these fixed income securities, as measured by the amount of the aggregate initial investment, was $5 million as of March 31, 2013. 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.

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 March 31, 2013.

Regulation and Compliance

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

Legal and regulatory proceedings and inquiries

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

Background

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

insurance companies.

The outcome of these matters may be affected by decisions, verdicts, and settlements, and the timing of such decisions, verdicts, and settlements, in other individual and class action lawsuits that involve the Company, other insurers, or other entities and by other legal, governmental, and regulatory actions that involve the Company, other insurers, or other entities. The outcome may also be affected by future state or federal legislation, the timing or substance of which cannot be predicted.

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

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

Accrual and disclosure policy

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

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

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

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

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

As of March 31, 2013, 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 $830 million, pre-tax. This disclosure is not an indication of expected loss, if any. Under accounting guidance, an event is reasonably possible if the chance of the future event or events occurring is more than remote but less than likely and an event is remote if the chance of the future event or events occurring is slight. This estimate is based upon currently available information and is subject to significant judgment and a variety of assumptions, and known and unknown uncertainties. The matters

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

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

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

Claims related proceedings

Allstate is vigorously defending a 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. The Company has reached a tentative settlement, subject to final approval, for an amount that is not material.

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.

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 closed. The parties filed cross motions for summary judgment with respect to the validity of the waiver and release on April 8, 2013 and are in the process of briefing those motions. At present, no class is certified.

- A putative nationwide class action has also been filed by former employee agents alleging various violations of ERISA, including a worker classification issue (Romero II). These plaintiffs are challenging certain amendments to the Agents Pension Plan and are seeking to have exclusive agent independent contractors treated as employees for benefit purposes. Romero II was dismissed with prejudice by the trial court, was the subject of further proceedings on appeal, and was reversed and remanded to the trial court in 2005. In June 2007, the court granted the Company s motion to dismiss the case. Plaintiffs filed a notice of appeal with the Third Circuit. In July 2009, the Third Circuit vacated the district court s dismissal of the case and remanded the case to the trial court for additional discovery, and directed that the case be reassigned to another trial court judge. In its opinion, the Third Circuit held that if the release and waiver is held to be valid, then one of plaintiffs three claims asserted in Romero II is barred. The Third Circuit directed the district court to consider on remand whether the other two claims asserted in Romero II are barred by the release and waiver. In January 2010, following the remand, the case was assigned to a new judge (the same judge for the Romero I and EEOC I cases) for further proceedings in the trial court. 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 limited to issues relating to the validity of the waiver and release is closed. The parties filed cross motions for summary judgment with respect to the validity of the waiver and release on April 8, 2013 and are in the process of briefing those motions. At present, class certification has not been decided.

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 $1.00 billion and $1.03 billion, net of reinsurance recoverables of $486 million and $496 million, as of March 31, 2013 and December 31, 2012, respectively. Reserves for environmental claims were $192 million and $193 million, net of reinsurance recoverables of $48 million and $48 million, as of March 31, 2013 and December 31, 2012, respectively. Approximately 57% and 58% of the total net asbestos and environmental reserves as of March 31, 2013 and December 31, 2012, respectively, were for incurred but not reported estimated losses.

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

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 for the three months ended March 31are as follows:

($ in millions)	2013	2012
Pension benefits		
Service cost	$ 40	$ 38
Interest cost	66	74
Expected return on plan assets	(97)	(98)
Amortization of:		
Net actuarial loss	65	44
Settlement loss	10	10
Net periodic pension cost	$ 84	$ 68
Postretirement benefits		
Service cost	$ 4	$ 3
Interest cost	8	9
Amortization of:		
Prior service credit	(6)	(6)
Net actuarial gain	(3)	(5)
Net periodic postretirement cost	$ 3	$ 1

12. Business Segments

Summarized revenue data for each of the Company s reportable segments for the three months ended March 31 are as follows:

($ in millions)	**2013**	**2012**
Revenues		
Property-Liability		
Property-liability insurance premiums		
Standard auto	$ 4,363	$ 4,269
Non-standard auto	167	183
Total auto	4,530	4,452
Homeowners	1,616	1,572
Other personal lines	624	606
Allstate Protection	6,770	6,630
Discontinued Lines and Coverages	--	--
Total property-liability insurance premiums	6,770	6,630
Net investment income	341	313
Realized capital gains and losses	112	189
Total Property-Liability	7,223	7,132
Allstate Financial		
Life and annuity premiums and contract charges		
Traditional life insurance	116	113
Immediate annuities with life contingencies	7	12
Accident and health insurance	180	162
Total life and annuity premiums	303	287
Interest-sensitive life insurance	273	260
Fixed annuities	3	6
Total contract charges	276	266
Total life and annuity premiums and contract charges	579	553
Net investment income	635	687
Realized capital gains and losses	19	(21)
Total Allstate Financial	1,233	1,219
Corporate and Other		
Service fees	1	1
Net investment income	7	11
Total Corporate and Other before reclassification of service fees	8	12
Reclassification of service fees (1)	(1)	(1)
Total Corporate and Other	7	11
Consolidated revenues	$ 8,463	$ 8,362

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

Summarized financial performance data for each of the Company s reportable segments for the three months ended March 31 are as follows:

($ in millions)

	2013	2012
Net income		
Property-Liability		
Underwriting income (loss)		
Allstate Protection	$ 462	$ 526
Discontinued Lines and Coverages	(4)	(3)
Total underwriting income	458	523
Net investment income	341	313
Income tax expense on operations	(256)	(265)
Realized capital gains and losses, after-tax	73	124
Property-Liability net income	616	695
Allstate Financial		
Life and annuity premiums and contract charges	579	553
Net investment income	635	687
Periodic settlements and accruals on non-hedge derivative instruments	10	15
Contract benefits and interest credited to contractholder funds	(794)	(807)
Operating costs and expenses and amortization of deferred policy acquisition costs	(224)	(228)
Restructuring and related charges	(2)	--
Income tax expense on operations	(60)	(70)
Operating income	144	150
Realized capital gains and losses, after-tax	12	(14)
Valuation changes on embedded derivatives that are not hedged, after-tax	(6)	(6)
DAC and DSI amortization related to realized capital gains and losses and valuation changes on embedded derivatives that are not hedged, after-tax	1	(10)
Reclassification of periodic settlements and accruals on non-hedge derivative instruments, after-tax	(6)	(10)
Gain on disposition of operations, after-tax	1	2
Allstate Financial net income	146	112
Corporate and Other		
Service fees (1)	1	1
Net investment income	7	11
Operating costs and expenses (1)	(96)	(87)
Income tax benefit on operations	35	34
Operating loss	(53)	(41)
Realized capital gains and losses, after-tax	--	--
Corporate and Other net loss	(53)	(41)
Consolidated net income	$ 709	$ 766

(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 on a pre-tax and after-tax basis for the three months ended March 31 are as follows:

($ in millions)	2013			2012		
	Pre-tax	Tax	After-tax	Pre-tax	Tax	After-tax
Unrealized net holding gains arising during the period, net of related offsets	$ 211	$ (74)	$ 137	$		