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

_____

(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	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 %

(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)

(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)

(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.

		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	$ 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)		Offsets				
	Gross amount	**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	$ 866	$ (301)	$ 565
Less: reclassification adjustment of realized capital gains and losses	102	(36)	66	140	(49)	91
Unrealized net capital gains and losses	109	(38)	71	726	(252)	474
Unrecognized pension and other postretirement benefit cost arising during the period	2	--	2	(12)	4	(8)
Less: reclassification adjustment of net periodic cost recognized in operating costs and expenses	(66)	23	(43)	(43)	15	(28)
Unrecognized pension and other postretirement benefit cost	68	(23)	45	31	(11)	20
Unrealized foreign currency translation adjustments	(18)	6	(12)	14	(5)	9
Other comprehensive income	$ 159	$ (55)	104	$ 771	$ (268)	503
Net income			709			766
Comprehensive income			$ 813			$ 1,269

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of

The Allstate Corporation

Northbrook, IL 60062

We have reviewed the accompanying condensed consolidated statement of financial position of The Allstate Corporation and subsidiaries (the Company) as of March 31, 2013, and the related condensed consolidated statements of operations, comprehensive income and cash flows for the three-month periods ended March 31, 2013 and 2012. These interim financial statements are the responsibility of the Company s management.

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

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

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statement of financial position of The Allstate Corporation and subsidiaries as of December 31, 2012, and the related consolidated statements of operations, comprehensive income, shareholders equity, and cash flows for the year then ended (not presented herein); and in our report dated February 20, 2013, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated statement of financial position as of December 31, 2012 is fairly stated, in all material respects, in relation to the consolidated statement of financial position from which it has been derived.

/s/ Deloitte & Touche LLP

Chicago, Illinois

May 1, 2013

Item 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE THREE-MONTH PERIODS ENDED MARCH 31, 2013 AND 2012

OVERVIEW

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

Allstate is focused on the following priorities:

- grow insurance premiums;
- maintain auto profitability;
- raise returns in homeowners and annuity businesses;
- proactively manage investments; and
- reduce our cost structure.

HIGHLIGHTS

- Consolidated net income was $709 million in the first quarter of 2013 compared to $766 million in the first quarter of 2012. Net income per diluted share was $1.47 in the first quarter of 2013 compared to $1.53 in the first quarter of 2012.
- Property-Liability net income was $616 million in the first quarter of 2013 compared to $695 million in the first quarter of 2012.
- The Property-Liability combined ratio was 93.2 in the first quarter of 2013 compared to 92.1 in the first quarter of 2012.
- Allstate Financial net income was $146 million in the first quarter of 2013 compared to $112 million in the first quarter of 2012.
- Total revenues were $8.46 billion in the first quarter of 2013 compared to $8.36 billion in the first quarter of 2012.

- Property-Liability premiums earned totaled $6.77 billion in the first quarter of 2013, an increase of 2.1% from $6.63 billion in the first quarter of 2012.

- Investments totaled $97.38 billion as of March 31, 2013, increasing from $97.28 billion as of December 31, 2012. Net investment income was $983 million in the first quarter 2013, a decrease of 2.8% from $1.01 billion in the first quarter of 2012.

- Net realized capital gains were $131 million in the first quarter of 2013 compared to $168 million in the first quarter of 2012.

- Book value per diluted share (ratio of shareholders equity to total shares outstanding and dilutive potential shares outstanding) was $43.46 as of March 31, 2013, an increase of 12.7% from $38.57 as of March 31, 2012 and an increase of 2.5% from $42.39 as of December 31, 2012.

- For the twelve months ended March 31, 2013, return on the average of beginning and ending period shareholders equity was 11.3%, an increase of 5.9 points from 5.4% for the twelve months ended March 31, 2012.

- As of March 31, 2013, shareholders equity was $20.62 billion. This total included $2.73 billion in deployable assets at the parent holding company level, which includes a $500 million receivable repayable on demand with 10 days notice from Allstate Insurance Company (AIC) loaned to facilitate investing.

CONSOLIDATED NET INCOME

($ in millions)	Three months ended March 31,	
	2013	2012
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
Total revenues	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)
Total costs and expenses	(7,435)	(7,253)
Gain on disposition of operations	2	3
Income tax expense	(321)	(346)
Net income	$ 709	$ 766
Property-Liability	$ 616	$ 695
Allstate Financial	146	112
Corporate and Other	(53)	(41)
Net income	$ 709	$ 766

PROPERTY-LIABILITY HIGHLIGHTS

- Property-Liability net income was $616 million in the first quarter of 2013 compared to $695 million in the first quarter of 2012.

- Property-Liability premiums written totaled $6.63 billion in the first quarter of 2013, an increase of 2.5% from $6.46 billion in the first quarter of 2012.

- The Property-Liability loss ratio was 65.9 in the first quarter of 2013 compared to 65.4 in the first quarter of 2012.

- Catastrophe losses were $359 million in the first quarter of 2013 compared to $259 million in the first quarter of 2012.

- Prior year reserve reestimates totaled $35 million favorable in the first quarter of 2013 compared to $204 million favorable in the first quarter of 2012.

- Property-Liability underwriting income was $458 million in the first quarter of 2013 compared to $523 million in the first quarter of 2012. Underwriting income, a measure not based on accounting principles generally accepted in the United States of America (GAAP), is defined below.

- Property-Liability investments were $38.40 billion as of March 31, 2013, an increase of 0.5% from $38.22 billion as of December 31, 2012. Net investment income was $341 million in the first quarter of 2013, an increase of 8.9% from $313 million in the first quarter of 2012.

- Net realized capital gains were $112 million in the first quarter of 2013 compared to $189 million in the first quarter of 2012.

PROPERTY-LIABILITY OPERATIONS

Overview Our Property-Liability operations consist of two reporting segments: Allstate Protection and Discontinued Lines and Coverages. Allstate Protection comprises three brands: Allstate, Encompass and Esurance. Allstate Protection is principally engaged in the sale of personal property and casualty insurance, primarily private passenger auto and homeowners insurance, to individuals in the United States and Canada. Discontinued Lines and Coverages includes results from insurance coverage that we no longer write and results for certain commercial and other businesses in run-off. These segments are consistent with the groupings of financial information that management uses to evaluate performance and to determine the allocation of resources.

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

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

- Claims and claims expense (loss) ratio - the ratio of claims and claims expense to premiums earned. Loss ratios include the impact of catastrophe losses.

- Expense ratio - the ratio of amortization of DAC, operating costs and expenses, and restructuring and related charges to premiums earned.

- Combined ratio - the ratio of claims and claims expense, amortization of DAC, operating costs and expenses, and restructuring and related charges to premiums earned. The combined ratio is the sum of the loss ratio and the expense ratio. The difference between 100% and the combined ratio represents underwriting income as a percentage of premiums earned, or underwriting margin.

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

- Effect of catastrophe losses on combined ratio - the percentage of catastrophe losses included in claims and claims expense to premiums earned. This ratio includes prior year reserve reestimates of catastrophe losses.

- Effect of prior year reserve reestimates on combined ratio - the percentage of prior year reserve reestimates included in claims and claims expense to premiums earned. This ratio includes prior year reserve reestimates of catastrophe losses.

- Effect of business combination expenses and the amortization of purchased intangible assets on combined and expense ratio - the percentage of business combination expenses and the amortization of purchased intangible assets to premiums earned.

- Effect of restructuring and related charges on combined ratio - the percentage of restructuring and related charges to premiums earned.

- Effect of Discontinued Lines and Coverages on combined ratio - the ratio of claims and claims expense and operating costs and expenses in the Discontinued Lines and Coverages segment to Property-Liability premiums earned. The sum of the effect of Discontinued Lines and Coverages on the combined ratio and the Allstate Protection combined ratio is equal to the Property-Liability combined ratio.

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

($ in millions, except ratios)	**Three months ended March 31,**	
	2013	**2012**
Premiums written	$ 6,625	$ 6,463
Revenues		
Premiums earned	$ 6,770	$ 6,630
Net investment income	341	313
Realized capital gains and losses	112	189
Total revenues	7,223	7,132
Costs and expenses		
Claims and claims expense	(4,460)	(4,339)
Amortization of DAC	(871)	(878)
Operating costs and expenses	(957)	(884)
Restructuring and related charges	(24)	(6)
Total costs and expenses	(6,312)	(6,107)
Income tax expense	(295)	(330)
Net income	$ 616	$ 695
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
Net income	$ 616	$ 695
Catastrophe losses (1)	$ 359	$ 259
GAAP operating ratios		
Claims and claims expense ratio	65.9	65.4
Expense ratio	27.3	26.7
Combined ratio	93.2	92.1
Effect of catastrophe losses on combined ratio (1)	5.3	3.9
Effect of prior year reserve reestimates on combined ratio (1)	(0.6)	(3.1)
Effect of business combination expenses and the amortization of purchased intangible assets on combined ratio	0.3	0.7
Effect of restructuring and related charges on combined ratio	0.4	0.1
Effect of Discontinued Lines and Coverages on combined ratio	--	--

(1) Prior year reserve reestimates included in catastrophe losses totaled $32 million favorable in the three months ended March 31, 2013 compared to $161 million favorable in the three months ended March 31, 2012.

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

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

($ in millions)	Three months ended March 31,	
	2013	2012
Premiums written:		
Allstate Protection	$ 6,625	$ 6,462
Discontinued Lines and Coverages	--	1
Property-Liability premiums written	6,625	6,463
Decrease in unearned premiums	155	167
Other	(10)	--
Property-Liability premiums earned	$ 6,770	$ 6,630
Premiums earned:		
Allstate Protection	$ 6,770	$ 6,630
Discontinued Lines and Coverages	--	--
Property-Liability	$ 6,770	$ 6,630

ALLSTATE PROTECTION SEGMENT

Premiums written by brand are shown in the following table.

($ in millions)	Three months ended March 31,							
	Allstate brand		Encompass brand		Esurance brand		Allstate Protection	
	2013	2012	2013	2012	2013	2012	2013	2012
Standard auto	$ 3,983	$ 3,937	$ 147	$ 142	$ 342	$ 262	$ 4,472	$ 4,341
Non-standard auto	172	189	--	--	--	--	172	189
Homeowners	1,268	1,258	97	85	--	--	1,365	1,343
Other personal lines (1)	593	567	23	22	--	--	616	589
Total	$ 6,016	$ 5,951	$ 267	$ 249	$ 342	$ 262	$ 6,625	$ 6,462

(1) Other personal lines include commercial, renters, condominium, involuntary auto and other personal lines.

Premiums earned by brand are shown in the following table.

($ in millions)	Three months ended March 31,							
	Allstate brand		Encompass brand		Esurance brand		Allstate Protection	
	2013	2012	2013	2012	2013	2012	2013	2012
Standard auto	$ 3,927	$ 3,897	$ 155	$ 151	$ 281	$ 221	$ 4,363	$ 4,269
Non-standard auto	167	183	--	--	--	--	167	183
Homeowners	1,516	1,480	100	92	--	--	1,616	1,572

Other personal lines		599		583		25		23		--		--		624		606
Total	$	6,209	$	6,143	$	280	$	266	$	281	$	221	$	6,770	$	6,630

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

- Policies in force (PIF): Policy counts are based on items rather than customers. A multi-car customer would generate multiple item (policy) counts, even if all cars were insured under one policy.

- Average premium-gross written: Gross premiums written divided by issued item count. Gross premiums written include the impacts from discounts, surcharges and ceded reinsurance premiums and exclude the impacts from mid-term premium adjustments and premium refund accruals. Allstate brand average gross premiums represent the appropriate policy term for each line, which is 6 months for standard and non-standard auto and 12 months for homeowners. Encompass brand average gross premiums represent the appropriate policy term for each line, which is 12 months for standard auto and homeowners and 6 months

for non-standard auto. Esurance brand average gross premiums represent the appropriate policy term, which is 6 months for standard auto.

- Renewal ratio: Renewal policies issued during the period, based on contract effective dates, divided by the total policies issued 6 months prior for standard and non-standard auto (12 months prior for Encompass brand standard auto) or 12 months prior for homeowners.

- New issued applications: Item counts of automobiles or homeowners insurance applications for insurance policies that were issued during the period, regardless of whether the customer was previously insured by another Allstate Protection market segment. Does not include automobiles that are added by existing customers.

Standard auto premiums written totaled $4.47 billion in the first quarter of 2013, a 3.0% increase from $4.34 billion in the first quarter of 2012.

	Allstate brand		Encompass brand		Esurance brand	
Standard Auto	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**
Three months ended March 31,						
PIF (thousands)	16,850	17,080	714	676	1,151	849
Average premium-gross written (1)	$ 457	$ 447	$ 905	$ 923	$ 494	$ 508
Renewal ratio (%)	89.3	88.7	77.7	71.8	81.2	80.5
Approved rate changes (2):						
# of states	12	10	5	2	11	6
Countrywide (%) (3)	0.3	0.5	0.8	0.1	0.9	1.3
State specific (%) (4) (5)	1.8	5.4	5.6	3.2	4.2	8.6

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

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

(3) Represents the impact in the states where rate changes were approved during the period as a percentage of total countrywide prior year-end premiums written.

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

(5) Based on historical premiums written in those states, rate changes approved for standard auto totaled $53 million and $89 million in the three months ended March 31, 2013 and 2012, respectively.

Allstate brand standard auto premiums written totaled $3.98 billion in the first quarter of 2013, a 1.2% increase from $3.94 billion in the first quarter of 2012. Excluding Florida and New York, Allstate brand standard auto premiums written totaled $3.24 billion in the first quarter of 2013, a 2.5% increase from $3.16 billion in the first quarter of 2012. Factors impacting premiums written were the following:

1.3% decrease in PIF as of March 31, 2013 compared to March 31, 2012 due to fewer policies available to renew, and a 0.5% decrease compared to December 31, 2012. Excluding Florida and New York, PIF decreased 1.0% as of March 31, 2013 compared to March 31, 2012.

7.3% increase in new issued applications to 497 thousand in the first quarter of 2013 from 463 thousand in the first quarter of 2012. Excluding Florida and New York, new issued applications increased 6.3% to 438 thousand in the first quarter of 2013 from 412 thousand in the first quarter of 2012. New issued applications increased in 29 states in the first quarter of 2013 compared to the first quarter of 2012.

increase in average gross premium in the first quarter of 2013 compared to the first quarter of 2012.

0.6 point increase in the renewal ratio in the first quarter of 2013 compared to the first quarter of 2012. In the first quarter of 2013, 32 states had favorable comparisons to the first quarter of 2012.

Beginning February 2013, Allstate brand customers are immediately assigned an Allstate agency relationship at the time of purchase. As previously disclosed, all Allstate brand customers who purchased their policies directly through call centers and the internet will be assigned an Allstate exclusive agency relationship. This is estimated to take place in the second quarter of 2013.

Encompass brand standard auto premiums written totaled $147 million in the first quarter of 2013, a 3.5% increase from $142 million in the first quarter of 2012. Excluding Florida, Encompass brand standard auto

premiums written totaled $145 million in the first quarter of 2013, a 5.8% increase from $137 million in the first quarter of 2012. The increase was primarily due to a 5.6% increase in PIF as of March 31, 2013 compared to March 31, 2012 and actions taken to enhance our highly differentiated package policy. New issued applications increased 9.4% to 35 thousand in the first quarter of 2013 from 32 thousand in the first quarter of 2012. The renewal ratio increased 5.9 points in the first quarter of 2013 compared to the first quarter of 2012.

Esurance brand standard auto premiums written totaled $342 million in the first quarter of 2013, a 30.5% increase from $262 million in the first quarter of 2012. The increase was primarily due to a 35.6% increase in PIF as of March 31, 2013 compared to March 31, 2012. New issued applications increased 59.7% to 222 thousand in the first quarter of 2013 from 139 thousand in the first quarter of 2012. The renewal ratio increased 0.7 points in the first quarter of 2013 compared to the first quarter of 2012.

Non-standard auto premiums written totaled $172 million in the first quarter of 2013, a 9.0% decrease from $189 million in the first quarter of 2012. The decrease was primarily due to a decrease in PIF due to fewer policies available to renew; a 7.6% decrease in new issued applications to 73 thousand in the first quarter of 2013 from 79 thousand in the first quarter of 2012, partially offset by increases in average gross premium and the renewal ratio.

	Three months ended March 31,	
Allstate brand		
Non-Standard Auto	**2013**	**2012**
PIF (thousands)	509	570
Average premium-gross written (6 months)	$ 601	$ 598
Renewal ratio (%) (6 months)	70.7	69.1
Approved rate changes:		
# of states	3	4
Countrywide (%)	0.1	0.2
State specific (%) (1)	3.2	1.4

(1) Based on historical premiums written in those states, rate changes approved for non-standard auto totaled $1 million in both the three months ended March 31, 2013 and 2012.

Homeowners premiums written totaled $1.37 billion in the first quarter of 2013, a 1.6% increase from $1.34 billion in the first quarter of 2012. Excluding the cost of catastrophe reinsurance, premiums written increased 1.2% in the first quarter of 2013 compared to the first quarter of 2012.

	Allstate brand		Encompass brand	
Homeowners	**2013**	**2012**	**2013**	**2012**
Three months ended March 31,				
PIF (thousands)	5,895	6,259	333	309
Average premium-gross written (12 months)	$ 1,115	$ 1,065	$ 1,346	$ 1,299
Renewal ratio (%) (12 months)	87.0	87.4	86.1	79.6
Approved rate changes (1):				
# of states	16	13	3	5
Countrywide (%)	1.3	2.0	1.4	0.9
State specific (%) (2)	4.8	7.9	7.0	5.3

(1) Includes rate changes approved based on our net cost of reinsurance.

(2) Based on historical premiums written in those states, rate changes approved for homeowners totaled $87 million and $128 million in the three months ended March 31, 2013 and 2012, respectively.

Allstate brand homeowners premiums written totaled $1.27 billion in the first quarter of 2013, a 0.8% increase from $1.26 billion in the first quarter of 2012. Factors impacting premiums written were the following:

5.8% decrease in PIF as of March 31, 2013 compared to March 31, 2012 due to fewer policies available to renew, and a 1.3% decrease compared to December 31, 2012

11.9% increase in new issued applications to 113 thousand in the first quarter of 2013 from 101 thousand in the first quarter of 2012. In states that do not have severe weather issues and that have acceptable returns, we are seeking to grow. We are also seeking to selectively grow homeowners in some currently restricted areas where we believe we will earn an appropriate return for the risk. We will continue to pursue profit actions in states that are not at targeted returns.

increase in average gross premium in the first quarter of 2013 compared to the first quarter of 2012 primarily due to rate changes

0.4 point decrease in the renewal ratio in the first quarter of 2013 compared to the first quarter of 2012

$5 million decrease in the cost of our catastrophe reinsurance program to $116 million in the first quarter of 2013 from $121 million in the first quarter of 2012

Encompass brand homeowners premiums written totaled $97 million in the first quarter of 2013, a 14.1% increase from $85 million in the first quarter of 2012. The increase was primarily due to a 7.8% increase in PIF as of March 31, 2013 compared to March 31, 2012 and actions taken to enhance our highly differentiated package policy. New issued applications increased 13.3% to 17 thousand in the first quarter of 2013 from 15 thousand in the first quarter of 2012. The renewal ratio increased 6.5 points in the first quarter of 2013 compared to the first quarter of 2012.

Other personal lines Allstate brand other personal lines premiums written totaled $593 million in the first quarter of 2013, a 4.6% increase from $567 million in the first quarter of 2012. Allstate brand other personal lines includes Emerging Businesses other personal lines (landlord, renters, condominium, other property, Allstate Roadside Services and Allstate Dealer Services) for which premiums written increased 6.6% to $455 million in the first quarter of 2013 from $427 million in the first quarter of 2012.

Underwriting results are shown in the following table.

($ in millions)	**Three months ended March 31,**	
	2013	**2012**
Premiums written	$ 6,625	$ 6,462
Premiums earned	$ 6,770	$ 6,630
Claims and claims expense	(4,457)	(4,336)
Amortization of DAC	(871)	(878)
Other costs and expenses	(956)	(884)
Restructuring and related charges	(24)	(6)
Underwriting income	$ 462	$ 526
Catastrophe losses	$ 359	$ 259
Underwriting income by line of business		
Standard auto	$ 172	$ 115
Non-standard auto	24	16
Homeowners	232	306
Other personal lines	34	89
Underwriting income	$ 462	$ 526
Underwriting income (loss) by brand		
Allstate brand	$ 515	$ 586
Encompass brand	(6)	1
Esurance brand	(47)	(61)
Underwriting income	$ 462	$ 526

Allstate Protection had underwriting income of $462 million in the first quarter of 2013 compared to $526 million in the first quarter of 2012, primarily due to a decrease in underwriting income in homeowners and other personal lines, partially offset by an increase in standard auto

underwriting income. Homeowners underwriting income was $232 million in the first quarter of 2013, a 24.2% decrease from $306 million in the first quarter of 2012, primarily due to increases in catastrophe losses (including unfavorable reserve reestimates) and higher expenses, partially offset by average earned premiums increasing faster than loss costs. Other personal lines underwriting income was $34 million in the first quarter of 2013, a 61.8% decrease from $89 million in the first quarter of 2012, primarily due to higher expenses and lower favorable reserve reestimates. Standard auto underwriting income was $172 million in the first quarter of 2013, a 49.6% increase from $115 million in the first

quarter of 2012, primarily due to increased premiums earned, lower frequency, and favorable Sandy reserve reestimates, partially offset by higher expenses.

Catastrophe losses were $359 million in the first quarter of 2013 compared to $259 million in the first quarter of 2012.

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

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

($ in millions)	**Three months ended March 31, 2013**					
	Number of events		**Claims and claims expense**		**Combined ratio impact**	**Average catastrophe loss per event**
Size of catastrophe loss						
$101 million to $250 million	1	11.1%	225 (1)	62.7%	3.3	$ 225
$50 million to $100 million	1	11.1	73 (2)	20.3	1.1	73
Less than $50 million	7	77.8	93	25.9	1.4	13
Total	9	100.0%	391	108.9	5.8	43
Prior year reserve reestimates			(32) (3)	(8.9)	(0.5)	
Total catastrophe losses			$ 359	100.0%	5.3	

(1) Reflects March 2013 wind/hail event primarily impacting Mississippi, Georgia and Alabama.

(2) Reflects February 2013 wind/hail event primarily impacting Louisiana and Texas.

(3) Reserve reestimates related to Sandy in the three months ended March 31, 2013 totaled $21 million favorable, including $35 million favorable for auto, $22 million unfavorable for homeowners and $8 million favorable other personal lines.

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

($ in millions)	**Three months ended March 31,**			
	2013		**2012**	
		Number of events		**Number of events**
Tornadoes	$ --	--	$ 207	3

Wind/Hail	381	8	202	10
Wildfires	--	--	3	1
Other events	10	1	8	1
Prior year reserve reestimates	(32)		(161)	
Total catastrophe losses	$ 359	9	$ 259	15

Catastrophe losses, including prior year reserve reestimates, excluding hurricanes named or numbered by the National Weather Service, fires following earthquakes and earthquakes totaled $387 million and $284 million in the first quarter of 2013 and 2012, respectively.

Combined ratio Loss ratios by product, and expense and combined ratios by brand, are shown in the following table.

	Three months ended March 31,							
	Ratio (1)		Effect of catastrophe losses on combined ratio		Effect of prior year reserve reestimates on combined ratio		Effect of business combination expenses and the amortization of purchased intangible assets on combined ratio	
	2013	2012	2013	2012	2013	2012	2013	2012
Allstate brand loss ratio:								
Standard auto	68.0	69.6	1.1	1.2	(1.6)	(1.2)		
Non-standard auto	62.3	67.2	0.6	--	(0.6)	--		
Homeowners	60.3	56.5	18.7	12.6	2.6	(7.9)		
Other personal lines	59.3	53.9	2.7	2.9	(2.0)	(6.7)		
Total Allstate brand loss ratio	65.1	64.9	5.5	4.1	(0.6)	(3.3)		
Allstate brand expense ratio	26.6	25.6	--	--	--	--	0.1	0.1
Allstate brand combined ratio	91.7	90.5	5.5	4.1	(0.6)	(3.3)	0.1	0.1
Encompass brand loss ratio:								
Standard auto	75.5	78.1	(0.6)	0.7	(3.9)	0.7		
Homeowners	62.0	55.4	12.0	6.5	1.0	(2.2)		
Other personal lines	80.0	87.0	8.0	--	12.0	(4.3)		
Total Encompass brand loss ratio	71.1	71.0	4.6	2.6	(0.7)	(0.8)		
Encompass brand expense ratio	31.0	28.6	--	--	--	--	--	--
Encompass brand combined ratio	102.1	99.6	4.6	2.6	(0.7)	(0.8)	--	--
Esurance brand loss ratio:								
Standard auto	76.5	72.8	1.1	0.4	--	--		
Total Esurance brand loss ratio	76.5	72.8	1.1	0.4	--	--		
Esurance brand expense ratio	40.2	54.8	--	--	--	--	5.3	18.1
Esurance brand combined ratio	116.7	127.6	1.1	0.4	--	--	5.3	18.1
Allstate Protection loss ratio	65.9	65.4	5.3	3.9	(0.6)	(3.1)		
Allstate Protection expense ratio	27.3	26.7	--	--	--	--	0.3	0.7
Allstate Protection combined ratio	93.2	92.1	5.3	3.9	(0.6)	(3.1)	0.3	0.7

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

Standard auto loss ratio for the Allstate brand decreased 1.6 points in the first quarter of 2013 compared to the first quarter of 2012 primarily due to lower frequency and favorable Sandy reserve reestimates. Excluding the impact of catastrophe losses, the Allstate brand standard auto loss ratio decreased 1.5 points in the first quarter of 2013 compared to the first quarter of 2012. Florida results have shown improvement with loss ratios, including prior year reserve reestimates, of 69.7 in the first quarter of 2013 compared to 71.3 in the first quarter of 2012. For New York, the loss ratio was 70.6 in the first quarter of 2013 compared to 65.2 in the first quarter of 2012 which was favorably impacted by reserve releases. Excluding the impact of reserve reestimates and catastrophe losses, both states have experienced improvement as a result of management actions, including rate increases, underwriting restrictions, increased claims staffing and review, and on-going efforts to combat fraud and abuse. However, we continue to focus on profitability given ongoing developments in these two states. Claim frequencies (rate of claim occurrence per policy in force) in the bodily injury and property damage coverages decreased 1.5% and 0.2%, respectively, in the first

quarter of 2013 compared to the first quarter of 2012. Bodily injury and property damage coverage paid claim severities (average cost per claim) increased 7.4% and decreased 1.0%, respectively, in the first

quarter of 2013 compared to the first quarter of 2012. In the first quarter of 2013, severity increased in line with historical Consumer Price Index trends after adjusting for geographic mix and age of claims.

Encompass brand standard auto loss ratio decreased 2.6 points in the first quarter of 2013 compared to the first quarter of 2012 primarily due to favorable reserve reestimates.

Esurance brand standard auto loss ratio increased 3.7 points in the first quarter of 2013 compared to the first quarter of 2012, primarily due to an increase in physical damage losses, both catastrophe and non-catastrophe driven, as a result of hailstorms in the first quarter of 2013 and a benign winter in the first quarter of 2012.

Homeowners loss ratio for the Allstate brand increased 3.8 points to 60.3 in the first quarter of 2013 from 56.5 in the first quarter of 2012 primarily due to higher catastrophe losses (including unfavorable reserve reestimates), partially offset by average earned premiums increasing faster than loss costs. Claim frequency excluding catastrophe losses increased 1.1% in the first quarter of 2013 compared to the first quarter of 2012. Paid claim severity excluding catastrophe losses decreased 0.5% in the first quarter of 2013 compared to the first quarter of 2012.

Encompass brand homeowners loss ratio increased 6.6 points in the first quarter of 2013 compared to the first quarter of 2012 primarily due to higher catastrophe losses.

Expense ratio for Allstate Protection increased 0.6 points in the first quarter of 2013 compared to the first quarter of 2012. The impact of specific costs and expenses on the expense ratio are shown in the following table.

	Three months ended March 31,							
	Allstate brand		Encompass brand		Esurance brand		Allstate Protection	
	2013	2012	2013	2012	2013	2012	2013	2012
Amortization of DAC	13.1	13.1	17.9	17.3	2.5	2.3	12.9	12.9
Advertising expenses	2.7	3.1	0.7	0.8	16.0	20.4	3.2	3.6
Business combination expenses and amortization of purchased intangible assets	0.1	0.1	--	--	5.3	18.1	0.3	0.7
Other costs and expenses	10.3	9.2	12.1	10.5	16.4	14.0	10.5	9.4
Restructuring and related charges	0.4	0.1	0.3	--	--	--	0.4	0.1
Total expense ratio	26.6	25.6	31.0	28.6	40.2	54.8	27.3	26.7

Other costs and expenses increased primarily due to higher technology related costs and an increase in the 2012 agent bonus accrual. Restructuring and related charges were $24 million in the first quarter of 2013 and 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.

Amortization of DAC primarily includes agent remuneration and premium taxes. In 2013, Allstate exclusive agent remuneration comprises a base commission, a variable commission and a bonus. Commissions are trending slightly above the prior year, which had only a base commission. The variable commission has two components: agency success factors (local presence, Allstate Financial products sold and minimum licensed staff), which must be achieved in order to qualify for the second component, customer experience (customer satisfaction

survey). In addition, a bonus that is also a percentage of premiums can be earned by agents up to the same level as the prior year. To qualify for the bonus in 2013, agents must achieve a minimum loss ratio and an amount of sales of Allstate Financial products. The bonus is earned by increases in multi-line households and increases in Property-Liability policies in force and Allstate Financial policies sold.

We are studying ways to reduce our cost structure including the cost of operations, such as total resource compensation, technology costs, facility expense, and improving efficiency and effectiveness.

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

We completed the placement of the 2013 catastrophe reinsurance program as described below except for the Florida component which is expected to be placed in the second quarter of 2013. The information below provides further detail regarding our 2013 catastrophe reinsurance program.

Our 2013 reinsurance program continues to support our goal to have no more than a 1% likelihood of exceeding average annual aggregate catastrophe losses by $2 billion, net of reinsurance, from hurricanes and earthquakes, based on modeled assumptions and applications currently available. Since the 2006 inception of Allstate s catastrophe reinsurance program, our exposure to wind loss has been materially reduced and we have substantially eliminated our exposure to homeowners earthquake loss. Similar to our 2012 program, we have designed our 2013 program to respond to these exposure changes by including coverage for multiple perils, in addition to hurricanes and earthquakes, in all agreements except for the following: a Kentucky agreement, which provides coverage for earthquakes and fires following earthquakes, and an agreement comprising two contracts which provides coverage in specific states for hurricanes and earthquakes, including fires following earthquakes, based on insured industry losses as reported by the Property Claim Service (PCS) (the PCS Excess Catastrophe Reinsurance agreement).

The 2013 program, as described below, provides $3.25 billion of reinsurance coverage above the retention. Similar to the expiring program, the 2013 program will include a Per Occurrence Excess Catastrophe Reinsurance agreement reinsuring our personal lines property and auto excess catastrophe losses resulting from multiple perils in every state other than New Jersey and Florida. For June 1, 2013 to May 31, 2014, the program consists of three agreements: a Per Occurrence Excess Catastrophe Reinsurance agreement providing coverage in six layers with the reinstatement of limits available for the First through Fifth Layers; a Top and Drop Excess Catastrophe Reinsurance agreement which includes Coverage A and Coverage B (defined below) and does not include a reinstatement of limits; and the PCS Excess Catastrophe Reinsurance agreement which supplements the reinsurance limits provided by the Fifth and Sixth Layers of the Nationwide Per Occurrence Excess Catastrophe Reinsurance Program and does not include a reinstatement of limits. We anticipate the placement of the Fifth and Sixth Layers as described below to be completed on May 3, 2013.

The Per Occurrence Excess Catastrophe Reinsurance agreement provides an initial $3.25 billion per occurrence limit in excess of a $500 million retention and after the Company has incurred $250 million in losses otherwise recoverable. The $250 million in losses otherwise recoverable applies once each contract year to the First Layer only and losses from multiple qualifying occurrences can apply to this $250 million threshold in excess of $500 million per occurrence. For June 1, 2013 to May 31, 2014, the program will consist of three existing contracts, two of which expire May 31, 2014 and one which expires May 31, 2015, and two new contracts which expire May 31, 2015 and May 31, 2016.

The Top and Drop Excess Catastrophe Reinsurance agreement provides $250 million of reinsurance limits which may be used for Coverage A, Coverage B, or a combination of both. For June 1, 2013 to May 31, 2014, Coverage A reinsures the Top of the program and provides 6.33% of $500 million excess of a $3.25 billion retention. For June 1, 2013 to May 31, 2014, Coverage B allows the program limit to Drop and provides reinsurance for 12.66% of $250 million in limits excess of a $750 million retention and after the Company has incurred $500 million in losses otherwise recoverable under the agreement. Losses from multiple qualifying occurrences, in excess of $750 million per occurrence, can apply to this $500 million threshold.

The PCS Excess Catastrophe Reinsurance agreement comprises two contracts: a Class B Excess Catastrophe Reinsurance Contract which provides $150 million in limits excess of a $2.75 billion retention, and a Class A Excess Catastrophe Contract which provides $200 million in limits excess of a $3.25 billion retention. The contracts are effective on May 4, 2013 and their risk period expires on May 3, 2017. The contracts do not include a reinstatement of limits.

The New Jersey and Florida components of the reinsurance program are designed separately from the other components of the program to address the distinct needs of our separately capitalized legal entities in those states. The New Jersey agreement reinsures personal lines property losses resulting from multiple perils and consists of three contracts which expire on May 31, 2014, May 31, 2015 and May 31, 2016. The

Florida component is expected to be placed in the second quarter of 2013. Allstate Protection s separate reinsurance programs in Pennsylvania and Kentucky will continue to address exposures unique to those states. A description of the catastrophe reinsurance treaties that will reinsure Allstate Protection as of June 1, 2013 follows:

Nationwide excluding Florida and New Jersey

- The Per Occurrence Excess Catastrophe Reinsurance agreement reinsures personal lines property and auto excess catastrophe losses caused by multiple perils under six layers of coverage as follows:

First Layer	$250 million limit in excess of a $500 million retention and after an initial $250 million in losses otherwise recoverable has been satisfied, 1 reinstatement
Second Layer	$250 million limit in excess of a $750 million retention, 1 reinstatement
Third Layer	$500 million limit in excess of a $1 billion retention, 1 reinstatement
Fourth Layer	$750 million limit in excess of a $1.5 billion retention, 1 reinstatement
Fifth Layer	$1 billion limit in excess of a $2.25 billion retention, 1 reinstatement
Sixth Layer	$500 million limit in excess of a $3.25 billion retention

Coverage for the First through the Fourth Layers comprises three contracts, each contract providing one third of 95% of the total limit and expiring as of May 31, 2014, May 31, 2015 and May 31, 2016. Coverage for the first $500 million of the $1 billion limit of the Fifth Layer is 95% placed and comprises two existing contracts expiring May 31, 2014 and May 31, 2015 and a newly placed contract expiring May 31, 2015. Coverage for the second $500 million of the Fifth Layer is 63% placed and comprises two existing contracts expiring May 31, 2014 and May 31, 2015. Coverage for the Sixth Layer, which is 38.04% placed, comprises three existing contracts, two of which expire May 31, 2014 and one which expires May 31, 2015.

The newly placed contracts, effective June 1, 2013, will not have a prepaid reinstatement limit thus requiring premium for the reinstatement of limits. The contract expiring May 31, 2015 includes a reinstatement for the First through Fifth Layers with premium required for the reinstatement of limits. The contract expiring May 31, 2014 includes a prepaid reinstatement for the First through Fifth Layers. The Sixth Layer does not have a reinstatement of limits. Reinsurance premium is subject to redetermination for exposure changes at each anniversary.

- The Top and Drop Excess Catastrophe Reinsurance agreement reinsures personal lines property and auto excess catastrophe losses caused by multiple perils under a three year term contract expiring May 31, 2014. The reinsurance limit may be used for Coverage A, Coverage B or a combination of both and is not subject to reinstatement. For June 1, 2013 to May 31, 2014, Coverage A of the Top and Drop provides 6.33% of $500 million in limits in excess of a $3.25 billion retention which results in a 44.37% placement of the Sixth Layer of the Per Occurrence Catastrophe Reinsurance agreement. Coverage B provides 12.66% of $250 million in limits in excess of a $750 million retention. In addition to this retention, the Company must incur $500 million in losses otherwise recoverable, under Coverage B during the contract year before Coverage B attaches. Losses from multiple qualifying occurrences may apply to this $500 million threshold. Reinsurance premium is subject to redetermination for exposure changes. The Top and Drop Excess Catastrophe Reinsurance agreement does not contain a reinstatement.

- The PCS Excess Catastrophe Reinsurance agreement reinsures personal lines property and auto excess catastrophe losses caused by hurricanes in 28 states and the District of Columbia, and earthquakes, including fires following earthquakes, in California, New York, and Washington. This agreement is placed with a Bermuda insurance company, Sanders Re Ltd, which completed an offering to unrelated investors of principal at risk, variable market rate notes to collateralize losses covered by the agreement. Amounts payable under the agreement are based on insured industry losses as reported by PCS and further indexed to account for our exposures in each contracts covered areas. Reinsurance recoveries under the PCS Excess Catastrophe Reinsurance agreement are limited to our ultimate net loss from a PCS reported hurricane or earthquake event, in excess of each contract s specific retention and subject to each contract s limit. The contracts risk period is for four years from May 4, 2013 to May 3, 2017. The placement of these contracts achieves, for the perils of hurricanes and earthquakes, including fires following earthquakes, a 94% placement of the reinsurance limits of the Fifth Layer of the Per Occurrence Excess Catastrophe Reinsurance agreement, and in conjunction with the Top and Drop agreement, an 84% placement of the Sixth Layer of the reinsurance limits of per Occurrence Excess Catastrophe Reinsurance agreement.

New Jersey

- The Excess Catastrophe Reinsurance agreement comprises two existing contracts that reinsure personal lines property excess catastrophe losses in New Jersey caused by multiple perils, and a newly placed contract that reinsures personal lines property and automobile excess catastrophe losses in New Jersey. The two existing contracts expiring May 31, 2014 and May 31, 2015 and the newly placed contract expiring May 31, 2016 each provide 32% of $400 million of limits excess of a $122 million retention, a $137 million retention, and a $150 million retention, respectively. Each contract includes one reinstatement per contract year, with premium due for the contracts expiring May 31, 2015 and May 31, 2016. The reinsurance premium and retention are subject to redetermination for exposure changes at each anniversary.

Pennsylvania

- The Excess Catastrophe Reinsurance agreement comprises an existing, three year term contract which reinsures personal lines property losses in Pennsylvania caused by multiple perils. The contract expires May 31, 2015 and provides three limits of $100 million in excess of a $100 million retention with two limits available in any one contract year and is 95% placed. The reinsurance premium and retention are not subject to redetermination for exposure changes.

Kentucky

- The Earthquake Excess Catastrophe Reinsurance agreement comprises an existing, three year term contract which reinsures personal lines property losses in Kentucky caused by earthquakes or fires following earthquakes. The contract expires May 31, 2014 and provides 95% of $25 million of limits in excess of a

$5 million retention. The contract provides two limits over its remaining one year term. The reinsurance premium and retention are not subject to redetermination for exposure changes.

We expect that the cost of our catastrophe reinsurance programs will be lower in 2013 compared to 2012, primarily due to no longer needing the 7th Layer of the National Per Occurrence Excess Catastrophe Reinsurance program to achieve our catastrophe risk goal, lower limits being required to achieve our Florida reinsurance program goal following a decline in exposures, acquiring reinsurance in the capital markets, and favorable reinsurance rates. The total cost of our property catastrophe reinsurance programs during the first quarter of 2013 was $133 million. The total cost of our catastrophe reinsurance programs during 2012 was $138 million in the first quarter, $137 million in the second quarter, $133 million in the third quarter and $141 million in the fourth quarter. These quarterly costs reflect premium re-measurements recognized in the quarter. We continue to attempt to capture our reinsurance cost in premium rates as allowed by state regulatory authorities.

Reserve reestimates The tables below show Allstate Protection net reserves representing the estimated cost of outstanding claims as they were recorded at the beginning of years 2013 and 2012, and the effect of reestimates in each year.

($ in millions)	**January 1 reserves**	
	2013	**2012**
Auto	$ 11,383	$ 11,404
Homeowners	2,008	2,439
Other personal lines	2,250	2,237
Total Allstate Protection	$ 15,641	$ 16,080

($ in millions, except ratios)	**Three months ended March 31,**			
	2013		**2012**	
	Reserve reestimate (1)	**Effect on combined ratio (2)**	**Reserve reestimate (1)**	**Effect on combined ratio (2)**
Auto (3)	$ (70)	(1.0)	$ (48)	(0.7)
Homeowners (3)	41	0.6	(119)	(1.8)
Other personal lines (3)	(9)	(0.2)	(40)	(0.6)
Total Allstate Protection	$ (38)	(0.6)	$ (207)	(3.1)
Allstate brand	$ (36)	(0.5)	$ (205)	(3.1)
Encompass brand	(2)	(0.1)	(2)	--
Esurance brand	--	--	--	--
Total Allstate Protection	$ (38)	(0.6)	$ (207)	(3.1)

(1) Favorable reserve reestimates are shown in parentheses.

(2) Ratios are calculated using Property-Liability premiums earned.

(3) Prior year reserve reestimates included in catastrophe losses for auto, homeowners and other personal lines totaled $51 million favorable, $31 million unfavorable and $12 million favorable in the three months ended March 31, 2013, respectively, compared to $13 million favorable, $129 million favorable and $19 million favorable in the three months ended March 31, 2012, respectively. The effect of catastrophe losses included in prior year reserve reestimates on the combined ratio for auto, homeowners and other personal lines totaled 0.8 favorable, 0.5 unfavorable and 0.2 favorable in the three months ended March 31, 2013, respectively, compared to 0.2 favorable, 2.0 favorable and 0.3 favorable in the three months ended March 31, 2012, respectively.

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DISCONTINUED LINES AND COVERAGES SEGMENT

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

Summarized underwriting results are presented in the following table.

($ in millions)	**Three months ended March 31,**	
	2013	**2012**
Premiums written	$ --	$ 1
Premiums earned	$ --	$ --
Claims and claims expense	(3)	(3)
Operating costs and expenses	(1)	--
Underwriting loss	$ (4)	$ (3)

PROPERTY-LIABILITY INVESTMENT RESULTS

Net investment income The following table presents net investment income.

($ in millions)	**Three months ended March 31,**	
	2013	**2012**
Fixed income securities	$ 249	$ 265
Equity securities	23	19
Mortgage loans	5	6
Limited partnership interests	77	41
Short-term investments	1	1
Other	8	2
Investment income, before expense	363	334
Investment expense	(22)	(21)
Net investment income	$ 341	$ 313

The average pre-tax investment yields are presented in the following table. Pre-tax yield is calculated as annualized investment income before investment expense (including dividend income in the case of equity securities) divided by the average of the investment balances at the beginning and end of the year and interim quarters. Investment balances, for purposes of the pre-tax yield calculation, exclude unrealized capital gains and losses.

	Three months ended March 31,	
	2013	**2012**
Fixed income securities: tax-exempt	3.7%	4.6%
Fixed income securities: tax-exempt equivalent	5.4	6.7
Fixed income securities: taxable	3.5	3.6
Equity securities	2.8	2.1
Mortgage loans	4.3	4.5
Limited partnership interests	10.4	5.5
Total portfolio	4.0	3.8

Net investment income increased 8.9% to $341 million in the first quarter of 2013 from $313 million in the first quarter of 2012. The increase was primarily due to higher limited partnership income, higher prepayment fee income and litigation proceeds which increased 2013 income by a total of $15 million, and higher average investment balances, partially offset by lower fixed income yields. The decrease in fixed income yields is primarily due to actions taken to reduce interest rate risk through dispositions of long-duration municipal and corporate fixed income securities and increased investment in floating rate securities, short term and intermediate corporate fixed

income securities. While the dispositions generated net realized capital gains, we expect a decline in investment income prospectively due to the lower yield on the reinvestment of proceeds.

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

($ in millions)	**Three months ended March 31,**	
	2013	**2012**
Impairment write-downs	$ (8)	$ (19)
Change in intent write-downs	(20)	(28)
Net other-than-temporary impairment losses recognized in earnings	(28)	(47)
Sales	151	237
Valuation of derivative instruments	--	3
Settlements of derivative instruments	(11)	(4)
Realized capital gains and losses, pre-tax	112	189
Income tax expense	(39)	(65)
Realized capital gains and losses, after-tax	$ 73	$ 124

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

ALLSTATE FINANCIAL HIGHLIGHTS

- Net income was $146 million in the first quarter of 2013 compared to $112 million in the first quarter of 2012.

- Premiums and contract charges on underwritten products, including traditional life, interest-sensitive life and accident and health insurance, totaled $569 million in the first quarter of 2013, an increase of 6.4% from $535 million in the first quarter of 2012.

- Investments totaled $56.85 billion as of March 31, 2013, reflecting a decrease in carrying value of $146 million from $57.00 billion as of December 31, 2012. Net investment income decreased 7.6% to $635 million in the first quarter of 2013 from $687 million in the first quarter of 2012.

- Net realized capital gains totaled $19 million in the first quarter of 2013 compared to net realized capital losses of $21 million in the first quarter of 2012.

- Contractholder funds totaled $38.81 billion as of March 31, 2013, reflecting a decrease of $512 million from $39.32 billion as of December 31, 2012.

ALLSTATE FINANCIAL SEGMENT

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

($ in millions)	**Three months ended March 31,**	
	2013	**2012**
Revenues		
Life and annuity premiums and contract charges	$ 579	$ 553
Net investment income	635	687
Realized capital gains and losses	19	(21)
Total revenues	1,233	1,219
Costs and expenses		
Life and annuity contract benefits	(458)	(439)
Interest credited to contractholder funds	(345)	(378)
Amortization of DAC	(75)	(101)
Operating costs and expenses	(148)	(142)
Restructuring and related charges	(2)	--
Total costs and expenses	(1,028)	(1,060)
Gain on disposition of operations	2	3
Income tax expense	(61)	(50)
Net income	$ 146	$ 112
Investments as of March 31	$ 56,853	$ 57,620
Net income		
Life insurance	$ 63	$ 57
Accident and health insurance	24	17

Annuities and institutional products		59		38
Net income	$	146	$	112

Net income was $146 million in the first quarter of 2013 compared to $112 million in the first quarter of 2012. The increase was primarily due to net realized capital gains in the first quarter of 2013 compared to net realized capital losses in the first quarter of 2012, decreased interest credited to contractholder funds and lower amortization of DAC, partially offset by lower net investment income.

Analysis of revenues Total revenues increased 1.1% or $14 million in the first quarter of 2013 compared to the first quarter of 2012 primarily due to net realized capital gains in the first quarter of 2013 compared to net realized capital losses in the first quarter of 2012 and higher life and annuity premiums and contract charges, partially offset by lower net investment income.

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

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

($ in millions)	**Three months ended March 31,**	
	2013	**2012**
Underwritten products		
Traditional life insurance premiums	$ 116	$ 113
Accident and health insurance premiums	180	162
Interest-sensitive life insurance contract charges	273	260
Subtotal	569	535
Annuities		
Immediate annuities with life contingencies premiums	7	12
Other fixed annuity contract charges	3	6
Subtotal	10	18
Life and annuity premiums and contract charges (1)	$ 579	$ 553

(1) Contract charges related to the cost of insurance totaled $180 million and $170 million for the first quarter of 2013 and 2012, respectively.

Total premiums and contract charges increased 4.7% in the first quarter of 2013 compared to the first quarter of 2012 primarily due to growth in Allstate Benefits accident and health insurance business in force and higher contract charges on interest-sensitive life insurance products primarily resulting from the growth of insurance in force and the aging of our policyholders, partially offset by lower sales of immediate annuities with life contingencies. Effective March 22, 2013, we are no longer offering structured settlement annuities. We will continue to service the in-force structured settlement contracts.

Contractholder funds represent interest-bearing liabilities arising from the sale of products such as interest-sensitive life insurance, fixed annuities and funding agreements. The balance of contractholder funds is equal to the cumulative deposits received and interest credited to the contractholder less cumulative contract benefits, surrenders, withdrawals, maturities and contract charges for mortality or administrative expenses. The following table shows the changes in contractholder funds.

($ in millions)	**Three months ended March 31,**	
	2013	**2012**
Contractholder funds, beginning balance	$ 39,319	$ 42,332
Deposits		
Fixed annuities	287	153
Interest-sensitive life insurance	386	332
Total deposits	673	485
Interest credited	350	379
Benefits, withdrawals, maturities and other adjustments		
Benefits	(395)	(357)
Surrenders and partial withdrawals	(891)	(943)
Maturities of and interest payments on institutional products	(1)	(1)
Contract charges	(277)	(264)
Net transfers from separate accounts	1	2
Other adjustments (1)	28	(30)
Total benefits, withdrawals, maturities and other adjustments	(1,535)	(1,593)
Contractholder funds, ending balance	$ 38,807	$ 41,603

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

Contractholder funds decreased 1.3% and 1.7% in the first quarter of 2013 and 2012, respectively, reflecting our continuing strategy to reduce our concentration in spread-based products. Average contractholder funds decreased 6.9% in the first quarter of 2013 compared to the same period of 2012.

Contractholder deposits increased 38.8% in the first quarter of 2013 compared to the same period of 2012 primarily due to increased fixed annuity deposits driven by new equity-indexed annuity products launched in second quarter 2012 and higher deposits on interest-sensitive life insurance with secondary guarantees in advance of previously announced price increases.

Surrenders and partial withdrawals on deferred fixed annuities and interest-sensitive life insurance products decreased 5.5% to $891 million in the first quarter of 2013 from $943 million in the same period of 2012. The annualized surrender and partial withdrawal rate on deferred fixed annuities and interest-sensitive life insurance products, based on the beginning of year contractholder funds, was 11.0% in the first quarter of 2013 compared to 10.7% in the same period of 2012.

Net investment income decreased 7.6% or $52 million to $635 million in the first quarter of 2013 from $687 million in the same period of 2012 primarily due to lower limited partnership income and lower average investment balances, partially offset by higher prepayment fee income and litigation proceeds which increased 2013 income by a total of $27 million.

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

($ in millions)	Three months ended March 31,	
	2013	2012
Impairment write-downs	$ (2)	$ (20)
Change in intent write-downs	(7)	(16)
Net other-than-temporary impairment losses recognized in earnings	(9)	(36)
Sales	21	(8)
Valuation of derivative instruments	(4)	8
Settlements of derivative instruments	11	15
Realized capital gains and losses, pre-tax	19	(21)
Income tax (expense) benefit	(7)	7
Realized capital gains and losses, after-tax	$ 12	$ (14)

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

Analysis of costs and expenses Total costs and expenses decreased 3.0% or $32 million in the first quarter of 2013 compared to the same period of 2012 primarily due to lower interest credited to contractholder funds and amortization of DAC, partially offset by higher life and annuity contract benefits.

Life and annuity contract benefits increased 4.3% or $19 million in the first quarter of 2013 compared to the same period of 2012 primarily due to worse mortality experience on life insurance.

We analyze our mortality and morbidity results using the difference between premiums and contract charges earned for the cost of insurance and life and annuity contract benefits excluding the portion related to the implied interest on immediate annuities with life contingencies (benefit spread). This implied interest totaled $133 million and $134 million in the first quarter of 2013 and 2012, respectively.

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

($ in millions)	Three months ended March 31,	
	2013	2012
Life insurance	$ 86	$ 91
Accident and health insurance	89	73
Annuities	(17)	(12)
Total benefit spread	$ 158	$ 152

Benefit spread increased 3.9% or $6 million in the first quarter of 2013 compared to the first quarter of 2012 primarily due to premium growth in Allstate Benefits accident and health insurance and higher cost of insurance contract charges on interest-sensitive life insurance, partially offset by worse mortality experience on life insurance and annuities.

Interest credited to contractholder funds decreased 8.7% or $33 million in the first quarter of 2013 compared to the same period of 2012 primarily due to lower average contractholder funds and lower interest crediting rates. Valuation changes on derivatives embedded in equity-indexed annuity contracts that are not hedged increased interest credited to contractholder funds by $9 million and $10 million in the first quarter of 2013 and 2012, respectively.

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

The investment spread by product group is shown in the following table.

($ in millions)	**Three months ended March 31,**	
	2013	**2012**
Annuities and institutional products	$ 59	$ 97
Life insurance	27	18
Accident and health insurance	6	6
Net investment income on investments supporting capital	74	64
Investment spread before valuation changes on embedded derivatives that are not hedged	166	185
Valuation changes on derivatives embedded in equity-indexed annuity contracts that are not hedged	(9)	(10)
Total investment spread	$ 157	$ 175

Investment spread before valuation changes on embedded derivatives that are not hedged decreased 10.3% or $19 million in the first quarter of 2013 compared to the first quarter of 2012 due to lower income on limited partnerships and the continued managed reduction in our spread-based business in force, partially offset by lower crediting rates.

To further analyze investment spreads, the following table summarizes the weighted average investment yield on assets supporting product liabilities and capital, interest crediting rates and investment spreads for the three months ended March 31.

	Weighted average investment yield		**Weighted average interest crediting rate**		**Weighted average investment spreads**	
	2013	**2012**	**2013**	**2012**	**2013**	**2012**
Interest-sensitive life insurance	5.2 %	5.4 %	3.9 %	4.1 %	1.3 %	1.3 %
Deferred fixed annuities and institutional products	4.6	4.5	3.1	3.2	1.5	1.3
Immediate fixed annuities with and without life contingencies	6.3	7.8	6.0	6.1	0.3	1.7
Investments supporting capital, traditional life and other products	4.0	3.9	n/a	n/a	n/a	n/a

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

($ in millions)	**March 31,**	
	2013	**2012**
Immediate fixed annuities with life contingencies	$ 8,889	$ 8,843
Other life contingent contracts and other	5,878	5,453

Reserve for life-contingent contract benefits	$	14,767	$	14,296
Interest-sensitive life insurance	$	11,093	$	10,853
Deferred fixed annuities		21,484		24,495
Immediate fixed annuities without life contingencies		3,797		3,832
Institutional products		1,874		1,914
Other		559		509
Contractholder funds	$	38,807	$	41,603

Amortization of DAC decreased 25.7% or $26 million in the first quarter of 2013 compared to the same period of 2012. The components of amortization of DAC are summarized in the following table.

($ in millions)	**Three months ended March 31,**	
	2013	**2012**
Amortization of DAC before amortization relating to realized capital gains and losses, valuation changes on embedded derivatives that are not hedged and changes in assumptions	$ 76	$ 86
(Accretion) amortization relating to realized capital gains and losses (1) and valuation changes on embedded derivatives that are not hedged	(1)	15
Amortization acceleration for changes in assumptions (DAC unlocking)	--	--
Total amortization of DAC	$ 75	$ 101

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

The decrease in DAC amortization in the first quarter of 2013 compared to the same period of 2012 was primarily due to accretion relating to valuation changes on embedded derivatives that are not hedged in first quarter 2013 compared to amortization relating to realized capital gains in first quarter 2012 and decreased amortization on fixed annuity products due to the DAC balance for contracts issued prior to 2010 being fully amortized in second quarter 2012.

Operating costs and expenses increased 4.2% or $6 million in the first quarter of 2013 compared to the same period of 2012. The following table summarizes operating costs and expenses.

($ in millions)	**Three months ended March 31,**	
	2013	**2012**
Non-deferrable commissions	$ 26	$ 25
General and administrative expenses	106	102
Taxes and licenses	16	15
Total operating costs and expenses	$ 148	$ 142
Restructuring and related charges	$ 2	$ --

General and administrative expenses increased 3.9% or $4 million in the first quarter of 2013 compared to the same period of 2012 primarily due to higher employee and technology related costs, as well as lower reinsurance expense allowances.

We are studying ways to reduce our cost structure including the cost of operations, such as total resource compensation, technology costs, facility expense, and improving efficiency and effectiveness.

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INVESTMENTS HIGHLIGHTS

- Investments totaled $97.38 billion as of March 31, 2013, increasing from $97.28 billion as of December 31, 2012.
- Unrealized net capital gains totaled $5.50 billion as of March 31, 2013, decreasing from $5.55 billion as of December 31, 2012.
- Net investment income was $983 million in the first quarter of 2013, a decrease of 2.8% from $1.01 billion in the first quarter of 2012.
- Net realized capital gains were $131 million in the first quarter of 2013 compared to $168 million in the first quarter of 2012.

INVESTMENTS

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

($ in millions)

	Property-Liability (5)		**Allstate Financial** (5)		**Corporate and Other** (5)		**Total**	
		Percent to total		**Percent to total**		**Percent to total**		**Percent to total**
Fixed income securities (1)	$ 29,105	75.8%	$ 45,178	79.5%	$ 1,523	71.4%	$ 75,806	77.8%
Equity securities (2)	4,037	10.5	402	0.7	--	--	4,439	4.6
Mortgage loans	488	1.3	5,946	10.5	--	--	6,434	6.6
Limited partnership interests (3)	2,994	7.8	1,933	3.4	4	0.2	4,931	5.1
Short-term investments(4)	1,171	3.0	1,391	2.4	607	28.4	3,169	3.2
Other	600	1.6	2,003	3.5	--	--	2,603	2.7
Total	$ 38,395	100.0%	$ 56,853	100.0%	$ 2,134	100.0%	$ 97,382	100.0%

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(1) Fixed income securities are carried at fair value. Amortized cost basis for these securities was $27.89 billion, $41.58 billion and $1.49 billion for Property-Liability, Allstate Financial and Corporate and Other, respectively.

(2) Equity securities are carried at fair value. Cost basis for these securities was $3.45 billion and $328 million for Property-Liability and Allstate Financial, respectively.

(3) We have commitments to invest in additional limited partnership interests totaling $1.02 billion and $946 million for Property-Liability and Allstate Financial, respectively.

(4) Short-term investments are carried at fair value. Amortized cost basis for these investments was $1.17 billion, $1.39 billion and $607 million for Property-Liability, Allstate Financial and Corporate and Other, respectively.

(5) Balances reflect the elimination of related party investments between segments.

Total investments increased to $97.38 billion as of March 31, 2013, from $97.28 billion as of December 31, 2012, primarily due to positive Property-Liability operating cash flows and higher valuations of equity securities, partially offset by net reductions in Allstate Financial s contractholder funds and lower valuations of fixed income securities. The decline in valuation of fixed income securities for the three months ended March 31, 2013 was due to increasing risk-free interest rates, partially offset by tightening credit spreads. Valuations of fixed income securities are typically driven by a combination of changes in relevant risk-free interest rates and credit spreads over the period. Risk-free interest rates are typically referenced as the yield on U.S. Treasury securities, whereas credit spread is the additional yield on fixed income securities above the risk-free rate that market participants require to compensate them for assuming credit, liquidity and/or prepayment risks.

The Property-Liability investment portfolio increased to $38.40 billion as of March 31, 2013, from $38.22 billion as of December 31, 2012, primarily due to a $500 million advance to AIC from The Allstate Corporation (the Corporation) to facilitate investing and positive operating cash flows, partially offset by dividends paid by AIC to the Corporation.

The Allstate Financial investment portfolio decreased to $56.85 billion as of March, 2013, from $57.00 billion as of December 31, 2012, primarily due to net reductions in contractholder funds of $512 million.

The Corporate and Other investment portfolio increased to $2.13 billion as of March 31, 2013, from $2.06 billion as of December 31, 2012, primarily due to the proceeds of $500 million of Fixed-to-Floating Rate Subordinated Debentures issued in January 2013 and dividends paid by AIC to the Corporation, partially offset by a $500 million advance to AIC from the Corporation, share repurchases and dividends paid to shareholders.

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

($ in millions)	**Fair value as of March 31, 2013**	**Percent to total investments**	**Fair value as of December 31, 2012**	**Percent to total investments**
U.S. government and agencies	$ 4,257	4.4%	$ 4,713	4.9%
Municipal	11,862	12.2	13,069	13.5
Corporate	49,567	50.9	48,537	49.9
Foreign government	2,365	2.4	2,517	2.6
Asset-backed securities (ABS)	3,597	3.7	3,624	3.7
Residential mortgage-backed securities (RMBS)	2,750	2.8	3,032	3.1
Commercial mortgage-backed securities (CMBS)	1,381	1.4	1,498	1.5
Redeemable preferred stock	27	--	27	--
Total fixed income securities	$ 75,806	77.8%	$ 77,017	79.2%

As of March 31, 2013, 91.2% of the consolidated fixed income securities portfolio was rated investment grade, which is defined as a security having a rating of Aaa, Aa, A or Baa from Moody s, a rating of AAA, AA, A or BBB from 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. All of our fixed income securities are rated by third party credit rating agencies, the National Association of Insurance Commissioners, and/or are internally rated. Our initial investment decisions and ongoing monitoring procedures for fixed income securities are based on a thorough due diligence process which includes, but is not limited to, an assessment of the credit quality, sector, structure, and liquidity risks of each issue.

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

($ in millions)	Aaa		Aa		A	
	Fair value	Unrealized gain/(loss)	Fair value	Unrealized gain/(loss)	Fair value	Unrealized gain/(loss)
U.S. government and agencies	$ 4,257	$ 297	$ --	$ --	$ --	$ --
Municipal						
Tax exempt	1,257	37	2,928	138	2,171	141
Taxable	281	33	2,570	398	1,306	176
Auction rate securities (ARS)	108	--	86	--	--	--
Corporate						
Public	891	64	2,826	178	13,329	948
Privately placed	1,221	61	1,352	111	4,086	339
Foreign government	990	109	620	30	382	27
ABS						
Collateralized debt obligations (CDO)	169	6	564	6	266	(24)
Consumer and other asset-backed securities (Consumer and other ABS)	1,374	43	401	9	259	10
RMBS						
U.S. government sponsored entities (U.S. Agency)	1,163	46	--	--	--	--
Prime residential mortgage-backed securities (Prime)	63	2	24	--	67	2
Alt-A residential mortgage-backed securities (Alt-A)	4	--	--	--	13	1
Subprime residential mortgage-backed securities (Subprime)	--	--	9	--	40	--
CMBS	695	35	89	3	118	7
Redeemable preferred stock	--	--	--	--	--	--
Total fixed income securities	$ 12,473	$ 733	$ 11,469	$ 873	$ 22,037	$ 1,627

	Baa		Ba or lower		Total	
	Fair value	Unrealized gain/(loss)	Fair value	Unrealized gain/(loss)	Fair value	Unrealized gain/(loss)
U.S. government and agencies	$ --	$ --	$ --	$ --	$ 4,257	$ 297
Municipal						
Tax exempt	534	22	186	(4)	7,076	334
Taxable	321	(3)	95	(9)	4,573	595
ARS	14	--	5	--	213	--
Corporate						
Public	14,655	1,022	3,369	169	35,070	2,381
Privately placed	6,495	380	1,343	28	14,497	919
Foreign government	373	34	--	--	2,365	200
ABS						
CDO	144	(19)	128	(21)	1,271	(52)
Consumer and other ABS	261	9	31	(1)	2,326	70
RMBS						
U.S. Agency	--	--	--	--	1,163	46

Prime		124		3		418		42		696		49
Alt-A		54		2		435		10		506		13
Subprime		--		--		336		(43)		385		(43)
CMBS		162		3		317		(12)		1,381		36
Redeemable preferred stock		26		4		1		--		27		4
Total fixed income securities	$	23,163	$	1,457	$	6,664	$	159	$	75,806	$	4,849

Municipal bonds, including tax exempt, taxable and ARS securities, totaled $11.86 billion as of March 31, 2013 with an unrealized net capital gain of $929 million. The municipal bond portfolio includes general obligations of state and local issuers and revenue bonds (including pre-refunded bonds, which are bonds for which an irrevocable trust has been established to fund the remaining payments of principal and interest).

Corporate bonds, including publicly traded and privately placed, totaled $49.57 billion as of March 31, 2013, with an unrealized net capital gain of $3.30 billion. Privately placed securities primarily consist of corporate issued senior debt securities that are directly negotiated with the borrower or are in unregistered form.

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

ABS, including CDO and Consumer and other ABS, totaled $3.60 billion as of March 31, 2013, with 95.6% rated investment grade and an unrealized net capital gain of $18 million. Credit risk is managed by monitoring the performance of the underlying collateral. Many of the securities in the ABS portfolio have credit enhancement with features such as overcollateralization, subordinated structures, reserve funds, guarantees and/or insurance.

CDO totaled $1.27 billion as of March 31, 2013, with 89.9% rated investment grade. CDO consist primarily of obligations collateralized by high yield and investment grade corporate credits including $1.08 billion of cash flow collateralized loan obligations (CLO) with unrealized net capital losses of $9 million. Cash flow CLO are structures collateralized primarily by below investment grade senior secured corporate loans. The underlying collateral is generally actively managed by external managers that monitor the collateral s performance and is well diversified across industries and among issuers. The remaining $191 million of securities consisted of project finance CDO, market value CDO and trust preferred CDO with unrealized net capital losses of $43 million.

Consumer and other ABS totaled $2.33 billion as of March 31, 2013, with 98.7% rated investment grade. Consumer and other ABS consists of $557 million of consumer auto and $1.77 billion of other ABS with unrealized net capital gains of $8 million and $62 million, respectively.

RMBS, including U.S. Agency, Prime, Alt-A and Subprime, totaled $2.75 billion as of March 31, 2013, with 56.8% rated investment grade and an unrealized net capital gain of $65 million. The RMBS portfolio is subject to interest rate risk, but unlike other fixed income securities, is additionally subject to significant prepayment risk from the underlying residential mortgage loans. The credit risk associated with the U.S. Agency portfolio is mitigated because they were issued by or have underlying collateral guaranteed by U.S. government agencies. Prime are collateralized by residential mortgage loans issued to prime borrowers. Alt-A includes securities collateralized by residential mortgage loans issued to borrowers who do not qualify for prime financing terms due to high loan-to-value ratios or limited supporting documentation, but have stronger credit profiles than subprime borrowers. Subprime includes securities collateralized by residential mortgage loans issued to borrowers that cannot qualify for Prime or Alt-A financing terms due in part to weak or limited credit history. It also includes securities that are collateralized by certain second lien mortgages regardless of the borrower s credit history. The Subprime portfolio consisted of $267 million and $118 million of first lien and second lien securities, respectively. The Subprime portfolio unrealized net capital loss of $43 million as of March 31, 2013 was the result of wider credit spreads than at initial purchase. Wider spreads are largely due to the risk associated with the underlying collateral supporting certain Subprime securities.

CMBS totaled $1.38 billion as of March 31, 2013, with 77.0% rated investment grade and an unrealized net capital gain of $36 million. The CMBS portfolio is subject to credit risk and has a sequential paydown structure. Of the CMBS investments, 92.0% are traditional conduit transactions collateralized by commercial mortgage loans, broadly diversified across property types and geographical area. The remainder consists of non-traditional CMBS such as small balance transactions, large loan pools and single borrower transactions.

Mortgage loans Our mortgage loan portfolio, which is primarily held in the Allstate Financial portfolio, totaled $6.43 billion as of March 31, 2013 compared to $6.57 billion as of December 31, 2012, and primarily comprises loans secured by first mortgages on developed commercial real estate. Key considerations used to manage our exposure include property type and geographic diversification. For further detail on our mortgage loan portfolio, see Note 4 of the condensed consolidated financial statements.

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

($ in millions)	**Private equity/debt funds (1)**	**Real estate funds**	**Hedge funds**	**Tax credit funds**	**Total**
Cost method of accounting (Cost)	$ 915	$ 507	$ 3	$ --	$ 1,425
Equity method of accounting (EMA)	1,508	1,128	205	665	3,506
Total	$ 2,423	$ 1,635	$ 208	$ 665	$ 4,931
Number of managers	99	44	8	11	
Number of individual funds	168	94	26	21	
Largest exposure to single fund	$ 146	$ 224	$ 85	$ 56	

(1) Includes $523 million of infrastructure and real asset funds.

The following table shows the earnings from our limited partnership interests by fund type and accounting classification for the three months ended March 31.

($ in millions)	**2013**				**2012**			
	Cost	**EMA**	**Total income**	**Impairment write-downs**	**Cost**	**EMA**	**Total income**	**Impairment write-downs**
Private equity/debt funds	$ 20	$ 48	$ 68	$ --	$ 12	$ 60	$ 72	$ (1)
Real estate funds	6	28	34	--	1	30	31	(1)
Hedge funds	--	9	9	--	--	10	10	--
Tax credit funds	--	(4)	(4)	--	--	(4)	(4)	--
Total	$ 26	$ 81	$ 107	$ --	$ 13	$ 96	$ 109	$ (2)

Limited partnership interests produced income, excluding impairment write-downs, of $107 million in the three months ended March 31, 2013 compared to $109 million in the three months ended March 31, 2012. Income on EMA limited partnerships is recognized on a delay due to the availability of the related financial statements. The recognition of income on hedge funds is primarily on a one-month delay and the income recognition on private equity/debt funds, real estate funds and tax credit funds are generally on a three-month delay. Income on cost method limited partnerships is recognized only upon receipt of amounts distributed by the partnerships.

Unrealized net capital gains totaled $5.50 billion as of March 31 2013 compared to $5.55 billion as of December 31, 2012. The decline from December 31, 2012 for fixed income securities was due to increasing risk-free interest rates and the realization of unrealized net capital gains through sales, partially offset by tightening credit spreads. The increase from December 31, 2012 for equity securities was primarily due to positive returns in the equity markets. The following table presents unrealized net capital gains and losses.

($ in millions)

	March 31, 2013	December 31, 2012
U.S. government and agencies	$ 297	$ 326
Municipal	929	930
Corporate	3,300	3,594
Foreign government	200	227
ABS	18	1
RMBS	65	32
CMBS	36	(12)
Redeemable preferred stock	4	4
Fixed income securities	4,849	5,102
Equity securities	662	460
EMA limited partnerships	8	7
Derivatives	(19)	(22)
Unrealized net capital gains and losses, pre-tax	$ 5,500	$ 5,547

The unrealized net capital gains for the fixed income portfolio totaled $4.85 billion and comprised $5.23 billion of gross unrealized gains and $382 million of gross unrealized losses as of March 31, 2013. This is compared to unrealized net capital gains for the fixed income portfolio totaling $5.10 billion, comprised of $5.63 billion of gross unrealized gains and $530 million of gross unrealized losses as of December 31, 2012.

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

($ in millions)	**Amortized cost**	**Gross unrealized Gains**	**Gross unrealized Losses**	**Fair value**
Corporate:				
Banking	$ 3,712	$ 179	$ (51)	$ 3,840
Utilities	7,726	839	(15)	8,550
Consumer goods (cyclical and non-cyclical)	10,490	688	(15)	11,163
Capital goods	5,128	381	(13)	5,496
Transportation	1,944	198	(10)	2,132
Financial services	3,742	247	(8)	3,981
Energy	4,075	305	(4)	4,376
Technology	2,459	132	(4)	2,587
Basic industry	2,900	170	(3)	3,067
Communications	3,208	214	(2)	3,420
Other	883	75	(3)	955
Total corporate fixed income portfolio	46,267	3,428	(128)	49,567
U.S. government and agencies	3,960	297	--	4,257
Municipal	10,933	975	(46)	11,862
Foreign government	2,165	203	(3)	2,365
ABS	3,579	104	(86)	3,597
RMBS	2,685	142	(77)	2,750
CMBS	1,345	78	(42)	1,381
Redeemable preferred stock	23	4	--	27
Total fixed income securities	$ 70,957	$ 5,231	$ (382)	$ 75,806

The banking, utilities and consumer goods sectors had the highest concentration of gross unrealized losses in our corporate fixed income securities portfolio as of March 31, 2013. In general, credit spreads remain wider than at initial purchase for most of the securities with gross unrealized losses in these categories.

The unrealized net capital gain for the equity portfolio totaled $662 million and comprised $677 million of gross unrealized gains and $15 million of gross unrealized losses as of March 31, 2013. This is compared to an unrealized net capital gain for the equity portfolio totaling $460 million, comprised of $494 million of gross unrealized gains and $34 million of gross unrealized losses, as of December 31, 2012.

Net investment income The following table presents net investment income.

($ in millions)	**Three months ended March 31,**	
	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

Net investment income decreased 2.8% or $28 million in the first quarter of 2013 compared to the first quarter of 2012, primarily due to lower average investment balances and lower fixed income yields, partially offset by higher prepayment fee income and litigation proceeds which increased 2013 income by a total of $42 million.

Realized capital gains and losses The following table presents the components of realized capital gains and losses and the related tax effect.

($ in millions)	**Three months ended March 31,**	
	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, pre-tax	131	168
Income tax expense	(46)	(58)
Realized capital gains and losses, after-tax	$ 85	$ 110

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

($ in millions)

	Three months ended March 31,	
	2013	2012
Fixed income securities	$ (30)	$ (29)
Equity securities	(4)	(7)
Mortgage loans	26	(3)
Limited partnership interests	--	(2)
Other investments	(2)	2
Impairment write-downs	$ (10)	$ (39)

Impairment write-downs on fixed income securities for the three months ended March 31, 2013 were primarily driven by CMBS and municipal bonds that experienced deterioration in expected cash flows. Equity securities were written down primarily due to the length of time and extent to which fair value was below cost, considering our assessment of the financial condition and near-term and long-term prospects of the issuer, including relevant

industry conditions and trends. The valuation allowance on mortgage loans was reduced due to increases in the fair value of the collateral less costs to sell for certain previously impaired loans.

Change in intent write-downs totaling $27 million in the three months ended March 31, 2013 were primarily a result of plans to reposition a portion of our domestic public equity portfolio and reduce holdings of ARS backed by student loans.

Sales generated $172 million of net realized gains in the three months ended March 31, 2013 primarily related to municipal and corporate fixed income securities in conjunction with reducing our exposure to interest rate risk in the Property-Liability portfolio and equity securities in connection with portfolio repositioning.

Valuation and settlements of derivative instruments generated net realized capital losses of $4 million for the three months ended March 31, 2013 primarily including losses from equity risk management activities due to the increase in the equity indices, partially offset by valuation gains on credit default contracts.

CAPITAL RESOURCES AND LIQUIDITY HIGHLIGHTS

- Shareholders equity as of March 31, 2013 was $20.62 billion, an increase of 0.2% from $20.58 billion as of December 31, 2012.
- On April 1, 2013, we paid shareholder dividends of $0.25.
- On January 10, 2013, we issued $500 million of 5.10% Fixed-to-Floating Rate Subordinated Debentures due 2053.
- On February 28, 2013, we entered into an accelerated share repurchase agreement with Barclays Bank PLC (Barclays) and Barclays Capital Inc., as Barclays agent, to purchase $500 million of our outstanding common stock.
- During the first quarter of 2013, we repurchased 5.1 million common shares for $226 million in the market and 9.2 million shares under the accelerated share repurchase agreement, pursuant to which we paid a prepayment amount of $500 million. As of March 31, 2013, there is $1.33 billion remaining on our share repurchase programs.

CAPITAL RESOURCES AND LIQUIDITY

Capital resources consist of shareholders equity and debt, representing funds deployed or available to be deployed to support business operations or for general corporate purposes. The following table summarizes our capital resources.

($ in millions)	**March 31, 2013**	**December 31, 2012**
Common stock, retained income and other shareholders equity items	$ 19,340	$ 19,405

Accumulated other comprehensive income		1,279		1,175
Total shareholders equity		20,619		20,580
Debt		6,556		6,057
Total capital resources	$	27,175	$	26,637
Ratio of debt to shareholders equity		31.8%		29.4%
Ratio of debt to capital resources		24.1%		22.7%

Shareholders equity increased in the first quarter of 2013, primarily due to net income and increased unrealized net capital gains on investments, partially offset by share repurchases and dividends paid to shareholders.

Debt On January 10, 2013, we issued $500 million of 5.10% Fixed-to-Floating Rate Subordinated Debentures due 2053, utilizing the registration statement filed with the Securities and Exchange Commission on April 30, 2012. The proceeds of this issuance were used for general corporate purposes, including the repurchase of our common stock through open market purchases and through the accelerated repurchase program entered into on February 28, 2013. We are planning to issue an additional $500 million of subordinated debentures as announced in December 2012 in connection with our share repurchase program. The next debt maturity is on June 15, 2013 when $250 million of 7.50% Debentures are due, which is expected to be refinanced or repaid from available cash.

Share repurchases As of March 31, 2013, our $1.00 billion share repurchase program that commenced in December 2012 had $332 million remaining and is expected to be completed by December 31, 2013. On February 6, 2013, an additional $1.00 billion share repurchase program was authorized and is expected to be completed by March 31, 2014. On February 28, 2013, we entered into an accelerated share repurchase agreement with Barclays and Barclays Capital Inc., as Barclays agent, to purchase $500 million of our outstanding common stock. During the first quarter of 2013, we repurchased 5.1 million common shares for $226 million in the market and 9.2 million shares under the accelerated share repurchase agreement, pursuant to which we paid a prepayment amount of $500 million. The accelerated share repurchase agreement will mature no later than July 2, 2013 and includes a settlement at maturity. The settlement is dependent on market price over the duration of the agreement and is expected to be made in shares. The average price of the shares purchased under the accelerated share repurchase agreement cannot be determined until after settlement.

Financial ratings and strength Our ratings are influenced by many factors including our operating and financial performance, asset quality, liquidity, asset/liability management, overall portfolio mix, financial leverage (i.e., debt), exposure to risks such as catastrophes and the current level of operating leverage. In January 2013, A.M. Best affirmed The Allstate Corporation s debt and commercial paper ratings of a- and AMB-1, respectively, and our insurance entities financial strength ratings of A+ for AIC and Allstate Life Insurance Company (ALIC). The outlook for AIC and ALIC remained stable. In April 2013, Moody s affirmed The Allstate Corporation s debt and commercial paper ratings of A3 and P-2, respectively, AIC s financial strength ratings of Aa3 and ALIC s financial strength rating of A1. The outlook for all Moody s ratings was revised to stable from negative. In April 2013, S&P affirmed The Allstate Corporation s debt and commercial paper ratings of A- and A-2, respectively, AIC s financial

strength ratings of AA- and ALIC s financial strength rating of A+. The outlook for all S&P ratings remained negative. Management intends to maintain the current S&P rating through continued capital and risk management actions and, based on our calculations, believes capital was sufficient as of March 31, 2013. In the future, if our financial position is less than rating agency expectations including those related to capitalization at the parent company, AIC or ALIC, we could be exposed to a downgrade in our ratings which we do not view as being material to our business model or strategies.

ALIC, AIC and The Allstate Corporation are party to the Amended and Restated Intercompany Liquidity Agreement (Liquidity Agreement) which allows for short-term advances of funds to be made between parties for liquidity and other general corporate purposes. The Liquidity Agreement does not establish a commitment to advance funds on the part of any party. ALIC and AIC each serve as a lender and borrower and the Corporation serves only as a lender. AIC also has a capital support agreement with ALIC. Under the capital support agreement, AIC is committed to provide capital to ALIC to maintain an adequate capital level. The maximum amount of potential funding under each of these agreements is $1.00 billion. On March 22, 2013, the Corporation advanced $500 million to AIC under the Liquidity Agreement to facilitate investing activity. This amount is expected to be repaid by September 30, 2013.

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

Liquidity sources and uses We actively manage our financial position and liquidity levels in light of changing market, economic, and business conditions. Liquidity is managed at both the entity and enterprise level across the Company, and is assessed on both base and stressed level liquidity needs. We believe we have sufficient liquidity to meet these needs. Additionally, we have existing intercompany agreements in place that facilitate liquidity management across the Company to enhance flexibility.

Parent company capital capacity At the parent holding company level, we have deployable assets totaling $2.73 billion as of March 31, 2013, which includes a $500 million receivable repayable on demand with 10 days notice from AIC under the Liquidity Agreement. These assets include the receivable from AIC, cash and investments that are generally saleable within one quarter totaling $2.23 billion. This provides funds for the parent company s relatively low fixed charges and other corporate purposes.

In the first three months of 2013, AIC paid dividends totaling $900 million to the Corporation.

The Corporation has access to additional borrowing to support liquidity as follows:

- A commercial paper facility with a borrowing limit of $1.00 billion to cover short-term cash needs. As of March 31, 2013, there were no balances outstanding and therefore the remaining borrowing capacity was $1.00 billion; however, the outstanding balance can fluctuate daily.

- Our $1.00 billion unsecured revolving credit facility is available for short-term liquidity requirements and backs our commercial paper facility. We have the option to extend the expiration of its initial five year term by one year at the first and second anniversary of the facility, upon approval of existing or replacement lenders. In April 2013, we utilized the option on the first anniversary of the facility and we extended the facility by one year making its current expiration April 2018. The facility is fully subscribed among 12 lenders with the largest

commitment being $115 million. The commitments of the lenders are several and no lender is responsible for any other lender s commitment if such lender fails to make a loan under the facility. This facility contains an increase provision that would allow up to an additional $500 million of borrowing. This facility has a financial covenant requiring that we not exceed a 37.5% debt to capitalization ratio as defined in the agreement. This ratio was 19.4% as of March 31, 2013. Although the right to borrow under the facility is not subject to a minimum rating requirement, the costs of maintaining the facility and borrowing under it are based on the ratings of our senior unsecured, unguaranteed long-term debt. There were no borrowings under the credit facility during the first three months of 2013. The total amount outstanding at any point in time under the combination of the commercial paper program and the credit facility cannot exceed the amount that can be borrowed under the credit facility.

- A universal shelf registration statement was filed with the Securities and Exchange Commission on April 30, 2012. We can use this shelf registration to issue an unspecified amount of debt securities, common stock (including 432 million shares of treasury stock as of March 31, 2013), preferred stock, depositary shares, warrants, stock purchase contracts, stock purchase units and securities of trust subsidiaries. The specific terms of any securities we issue under this registration statement will be provided in the applicable prospectus supplements.

Liquidity exposure Contractholder funds were $38.81 billion as of March 31, 2013. The following table summarizes contractholder funds by their contractual withdrawal provisions as of March 31, 2013.

($ in millions)			**Percent to total**
Not subject to discretionary withdrawal	$	6,009	15.5%
Subject to discretionary withdrawal with adjustments:			
Specified surrender charges (1)		12,712	32.7
Market value adjustments (2)		5,225	13.5
Subject to discretionary withdrawal without adjustments (3)		14,861	38.3
Total contractholder funds (4)	$	38,807	100.0%

(1) Includes $6.36 billion of liabilities with a contractual surrender charge of less than 5% of the account balance.

(2) $4.32 billion of the contracts with market value adjusted surrenders have a 30-45 day period at the end of their initial and subsequent interest rate guarantee periods (which are typically 5 or 6 years) during which there is no surrender charge or market value adjustment.

(3) 76% of these contracts have a minimum interest crediting rate guarantee of 3% or higher.

(4) Includes $1.08 billion of contractholder funds on variable annuities reinsured to The Prudential Insurance Company of America, a subsidiary of Prudential Financial Inc., in 2006.

While we are able to quantify remaining scheduled maturities for our institutional products, anticipating retail product surrenders is less precise. Retail life and annuity products may be surrendered by customers for a variety of reasons. Reasons unique to individual customers include a current or unexpected need for cash or a change in life insurance coverage needs. Other key factors that may impact the likelihood of customer surrender include the level of the contract surrender charge, the length of time the contract has been in force, distribution channel, market interest rates, equity market conditions and potential tax implications. In addition, the propensity for retail life insurance policies to lapse is lower than it is for fixed annuities because of the need for the insured to be re-underwritten upon policy replacement. Surrenders and partial withdrawals for our retail annuities decreased 5.4% in the first three months of 2013 compared to the same period of 2012. The annualized surrender and partial withdrawal rate on deferred fixed annuities and interest-sensitive life insurance products, based on the beginning of year contractholder funds, was 11.0% and 10.7% for the first three months of 2013 and 2012, respectively. Allstate Financial strives to promptly pay customers who request cash surrenders; however, statutory regulations generally provide up to six months in most states to fulfill surrender requests.

Our institutional products are primarily funding agreements sold to unaffiliated trusts used to back medium-term notes. As of March 31, 2013, total institutional products outstanding were $1.84 billion, with scheduled maturities of $1.75 billion in April of 2013 and $85 million in 2016.

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

The following table summarizes consolidated cash flow activities by segment for the first three months ended March 31.

($ in millions)	Property-Liability (1)		Allstate Financial (1)		Corporate and Other (1)		Consolidated	
	2013	2012	2013	2012	2013	2012	2013	2012
Net cash provided by (used in):								
Operating activities	$ 446	$ 386	$ 289	$ 287	$ 5	$ 134	$ 740	$ 807
Investing activities	(40)	75	251	413	(75)	(409)	136	79
Financing activities	23	(1)	(655)	(827)	(230)	(257)	(862)	(1,085)
Net increase (decrease) in consolidated cash							$ 14	$ (199)

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

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

Cash used in investing activities in the first three months of 2013 compared to cash provided by investing activities in the first three months of 2012 was primarily due to 2013 operating cash flows being invested. There were higher sales of fixed income securities and higher purchases of short-term investments and equity securities to support portfolio repositioning.

Allstate Financial Cash provided by operating cash flows in the first three months of 2013 was comparable to the first three months of 2012.

Lower cash provided by investing activities in the first three months of 2013 compared to the first three months of 2012 was due to lower net transactional activity and the increase in short-term investments to support scheduled maturities of institutional products, partially offset by higher investment collections.

Lower cash used in financing activities in the first three months of 2013 compared to the first three months of 2012 was primarily due to higher deposits on fixed annuities and interest-sensitive life insurance and lower contractholder withdrawals.

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

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures. We maintain disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934. Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based upon this evaluation, the principal executive officer and the principal financial officer concluded that our disclosure controls and procedures are effective in providing reasonable assurance that material information required to be disclosed in our reports filed with or submitted to the Securities and Exchange Commission under the Securities Exchange Act is made known to management, including the principal executive officer and the principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting. During the fiscal quarter ended March 31, 2013, there have been no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Information required for Part II, Item 1 is incorporated by reference to the discussion under the heading Regulation and Compliance and under the heading Legal and regulatory proceedings and inquiries in Note 10 of the condensed consolidated financial statements in Part I, Item 1 of this Form 10-Q.

Item 1A. Risk Factors

This document contains forward-looking statements that anticipate results based on our estimates, assumptions and plans that are subject to uncertainty. These statements are made subject to the safe-harbor provisions of the Private Securities Litigation Reform Act of 1995. We assume no obligation to update any forward-looking statements as a result of new information or future events or developments.

These forward-looking statements do not relate strictly to historical or current facts and may be identified by their use of words like plans, seeks, expects, will, should, anticipates, estimates, intends, believes, likely, targets and other words with similar meanings. These state address, among other things, our strategy for growth, catastrophe exposure management, product development, investment results, regulatory approvals, market position, expenses, financial results, litigation and reserves. We believe that these statements are based on reasonable estimates, assumptions and plans. However, if the estimates, assumptions or plans underlying the forward-looking statements prove inaccurate or if other risks or uncertainties arise, actual results could differ materially from those communicated in these forward-looking statements. Risk factors which could cause actual results to differ materially from those suggested by such forward-looking statements include but are not limited to those discussed or identified in this document, in our public filings with the Securities and Exchange Commission, and those incorporated by reference in Part I, Item 1A of The Allstate Corporation Annual Report on Form 10-K for 2012.

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

Issuer Purchases of Equity Securities

Period	Total number of shares (or units) purchased (1)	Average price paid per share (or unit)	Total number of shares (or units) purchased as part of publicly announced plans or programs (2)	Maximum number (or approximate dollar value) of shares (or units) that may yet be purchased under the plans or programs (3)
January 1, 2013 - January 31, 2013	2,012,164	$ 42.9174	2,009,500	$ 897 million
February 1, 2013 - February 28, 2013	13,054,819	$ 45.9748	12,289,207	$ 1.3 billion
March 1, 2013- March 31, 2013	331,922	$ 45.5698	--	$ 1.3 billion

Total	15,398,905	$	45.5666	14,298,707

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

January: 2,664

February: 436,518

March: 331,922

The Allstate 401(k) Savings Plan acquired the following shares in connection with Allstate s contributions to the plan based on its matching obligation and certain performance measures.

January: none

February: 329,094

March: none

(2) Repurchases under our programs are, from time to time, executed under the terms of a pre-set trading plan meeting the requirements of Rule 10b5-1(c) of the Securities Exchange Act of 1934.

(3) On December 17, 2012, we announced the approval of a share repurchase program for $1.00 billion, to be completed by December 31, 2013. On February 6, 2013, we announced the approval of an additional share repurchase program for $1.00 billion, to be completed by March 31, 2014.

Item 6. Exhibits

(a) Exhibits

An Exhibit Index has been filed as part of this report on page E-1.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

The Allstate Corporation
(Registrant)

May 1, 2013	By	/s/ Samuel H. Pilch Samuel H. Pilch (chief accounting officer and duly authorized officer of Registrant)

		Incorporated by Reference				
Exhibit Number	**Exhibit Description**	**Form**	**File Number**	**Exhibit**	**Filing Date**	**Filed or Furnished Herewith**
4	The Allstate Corporation hereby agrees to furnish to the Commission, upon request, the instruments defining the rights of holders of each issue of long-term debt of it and its consolidated subsidiaries					
15	Acknowledgment of awareness from Deloitte & Touche LLP, dated May 1, 2013, concerning unaudited interim financial information					X
31(i)	Rule 13a-14(a) Certification of Principal Executive Officer					X
31(i)	Rule 13a-14(a) Certification of Principal Financial Officer					X
32	Section 1350 Certifications					X
101.INS	XBRL Instance Document					X
101.SCH	XBRL Taxonomy Extension Schema					X
101.CAL	XBRL Taxonomy Extension Calculation Linkbase					X
101.DEF	XBRL Taxonomy Extension Definition Linkbase					X
101.LAB	XBRL Taxonomy Extension Label Linkbase					X
101.PRE	XBRL Taxonomy Extension Presentation Linkbase					X