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

FORM 10-Q

The registrant meets the conditions set forth in General Instructions H (1)(a) and (b) of Form 10-Q and is therefore filing this form with the reduced disclosure format.

[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 0-31248

ALLSTATE LIFE INSURANCE COMPANY
(Exact name of registrant as specified in its charter)

Illinois	**36-2554642**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

3100 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 ____	Accelerated filer ____
Non-accelerated filer X (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 May 3, 2013, the registrant had 23,800 common shares, $227 par value, outstanding, all of which are held by Allstate Insurance Company.

ALLSTATE LIFE INSURANCE COMPANY
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March 31, 2013

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ALLSTATE LIFE INSURANCE COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

($ in millions)	Three months ended March 31, 2013	2012
	(unaudited)	
Revenues		
Premiums	$ 145	$ 146
Contract charges	264	255
Net investment income	621	673
Realized capital gains and losses:		
Total other-than-temporary impairment losses	(1)	(33)
Portion of loss recognized in other comprehensive income	(8)	(3)
Net other-than-temporary impairment losses recognized in earnings	(9)	(36)
Sales and other realized capital gains and losses	28	14
Total realized capital gains and losses	19	(22)
	1,049	1,052
Costs and expenses		
Contract benefits	381	364
Interest credited to contractholder funds	339	371
Amortization of deferred policy acquisition costs	53	81
Operating costs and expenses	117	112
Restructuring and related charges	2	--
Interest expense	8	11
	900	939
Gain on disposition of operations	2	3
Income from operations before income tax expense	151	116
Income tax expense	42	33
Net income	109	83
Other comprehensive income, after-tax		
Change in unrealized net capital gains and losses	26	228
Change in unrealized foreign currency translation adjustments	1	(1)
Other comprehensive income, after-tax	27	227
Comprehensive income	$ 136	$ 310

See notes to condensed consolidated financial statements.

ALLSTATE LIFE INSURANCE COMPANY AND SUBSIDIARES

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 $40,692 and $41,194)	$ 44,223	$ 44,876
Mortgage loans	5,823	5,943
Equity securities, at fair value (cost $312 and $310)	379	345
Limited partnership interests	1,933	1,924
Short-term, at fair value (amortized cost $1,343 and $875)	1,343	875
Policy loans	828	836
Other	1,147	1,067
Total investments	55,676	55,866
Cash	225	341
Deferred policy acquisition costs	1,864	1,834

Reinsurance recoverables	4,541	4,570
Accrued investment income	506	489
Other assets	408	401
Separate Accounts	6,750	6,610
Total assets	$ 69,970	$ 70,111
Liabilities		
Contractholder funds	$ 38,116	$ 38,634
Reserve for life-contingent contract benefits	13,981	14,117
Unearned premiums	19	20
Payable to affiliates, net	98	111
Other liabilities and accrued expenses	1,468	1,286
Deferred income taxes	1,593	1,524
Notes due to related parties	496	496
Separate Accounts	6,750	6,610
Total liabilities	62,521	62,798
Commitments and Contingent Liabilities (Note 7)		
Shareholder's Equity		
Redeemable preferred stock - series A, $100 par value, 1,500,000 shares authorized, none issued	--	--
Redeemable preferred stock - series B, $100 par value, 1,500,000 shares authorized, none issued	--	--
Common stock, $227 par value, 23,800 shares authorized and outstanding	5	5
Additional capital paid-in	3,190	3,190
Retained income	2,594	2,485
Accumulated other comprehensive income:		
Unrealized net capital gains and losses:		
Unrealized net capital gains and losses on fixed income securities with OTTI	22	(5)
Other unrealized net capital gains and losses	2,303	2,405
Unrealized adjustment to DAC, DSI and insurance reserves	(665)	(766)
Total unrealized net capital gains and losses	1,660	1,634
Unrealized foreign currency translation adjustments	--	(1)
Total accumulated other comprehensive income	1,660	1,633
Total shareholder's equity	7,449	7,313
Total liabilities and shareholder's equity	$ 69,970	$ 70,111

See notes to condensed consolidated financial statements.

ALLSTATE LIFE INSURANCE COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

($ in millions)	**Three months ended March 31,**	
	2013	**2012**
Cash flows from operating activities	**(unaudited)**	
Net income	$ 109	$ 83
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization and other non-cash items	(14)	(4)
Realized capital gains and losses	(19)	22
Gain on disposition of operations	(2)	(3)
Interest credited to contractholder funds	339	371
Changes in:		
Policy benefits and other insurance reserves	(159)	(222)
Unearned premiums	--	(1)
Deferred policy acquisition costs	(21)	24
Reinsurance recoverables, net	(16)	20
Income taxes	43	34
Other operating assets and liabilities	6	(48)
Net cash provided by operating activities	266	276
Cash flows from investing activities		
Proceeds from sales		
Fixed income securities	938	2,118
Equity securities	29	1
Limited partnership interests	45	34
Mortgage loans	2	6
Other investments	10	32
Investment collections		
Fixed income securities	1,220	677
Mortgage loans	221	168
Other investments	33	22
Investment purchases		
Fixed income securities	(1,618)	(2,418)
Equity securities	(20)	(1)
Limited partnership interests	(81)	(114)

Mortgage loans	(74)	(172)
Other investments	(35)	(28)
Change in short-term investments, net	(404)	122
Change in policy loans and other investments, net	25	(7)
Net cash provided by investing activities	291	440
Cash flows from financing activities		
Contractholder fund deposits	579	448
Contractholder fund withdrawals	(1,252)	(1,290)
Repayment of notes due to related parties	--	(4)
Net cash used in financing activities	(673)	(846)
Net decrease in cash	(116)	(130)
Cash at beginning of period	341	310
Cash at end of period	$ 225	$ 180

See notes to condensed consolidated financial statements.

ALLSTATE LIFE INSURANCE COMPANY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. General

Basis of presentation

The accompanying condensed consolidated financial statements include the accounts of Allstate Life Insurance Company ("ALIC") and its wholly owned subsidiaries (collectively referred to as the "Company"). ALIC is wholly owned by Allstate Insurance Company ("AIC"), which is wholly owned by Allstate Insurance Holdings, LLC, a wholly owned subsidiary of The Allstate Corporation (the "Corporation").

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.

Premiums and contract charges

The following table summarizes premiums and contract charges by product.

($ in millions)	Three months ended March 31,	
	2013	2012
Premiums		
Traditional life insurance	$ 112	$ 109
Immediate annuities with life contingencies	7	12
Accident and health insurance	26	25
Total premiums	145	146
Contract charges		
Interest-sensitive life insurance	261	249
Fixed annuities	3	6
Total contract charges	264	255
Total premiums and contract charges	$ 409	$ 401

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 adoption had no impact on the Company's results of operations, financial position or disclosures.

2. 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 $17 million 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	$ (64)	$ (173)
Operating cash flow used	$ (64)	$ (173)
Net change in liabilities		
Liabilities for collateral, beginning of year	$ (561)	$ (263)
Liabilities for collateral, end of period	(625)	(436)
Operating cash flow provided	$ 64	$ 173

3. 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	$ 1,776	$ 221	$ --	$ 1,997
Municipal	3,983	615	(29)	4,569
Corporate	29,314	2,661	(115)	31,860
Foreign government	1,007	150	(2)	1,155
Asset-backed securities ("ABS")	1,748	47	(85)	1,710
Residential mortgage-backed securities ("RMBS")	1,589	81	(48)	1,622
Commercial mortgage-backed securities ("CMBS")	1,260	74	(42)	1,292
Redeemable preferred stock	15	3	--	18
Total fixed income securities	$ 40,692	$ 3,852	$ (321)	$ 44,223
December 31, 2012				
U.S. government and agencies	$ 2,137	$ 242	$ --	$ 2,379
Municipal	4,153	612	(61)	4,704
Corporate	28,748	2,896	(113)	31,531
Foreign government	1,017	164	(1)	1,180
ABS	1,921	49	(105)	1,865
RMBS	1,778	82	(69)	1,791
CMBS	1,425	60	(77)	1,408
Redeemable preferred stock	15	3	--	18
Total fixed income securities	$ 41,194	$ 4,108	$ (426)	$ 44,876

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	$ 2,153	$ 2,181
Due after one year through five years	8,812	9,476
Due after five years through ten years	15,751	17,158
Due after ten years	9,379	10,784
	36,095	39,599
ABS, RMBS and CMBS	4,597	4,624
Total	$ 40,692	$ 44,223

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	$ 496	$ 521
Mortgage loans	91	85
Equity securities	2	1
Limited partnership interests	30	67

Short-term investments	1	--
Policy loans	12	13
Other	16	14
Investment income, before expense	648	701
Investment expense	(27)	(28)
Net investment income	$ 621	$ 673

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	$ (18)	$ (50)
Mortgage loans	31	(1)
Equity securities	1	--
Limited partnership interests	--	(1)
Derivatives	7	22
Other	(2)	8
Realized capital gains and losses	$ 19	$ (22)

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	$ (2)	$ (20)
Change in intent write-downs	(7)	(16)
Net other-than-temporary impairment losses recognized in earnings	(9)	(36)
Sales	21	(9)
Valuation of derivative instruments	(4)	8
Settlements of derivative instruments	11	15
Realized capital gains and losses	$ 19	$ (22)

Gross gains of $24 million and $45 million and gross losses of $9 million and $66 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	$ (7)	$ --	$ (7)	$ --	$ --	$ --
Corporate	--	--	--	(13)	--	(13)
RMBS	1	(1)	--	(12)	(3)	(15)
CMBS	(19)	(7)	(26)	(6)	--	(6)
Total fixed income securities	(25)	(8)	(33)	(31)	(3)	(34)
Mortgage loans	26	--	26	(3)	--	(3)
Limited partnership interests	--	--	--	(1)	--	(1)
Other	(2)	--	(2)	2	--	2
Other-than-temporary impairment losses	$ (1)	$ (8)	$ (9)	$ (33)	$ (3)	$ (36)

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 $158 million and $134 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	$ (5)	$ (5)
Corporate	(1)	(1)
ABS	(12)	(14)
RMBS	(94)	(103)
CMBS	(12)	(19)
Total	$ (124)	$ (142)

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	$ (345)	$ (581)
Additional credit loss for securities previously other-than-temporarily impaired	(11)	(16)
Additional credit loss for securities not previously other-than-temporarily impaired	(15)	(2)

Reduction in credit loss for securities disposed or collected	28	104
Reduction in credit loss for securities the Company has made the decision to sell or more likely than not will be required to sell	--	--
Change in credit loss due to accretion of increase in cash flows	--	--
Ending balance	$ (343)	$ (495)

The Company uses its best estimate of future cash flows expected to be collected from the fixed income security, discounted at the security's original or current effective rate, as appropriate, to calculate a recovery value and determine whether a credit loss exists. The determination of cash flow estimates is inherently subjective and methodologies may vary depending on facts and circumstances specific to the security. All reasonably available information relevant to the collectability of the security, including past events, current conditions, and reasonable and supportable assumptions and forecasts, are considered when developing the estimate of cash flows expected to be collected. That information generally includes, but is not limited to, the remaining payment terms of the security, prepayment speeds, foreign exchange rates, the financial condition and future earnings potential of the issue or issuer, expected defaults, expected recoveries, the value of underlying collateral, vintage, geographic concentration, available reserves or escrows, current subordination levels, third party guarantees and other credit enhancements. Other information, such as industry analyst reports and forecasts, sector credit ratings, financial condition of the bond insurer for insured fixed income securities, and other market data relevant to the realizability of contractual

cash flows, may also be considered. The estimated fair value of collateral will be used to estimate recovery value if the Company determines that the security is dependent on the liquidation of collateral for ultimate settlement. If the estimated recovery value is less than the amortized cost of the security, a credit loss exists and an other-than-temporary impairment for the difference between the estimated recovery value and amortized cost is recorded in earnings. The portion of the unrealized loss related to factors other than credit remains classified in accumulated other comprehensive income. If the Company determines that the fixed income security does not have sufficient cash flow or other information to estimate a recovery value for the security, the Company may conclude that the entire decline in fair value is deemed to be credit related and the loss is recorded in earnings.

Unrealized net capital gains and losses

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

($ in millions)	**Fair**	**Gross unrealized**		**Unrealized net**
March 31, 2013	**value**	**Gains**	**Losses**	**gains (losses)**
Fixed income securities	$ 44,223	$ 3,852	$ (321)	$ 3,531
Equity securities	379	68	(1)	67
Short-term investments	1,343	--	--	--
Derivative instruments [1]	(14)	3	(17)	(14)
EMA limited partnerships [2]				--
Unrealized net capital gains and losses, pre-tax				3,584
Amounts recognized for:				
Insurance reserves [3]				(623)
DAC and DSI [4]				(400)
Amounts recognized				(1,023)
Deferred income taxes				(901)
Unrealized net capital gains and losses, after-tax				$ 1,660

[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.

	Fair	**Gross unrealized**		**Unrealized net**
December 31, 2012	**value**	**Gains**	**Losses**	**gains (losses)**
Fixed income securities	$ 44,876	$ 4,108	$ (426)	$ 3,682
Equity securities	345	36	(1)	35
Short-term investments	875	--	--	--
Derivative instruments [1]	(17)	2	(19)	(17)
EMA limited partnerships				1
Unrealized net capital gains and losses, pre-tax				3,701
Amounts recognized for:				
Insurance reserves				(771)
DAC and DSI				(408)
Amounts recognized				(1,179)
Deferred income taxes				(888)
Unrealized net capital gains and losses, after-tax				$ 1,634

[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	$	(151)
Equity securities		32
Derivative instruments		3
EMA limited partnerships		(1)
Total		(117)
Amounts recognized for:		
Insurance reserves		148
DAC and DSI		8
Amounts recognized		156
Deferred income taxes		(13)
Increase in unrealized net capital gains and losses	$	26

Portfolio monitoring

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

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

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

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

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

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

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

($ in millions)	Less than 12 months					12 months or more						Total	
	Number of issues		Fair value		Unrealized losses	Number of issues		Fair value		Unrealized losses		Total unrealized losses	
March 31, 2013													
Fixed income securities													
U.S. government and agencies	2	$	18	$	--	--	$	--	$	--	$	--	
Municipal	6		66		(4)	29		167		(25)		(29)	
Corporate	149		1,830		(32)	63		792		(83)		(115)	
Foreign government	2		120		(2)	--		--		--		(2)	
ABS	2		11		--	75		772		(85)		(85)	
RMBS	48		16		--	160		378		(48)		(48)	
CMBS	6		57		(1)	27		230		(41)		(42)	
Total fixed income securities	215		2,118		(39)	354		2,339		(282)		(321)	
Equity securities	4		28		(1)	--		--		--		(1)	
Total fixed income and equity securities	219	$	2,146	$	(40)	354	$	2,339	$	(282)	$	(322)	
Investment grade fixed income securities	156	$	1,815	$	(32)	237	$	1,574	$	(148)	$	(180)	
Below investment grade fixed income securities	59		303		(7)	117		765		(134)		(141)	
Total fixed income securities	215	$	2,118	$	(39)	354	$	2,339	$	(282)	$	(321)	
December 31, 2012													
Fixed income securities													
U.S. government and agencies	1	$	15	$	--	--	$	--	$	--	$	--	

Municipal	11	101	(7)	50	395	(54)	(61)
Corporate	79	1,086	(27)	66	829	(86)	(113)
Foreign government	2	121	(1)	--	--	--	(1)
ABS	5	38	--	76	763	(105)	(105)
RMBS	49	30	--	164	442	(69)	(69)
CMBS	10	65	--	43	358	(77)	(77)
Redeemable preferred stock	--	--	--	1	--	--	--
Total fixed income securities	157	1,456	(35)	400	2,787	(391)	(426)
Equity securities	3	57	(1)	1	--	--	(1)
Total fixed income and equity securities	160	$ 1,513	$ (36)	401	$ 2,787	$ (391)	$ (427)
Investment grade fixed income securities	132	$ 1,244	$ (29)	262	$ 1,919	$ (195)	$ (224)
Below investment grade fixed income securities	25	212	(6)	138	868	(196)	(202)
Total fixed income securities	157	$ 1,456	$ (35)	400	$ 2,787	$ (391)	$ (426)

As of March 31, 2013, $176 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 $176 million, $134 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 $146 million of unrealized losses are related to securities in unrealized loss positions greater than or equal to 20% of amortized cost. Investment grade fixed income securities comprising $46 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 $146 million, $100 million are related to below investment grade fixed income securities. Of these amounts, $96 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 $1.32 billion and $1.31 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 $613 million and $617 million, 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 $1 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	$ 230	$ --	$ 230	$ 266	$ --	$ 266
1.0 - 1.25	1,186	--	1,186	1,158	--	1,158
1.26 - 1.50	1,378	16	1,394	1,364	17	1,381
Above 1.50	2,842	129	2,971	2,854	129	2,983
Total non-impaired mortgage loans	$ 5,636	$ 145	$ 5,781	$ 5,642	$ 146	$ 5,788

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	$ 20
90 days or greater past due	4	4
Total past due	42	24
Current loans	5,781	5,919
Total mortgage loans	$ 5,823	$ 5,943

4. 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	$ 908	$ 1,089	$ --		$ 1,997
Municipal	--	4,318	251		4,569
Corporate	--	30,497	1,363		31,860
Foreign government	--	1,155	--		1,155
ABS	--	1,499	211		1,710
RMBS	--	1,622	--		1,622
CMBS	--	1,286	6		1,292
Redeemable preferred stock	--	17	1		18
Total fixed income securities	908	41,483	1,832		44,223
Equity securities	371	1	7		379
Short-term investments	248	1,095	--		1,343
Other investments:					
Free-standing derivatives	--	264	4	$ (47)	221
Separate account assets	6,750	--	--		6,750
Other assets	--	--	1		1
Total recurring basis assets	8,277	42,843	1,844	(47)	52,917
Non-recurring basis [(1)]	--	--	20		20
Total assets at fair value	$ 8,277	$ 42,843	$ 1,864	$ (47)	$ 52,937
% of total assets at fair value	15.6 %	80.9 %	3.5 %	-- %	100.0 %
Liabilities					
Contractholder funds:					
Derivatives embedded in life and annuity contracts	$ --	$ --	$ (567)		$ (567)
Other liabilities:					
Free-standing derivatives	--	(155)	(24)	$ 24	(155)
Total liabilities at fair value	$ --	$ (155)	$ (591)	$ 24	$ (722)
% of total liabilities at fair value	-- %	21.5 %	81.8 %	(3.3) %	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	$ 1,074	$ 1,305	$ --		$ 2,379
Municipal	--	4,366	338		4,704
Corporate	--	30,030	1,501		31,531
Foreign government	--	1,180	--		1,180
ABS	--	1,666	199		1,865
RMBS	--	1,791	--		1,791
CMBS	--	1,387	21		1,408
Redeemable preferred stock	--	17	1		18
Total fixed income securities	1,074	41,742	2,060		44,876
Equity securities	338	--	7		345
Short-term investments	220	655	--		875
Other investments:					
Free-standing derivatives	--	173	3	$ (47)	129
Separate account assets	6,610	--	--		6,610
Other assets	2	--	1		3
Total recurring basis assets	8,244	42,570	2,071	(47)	52,838
Non-recurring basis [(1)]	--	--	6		6
Total assets at fair value	$ 8,244	$ 42,570	$ 2,077	$ (47)	$ 52,844
% of total assets at fair value	15.6 %	80.6 %	3.9 %	(0.1) %	100.0 %
Liabilities					
Contractholder funds:					
Derivatives embedded in life and annuity contracts	$ --	$ --	$ (553)		$ (553)
Other liabilities:					
Free-standing derivatives	--	(91)	(30)	$ 29	(92)
Total liabilities at fair value	$ --	$ (91)	$ (583)	$ 29	$ (645)
% of total liabilities at fair value	-- %	14.1 %	90.4 %	(4.5) %	100.0 %

[(1)] Includes $4 million of mortgage loans, $1 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	$ 115	Discounted cash flow model	Anticipated date liquidity will return to the market	18 - 60 months	36 - 48 months
Derivatives embedded in life and	$ (459)	Stochastic cash flow	Projected option cost	1.0 - 2.0 %	1.89 %

annuity contracts - Equity-indexed and forward starting options			model			
December 31, 2012						
ARS backed by student loans	$	202	Discounted cash flow model	Anticipated date liquidity will return to the market	18 - 60 months	32 - 44 months
Derivatives embedded in life and annuity contracts - Equity-indexed and forward starting options	$	(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 $1.60 billion and $1.72 billion, respectively, of fixed income securities valued based on non-binding broker quotes where the inputs have not been corroborated to be market observable. 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.

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)

		Total gains (losses) included in:			
	Balance as of December 31, 2012	**Net income [1]**	**OCI**	**Transfers into Level 3**	**Transfers out of Level 3**
Assets					
Fixed income securities:					
Municipal	$ 338	$ (12)	$ 26	$ --	$ --
Corporate	1,501	12	(2)	25	(125)
ABS	199	--	7	17	--
CMBS	21	--	2	--	--
Redeemable preferred stock	1	--	--	--	--
Total fixed income securities	2,060	--	33	42	(125)
Equity securities	7	--	--	--	--
Other investments:					
Free-standing derivatives, net	(27)	7	--	--	--
Other assets	1	--	--	--	--
Total recurring Level 3 assets	$ 2,041	$ 7	$ 33	$ 42	$ (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:					
Municipal	$ --	$ (101)	$ --	$ --	$ 251
Corporate	72	(109)	--	(11)	1,363
ABS	--	(8)	--	(4)	211
CMBS	--	(17)	--	--	6
Redeemable preferred stock	--	--	--	--	1
Total fixed income securities	72	(235)	--	(15)	1,832
Equity securities	--	--	--	--	7
Other investments:					
Free-standing derivatives, net	1	--	--	(1)	(20) [2]
Other assets	--	--	--	--	1
Total recurring Level 3 assets	$ 73	$ (235)	$ --	$ (16)	$ 1,820
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 $13 million and is reported in the Condensed Consolidated Statements of Operations and Comprehensive Income as follows: $2 million in realized capital gains and losses, $5 million in net investment income, $(20) million in interest credited to contractholder funds and $26 million in 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)

		Total gains (losses) included in:			
	Balance as of December 31, 2011	**Net income [1]**	**OCI**	**Transfers into Level 3**	**Transfers out of Level 3**
Assets					
Fixed income securities:					
Municipal	$ 387	$ --	$ --	$ --	$ --
Corporate	1,319	5	26	56	(10)
ABS	254	13	13	--	--
RMBS	47	--	--	--	(47)
CMBS	30	(1)	6	--	--

Redeemable preferred stock	1	--	--	--	--
Total fixed income securities	2,038	17	45	56	(57)
Equity securities	14	--	--	--	--
Other investments:					
Free-standing derivatives, net	(88)	15	--	--	--
Other assets	1	--	--	--	--
Total recurring Level 3 assets	$ 1,965	$ 32	$ 45	$ 56	$ (57)
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	$ --	$ --	$ --	$ --	$ 387
Corporate	19	(54)	--	(32)	1,329
ABS	--	--	--	(3)	277
RMBS	--	--	--	--	--
CMBS	--	--	--	(15)	20
Redeemable preferred stock	--	--	--	--	1
Total fixed income securities	19	(54)	--	(50)	2,014
Equity securities	--	--	--	--	14
Other investments:					
Free-standing derivatives, net	3	--	--	--	(70) [2]
Other assets	--	--	--	--	1
Total recurring Level 3 assets	$ 22	$ (54)	$ --	$ (50)	$ 1,959
Liabilities					
Contractholder funds:					
Derivatives embedded in life and annuity contracts	$ --	$ --	$ (12)	$ 30	$ (730)
Total recurring Level 3 liabilities	$ --	$ --	$ (12)	$ 30	$ (730)

[1] The effect to net income totals $7 million and is reported in the Condensed Consolidated Statements of Operations and Comprehensive Income 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 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	$ (7)	$ --
Corporate	5	3
ABS	--	13
CMBS	(1)	(1)
Total fixed income securities	(3)	15
Other investments:		
Free-standing derivatives, net	7	15
Total recurring Level 3 assets	$ 4	$ 30
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 $10 million for the three months ended March 31, 2013 and are reported as follows: $4 million in net investment income, $(20) million in interest credited to contractholder funds and $26 million in contract benefits. These gains and losses total $5 million for the three months ended March 31, 2012 and are reported as follows: $24 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 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	$ 5,823	$ 6,191	$ 5,943	$ 6,223
Cost method limited partnerships	613	784	617	778
Agent loans	318	311	319	314
Bank loans	273	276	282	282
Notes due from related party	275	275	275	275

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 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 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 notes due from related party, which are reported in other investments, is based on discounted cash flow calculations using current interest rates for instruments with comparable terms. The fair value measurements for mortgage loans, cost method limited partnerships, agent loans, bank loans and notes due from related party 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	$ 26,409	$ 27,185	$ 26,984	$ 27,989
Notes due to related parties	496	496	496	496
Liability for collateral	625	625	561	561

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 notes due to related parties is based on discounted cash flow calculations using 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 liability for collateral are categorized as Level 2. The fair value measurements for notes due to related parties are categorized as Level 3.

5. 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.

Asset-liability management is a risk management strategy that is principally employed to balance the respective interest-rate sensitivities of the Company's 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. The Company 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, the Company uses interest rate swaps to hedge interest rate risk inherent in funding agreements. The Company 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 Company's 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. The Company 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. The Company 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 $4 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	91	--	--	--
Foreign currency contracts						
Foreign currency forwards	Other investments	44	n/a	--	--	--
Embedded derivative financial instruments						
Conversion options	Fixed income securities	5	n/a	--	--	--
Credit default swaps	Fixed income securities	12	n/a	(12)	--	(12)
Credit default contracts						
Credit default swaps – buying protection	Other investments	37	n/a	--	--	--
Credit default swaps – selling protection	Other investments	105	n/a	1	1	--
Other contracts						
Other contracts	Other assets	4	n/a	1	1	--
Total		4,660	12,559	221	241	(20)
Total asset derivatives		$ 4,676	12,559	$ 224	$ 244	$ (20)

[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 837,100 stock warrants. Stock 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	11,539	(125)	1	(126)
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	180	n/a	(2)	--	(2)
Credit default swaps – selling protection	Other liabilities & accrued expenses	125	n/a	(24)	--	(24)
Total		8,902	11,539	(696)	25	(721)
Total liability derivatives		9,034	11,539	(713)	$ 25	$ (738)

Total derivatives	$ 13,710	24,098	$ (489)

(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	249	2	2	--
Foreign currency contracts						
Foreign currency forwards	Other investments	44	n/a	--	--	--
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)
Credit default contracts						
Credit default swaps – buying protection	Other investments	32	n/a	(1)	--	(1)
Credit default swaps – selling protection	Other investments	100	n/a	1	1	--
Other contracts						
Other contracts	Other assets	4	n/a	1	1	--
Total		6,346	12,651	145	167	(22)
Total asset derivatives		$ 6,362	12,651	$ 147	$ 169	$ (22)

(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 837,100 stock warrants. Stock 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)
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	193	n/a	(2)	--	(2)
Credit default swaps – selling protection	Other liabilities & accrued expenses	130	n/a	(30)	--	(30)
Total		7,562	12,619	(626)	19	(645)
Total liability derivatives		7,697	12,619	(645)	$ 19	$ (664)
Total derivatives		$ 14,059	25,270	$ (498)		

(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 netting**	**Cash collateral (received) pledged**	**Net amount on balance sheet**	**Securities collateral (received) pledged**	**Net amount**
March 31, 2013						

Asset derivatives	$ 57	$ (33)	$ (14)	$ 10	$ (10)	$ --
Liability derivatives	(53)	33	(9)	(29)	26	(3)
December 31, 2012						
Asset derivatives	$ 52	$ (29)	$ (18)	$ 5	$ (5)	$ --
Liability derivatives	(63)	29	--	(34)	25	(9)

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 $1 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	(14)	(16)
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 and Comprehensive Income 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**	**Contract benefits**	**Interest credited to contractholder funds**	**Total gain (loss) recognized in net income on derivatives**
Derivatives not designated as accounting hedging instruments					
Equity and index contracts	$ --	$ --	$ --	$ 38	$ 38
Embedded derivative financial instruments	--	(1)	26	(40)	(15)
Foreign currency contracts	--	1	--	--	1
Credit default contracts	--	7	--	--	7
Total	$ --	$ 7	$ 26	$ (2)	$ 31

	2012				
	Net investment income	**Realized capital gains and losses**	**Contract benefits**	**Interest credited to contractholder funds**	**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	--	--	--	53	53
Embedded derivative financial instruments	--	15	31	(38)	8
Credit default contracts	--	9	--	--	9
Other contracts	--	--	--	2	2
Subtotal	--	23	31	17	71
Total	$ (1)	$ 23	$ 31	$ 17	$ 70

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 and Comprehensive Income 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 $26 million in securities to counterparties all of which is collateral posted under MNAs for contracts containing credit-risk-contingent provisions that are in a liability position. 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	$ 883	$ 3	$ 1	1	$ 19	$ --	$ --
A	4	2,270	14	--	3	2,252	12	--

A-	2	90	--	--	2	311	1	1
BBB+	1	3,360	14	--	1	3,617	11	--
Total	8	$ 6,603	$ 31	$ 1	7	$ 6,199	$ 24	$ 1

(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 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 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 ALIC's or ALNY's financial strength credit ratings by Moody's or S&P, or in the event 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	$ 53	$ 62
Gross asset fair value of contracts containing credit-risk-contingent features and subject to MNAs	(25)	(28)
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	$ 2	$ 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**					
	AA	**A**	**BBB**	**BB and lower**	**Total**	**Fair value**
March 31, 2013						
Single name						
Investment grade corporate debt (1)	$ --	$ 5	$ --	$ --	$ 5	$ (1)
Municipal	25	--	--	--	25	(2)
Subtotal	25	5	--	--	30	(3)
Baskets						
First-to-default						
Municipal	--	100	--	--	100	(21)
Index						
Investment grade corporate debt (1)	1	26	67	6	100	1
Total	$ 26	$ 131	$ 67	$ 6	$ 230	$ (23)
December 31, 2012						
Single name						
Investment grade corporate debt (1)	$ --	$ 5	$ --	$ --	$ 5	$ --
Municipal	25	--	--	--	25	(3)
Subtotal	25	5	--	--	30	(3)
Baskets						
First-to-default						
Municipal	--	100	--	--	100	(26)
Index						
Investment grade corporate debt (1)	1	26	68	5	100	--
Total	$ 26	$ 131	$ 68	$ 5	$ 230	$ (29)

(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.

6. Reinsurance

The effects of reinsurance on premiums and contract charges for the three months ended March 31 are as follows:

($ in millions)	2013	2012
Direct	$ 515	$ 535
Assumed		
Affiliate	30	28
Non-affiliate	17	5
Ceded-non-affiliate	(153)	(167)
Premiums and contract charges, net of reinsurance	$ 409	$ 401

The effects of reinsurance on contract benefits for the three months ended March 31 are as follows:

($ in millions)	2013	2012
Direct	$ 430	$ 402
Assumed		
Affiliate	22	18
Non-affiliate	13	5
Ceded-non-affiliate	(84)	(61)
Contract benefits, net of reinsurance	$ 381	$ 364

The effects of reinsurance on interest credited to contractholder funds for the three months ended March 31 are as follows:

($ in millions)	2013	2012
Direct	$ 335	$ 374
Assumed		
Affiliate	2	2
Non-affiliate	7	2
Ceded-non-affiliate	(5)	(7)
Interest credited to contractholder funds, net of reinsurance	$ 339	$ 371

7. Guarantees and Contingent Liabilities

Guaranty funds

Under state insurance guaranty fund laws, insurers doing business in a state can be assessed, up to prescribed limits, for certain obligations of insolvent insurance companies to policyholders and claimants. Amounts assessed to each company are typically related to its proportion of business written in each state. The Company's policy is to accrue assessments when the entity for which the insolvency relates has met its state of domicile's statutory definition of insolvency and the amount of the loss is reasonably estimable. In most states, the definition is met with a declaration of financial insolvency by a court of competent jurisdiction. In certain states there must also be a final order of liquidation.

Executive Life Insurance Company of New York ("ELNY") has been under the jurisdiction of the New York Liquidation Bureau (the "Bureau") as part of a 1992 court-ordered rehabilitation plan. ELNY continues to fully pay annuity benefits when due. The Superintendent of Insurance of the State of New York in conjunction with the New York Attorney General filed a proposed formal plan of liquidation on September 1, 2011 and a court order approving the plan, as amended, was entered on April 16, 2012. On May 30, 2012, an attorney representing a

number of ELNY payees filed a notice, appealing the ELNY Order of Liquidation. On February 6, 2013, the New York Appellate Division issued its order on that appeal and affirmed the lower court's order of liquidation. On March 8, 2013, the attorney representing those payees filed a further appeal. Assessments will not begin until the completion of the appeals process. The current publicly available estimated shortfall from the Bureau is $1.57 billion. New York law currently contains an aggregate limit on insurer assessments by the guaranty fund, the Life Insurance Corporation of New York, of $558 million, of which approximately $40 million has been used. The Company's three-year average market share for New York as of December 31, 2011, based on assessable premiums, was approximately 1.2%.

As of March 31, 2013, the accrued liability for the Company's estimated aggregate exposure is $10 million, net of state related taxes, which includes $16 million pre-tax for guaranty fund assessments and $3 million pre-tax for participation in an industry sponsored plan to supplement certain ELNY policyholders. The ultimate cost will depend on the approved court ordered liquidation plan, the level of guaranty fund system participation and the

realization of tax benefits. Under current law, the Company may be allowed to recoup a portion of the amount of any additional guaranty fund assessment in periods subsequent to the recognition of the assessment by offsetting future state related taxes.

Guarantees

The Company owns certain fixed income securities that obligate the Company to exchange credit risk or to forfeit principal due, depending on the nature or occurrence of specified credit events for the reference entities. In the event all such specified credit events were to occur, the Company's maximum amount at risk on these fixed income securities, as measured by the amount of the aggregate initial investment, was $4 million as of 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 the Company's variable annuity business to Prudential in 2006, the Company and the Corporation have agreed to indemnify Prudential for certain pre-closing contingent liabilities (including extra-contractual liabilities of the Company and liabilities specifically excluded from the transaction) that the Company has agreed to retain. In addition, the Company and the Corporation will each indemnify Prudential for certain post-closing liabilities that may arise from the acts of the Company and its agents, including in connection with the Company'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 C ompliance

The Company is subject to changing social, economic and regulatory conditions. From time to time, regulatory authorities or legislative bodies seek to 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.

The Company is currently being examined by certain states for compliance with unclaimed property laws. It is possible that this examination may result in additional payments of abandoned funds to states and to changes in the Company's practices and procedures for the identification of escheatable funds, which could impact benefit payments and reserves, among other consequences; however, it is not likely to have a material effect on the condensed consolidated financial statements of the Company.

8. 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	$ 21	$ (7)	$ 14	$ 300	$ (105)	$ 195
Less: reclassification adjustment of realized capital gains and losses	(18)	6	(12)	(51)	18	(33)
Unrealized net capital gains and losses	39	(13)	26	351	(123)	228
Unrealized foreign currency translation adjustments	2	(1)	1	(2)	1	(1)
Other comprehensive income	$ 41	$ (14)	27	$ 349	$ (122)	227
Net income			109			83
Comprehensive income			$ 136			$ 310

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholder of
Allstate Life Insurance Company
Northbrook, IL 60062

We have reviewed the accompanying condensed consolidated statement of financial position of Allstate Life Insurance Company and subsidiaries (the "Company"), an affiliate of The Allstate Corporation, as of March 31, 2013, and the related condensed consolidated statements of operations and 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 Allstate Life Insurance Company and subsidiaries as of December 31, 2012, and the related consolidated statements of operations and comprehensive income, shareholder's equity, and cash flows for the year then ended (not presented herein); and in our report dated March 8, 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 3, 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 Allstate Life Insurance Company (referred to in this document as "we," "our," "us," or the "Company"). 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 Life Insurance Company Annual Report on Form 10-K for 2012. We operate as a single segment entity based on the manner in which we use financial information to evaluate business performance and to determine the allocation of resources.

OPERATIONS HIGHLIGHTS

- Net income was $109 million in the first quarter of 2013 compared to $83 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 $399 million in the first quarter of 2013, an increase of 4.2% from $383 million in the first quarter of 2012.
- Investments totaled $55.68 billion as of March 31, 2013, reflecting a decrease in carrying value of $190 million from $55.87 billion as of December 31, 2012. Net investment income decreased 7.7% to $621 million in the first quarter of 2013 from $673 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 $22 million in the first quarter of 2012.
- Contractholder funds totaled $38.12 billion as of March 31, 2013, reflecting a decrease of $518 million from $38.63 billion as of December 31, 2012.

OPERATIONS

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

($ in millions)	Three months ended March 31, 2013	2012
Revenues		
Premiums	$ 145	$ 146
Contract charges	264	255
Net investment income	621	673
Realized capital gains and losses	19	(22)
Total revenues	1,049	1,052
Costs and expenses		
Contract benefits	(381)	(364)
Interest credited to contractholder funds	(339)	(371)
Amortization of DAC	(53)	(81)
Operating costs and expenses	(117)	(112)
Restructuring and related charges	(2)	--
Interest expense	(8)	(11)
Total costs and expenses	(900)	(939)
Gain on disposition of operations	2	3
Income tax expense	(42)	(33)
Net income	$ 109	$ 83
Investments as of March 31	$ 55,676	$ 56,494

Net income was $109 million in the first quarter of 2013 compared to $83 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 decreased 0.3% or $3 million in the first quarter of 2013 compared to the first quarter of 2012 primarily due to lower net investment income, partially offset by net realized capital gains in the first quarter of 2013 compared to net realized capital losses in the first quarter of 2012.

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 premiums and contract charges by product.

($ in millions)	Three months ended March 31,	
	2013	2012
Underwritten products		
Traditional life insurance premiums	$ 112	$ 109
Accident and health insurance premiums	26	25
Interest-sensitive life insurance contract charges	261	249
Subtotal	399	383
Annuities		
Immediate annuities with life contingencies premiums	7	12
Other fixed annuity contract charges	3	6
Subtotal	10	18
Premiums and contract charges [1]	$ 409	$ 401

(1) Contract charges related to the cost of insurance totaled $177 million and $168 million for the first quarter of 2013 and 2012, respectively.

Total premiums and contract charges increased 2.0% in the first quarter of 2013 compared to the first quarter of 2012 primarily due to 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	$ 38,634	$ 41,669
Deposits		
Fixed annuities	287	153
Interest-sensitive life insurance	361	308
Total deposits	648	461
Interest credited	344	372
Benefits, withdrawals, maturities and other adjustments		
Benefits	(392)	(354)
Surrenders and partial withdrawals	(886)	(938)
Maturities of and interest payments on institutional products	(1)	(1)
Contract charges	(258)	(246)
Net transfers from separate accounts	1	2
Other adjustments [1]	26	(29)
Total benefits, withdrawals, maturities and other adjustments	(1,510)	(1,566)
Contractholder funds, ending balance	$ 38,116	$ 40,936

(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 and Comprehensive Income. 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 1.8% 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 7.1% in the first quarter of 2013 compared to the same period of 2012.

Contractholder deposits increased 40.6% 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 $886 million in the first quarter of 2013 from $938 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 11.2% in the first quarter of 2013 compared to 10.8% in the same period of 2012.

Analysis of costs and expenses Total costs and expenses decreased 4.2% or $39 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 contract benefits.

Contract benefits increased 4.7% or $17 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 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	$ 83	$ 88
Accident and health insurance	8	8
Annuities	(17)	(12)
Total benefit spread	$ 74	$ 84

Benefit spread decreased 11.9% or $10 million in the first quarter of 2013 compared to the first quarter of 2012 primarily due to worse mortality experience on life insurance and annuities, partially offset by higher cost of insurance contract charges on interest-sensitive life insurance.

Interest credited to contractholder funds decreased 8.6% or $32 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 contract benefits on the Condensed Consolidated Statements of Operations and Comprehensive Income ("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	$ 57	$ 96
Life insurance	26	18
Accident and health insurance	4	3
Net investment income on investments supporting capital	71	61
Investment spread before valuation changes on embedded derivatives that are not hedged	158	178
Valuation changes on derivatives embedded in equity-indexed annuity contracts that are not hedged	(9)	(10)
Total investment spread	$ 149	$ 168

Investment spread before valuation changes on embedded derivatives that are not hedged decreased 11.2% or $20 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	5.4 %	5.4 %	3.9 %	4.1 %	1.5 %	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	4.1	4.1	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	$ 8,885	$ 8,838
Other life contingent contracts and other	5,096	4,709
Reserve for life-contingent contract benefits	$ 13,981	$ 13,547
Interest-sensitive life insurance	$ 10,432	$ 10,217
Deferred fixed annuities	21,456	24,467
Immediate fixed annuities without life contingencies	3,795	3,829
Institutional products	1,874	1,914
Other	559	509
Contractholder funds	$ 38,116	$ 40,936

Amortization of DAC decreased 34.6% or $28 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	$ 54	$ 66
(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	$ 53	$ 81

(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 4.5% or $5 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	$ 7	$ 8
General and administrative expenses	99	94
Taxes and licenses	11	10
Total operating costs and expenses	$ 117	$ 112
Restructuring and related charges	$ 2	$ --

General and administrative expenses increased 5.3% or $5 million in the first quarter of 2013 compared to the same period of 2012 primarily due to higher employee 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.

INVESTMENTS HIGHLIGHTS

- Investments totaled $55.68 billion as of March 31, 2013, decreasing from $55.87 billion as of December 31, 2012.
- Unrealized net capital gains totaled $3.58 billion as of March 31, 2013, decreasing from $3.70 billion as of December 31, 2012.
- Net investment income was $621 million in the first quarter of 2013, a decrease of 7.7% from $673 million in the first quarter of 2012.
- Net realized capital gains were $19 million in the first quarter of 2013 compared to net realized capital losses of $22 million in the first quarter of 2012.

INVESTMENTS

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

($ in millions)	Percent

			to total
Fixed income securities [1]	$	44,223	79.4 %
Mortgage loans		5,823	10.4
Equity securities [2]		379	0.7
Limited partnership interests [3]		1,933	3.5
Short-term investments [4]		1,343	2.4
Policy loans		828	1.5
Other		1,147	2.1
Total	$	55,676	100.0 %

(1) Fixed income securities are carried at fair value. Amortized cost basis for these securities was $40.69 billion.

(2) Equity securities are carried at fair value. Cost basis for these securities was $312 million.

(3) We have commitments to invest in additional limited partnership interests totaling $946 million.

(4) Short-term investments are carried at fair value. Amortized cost basis for these investments was $1.34 billion.

Total investments decreased to $55.68 billion as of March 31, 2013, from $55.87 billion as of December 31, 2012, primarily due to net reductions in contractholder funds of $518 million 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.

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	$	1,997	3.6 %	$	2,379	4.3 %
Municipal		4,569	8.2		4,704	8.4
Corporate		31,860	57.2		31,531	56.5
Foreign government		1,155	2.1		1,180	2.1
Asset-backed securities (“ABS”)		1,710	3.1		1,865	3.3
Residential mortgage-backed securities (“RMBS”)		1,622	2.9		1,791	3.2
Commercial mortgage-backed securities (“CMBS”)		1,292	2.3		1,408	2.5
Redeemable preferred stock		18	--		18	--
Total fixed income securities	$	44,223	79.4 %	$	44,876	80.3 %

As of March 31, 2013, 92.2% of the 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	$ 1,997	$ 221	$ --	$ --	$ --	$ --
Municipal						
Taxable and tax exempt	274	31	2,527	394	1,268	170
Auction rate securities (“ARS”)	42	--	69	--	--	--
Corporate						
Public	663	52	1,655	136	8,238	732
Privately placed	608	41	996	91	3,163	305
Foreign government	496	91	236	11	159	18
ABS						
Collateralized debt obligations (“CDO”)	131	4	536	4	266	(24)
Consumer and other asset-backed securities (“Consumer and other ABS”)	308	12	94	2	69	2
RMBS						
U.S. government sponsored entities (“U.S. Agency”)	608	31	--	--	--	--
Prime residential mortgage-backed securities (“Prime”)	45	1	24	--	44	2
Alt-A residential mortgage-backed securities (“Alt-A”)	--	--	--	--	13	1
Subprime residential mortgage-backed securities (“Subprime”)	--	--	9	--	38	--
CMBS	639	31	89	3	116	7
Redeemable preferred stock	--	--	--	--	--	--
Total fixed income securities	$ 5,811	$ 515	$ 6,235	$ 641	$ 13,374	$ 1,213

Baa		**Ba or lower**		**Total**	
Fair	**Unrealized**	**Fair**	**Unrealized**	**Fair**	**Unrealized**

	value	gain/(loss)	value	gain/(loss)	value	gain/(loss)
U.S. government and agencies	$ --	$ --	$ --	$ --	$ 1,997	$ 221
Municipal						
Taxable and tax exempt	303	(3)	82	(6)	4,454	586
ARS	4	--	--	--	115	--
Corporate						
Public	9,192	759	1,435	74	21,183	1,753
Privately placed	5,101	337	809	19	10,677	793
Foreign government	264	28	--	--	1,155	148
ABS						
CDO	144	(19)	117	(20)	1,194	(55)
Consumer and other ABS	38	3	7	(2)	516	17
RMBS						
U.S. Agency	--	--	--	--	608	31
Prime	108	2	194	24	415	29
Alt-A	53	2	254	1	320	4
Subprime	--	--	232	(31)	279	(31)
CMBS	133	3	315	(12)	1,292	32
Redeemable preferred stock	17	3	1	--	18	3
Total fixed income securities	$ 15,357	$ 1,115	$ 3,446	$ 47	$ 44,223	$ 3,531

Municipal bonds, including taxable, tax exempt and ARS securities, totaled $4.57 billion as of March 31, 2013 with an unrealized net capital gain of $586 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 $31.86 billion as of March 31, 2013, with an unrealized net capital gain of $2.55 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 $1.71 billion as of March 31, 2013, with 92.7% rated investment grade and an unrealized net capital loss of $38 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 $1.19 billion as of March 31, 2013, with 90.2% rated investment grade. CDO consist primarily of obligations collateralized by high yield and investment grade corporate credits including $1.01 billion of cash flow collateralized loan obligations (“CLO”) with unrealized net capital losses of $12 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 $184 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 $516 million as of March 31, 2013, with 98.6% rated investment grade. Consumer and other ABS consists of $119 million of consumer auto and $397 million of other ABS with unrealized net capital gains of $1 million and $16 million, respectively.

RMBS, including U.S. Agency, Prime, Alt-A and Subprime, totaled $1.62 billion as of March 31, 2013, with 58.1% rated investment grade and an unrealized net capital gain of $33 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 $181 million and $98 million of first lien and second lien securities, respectively. The Subprime portfolio unrealized net capital loss of $31 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 $1.29 billion as of March 31, 2013, with 75.6% rated investment grade and an unrealized net capital gain of $32 million. The CMBS portfolio is subject to credit risk and has a sequential paydown structure. Of the CMBS investments, 96.5% 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 totaled $5.82 billion as of March 31, 2013 compared to $5.94 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 3 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. There were no hedge funds as of March 31, 2013.

($ in millions)	Private equity/debt funds [(1)]	Real estate funds	Tax credit funds	Total
Cost method of accounting ("Cost")	$ 474	$ 139	$ --	$ 613
Equity method of accounting ("EMA")	724	268	328	1,320
Total	$ 1,198	$ 407	$ 328	$ 1,933
Number of managers	95	27	11	
Number of individual funds	156	51	20	
Largest exposure to single fund	$ 30	$ 35	$ 28	

(1) Includes $176 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	$ 11	$ 11	$ 22	$ --	$ 7	$ 43	$ 50	$ (1)
Real estate funds	2	7	9	--	--	19	19	--
Hedge funds	--	1	1	--	--	--	--	--
Tax credit funds	--	(2)	(2)	--	--	(2)	(2)	--
Total	$ 13	$ 17	$ 30	$ --	$ 7	$ 60	$ 67	$ (1)

Limited partnership interests produced income, excluding impairment write-downs, of $30 million in the three months ended March 31, 2013 compared to $67 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 $3.58 billion as of March 31, 2013 compared to $3.70 billion as of December 31, 2012. The decline from December 31, 2012 was due to increasing risk-free interest rates, partially offset by tightening credit spreads. The following table presents unrealized net capital gains and losses.

($ in millions)	March 31, 2013	December 31, 2012
U.S. government and agencies	$ 221	$ 242
Municipal	586	551
Corporate	2,546	2,783
Foreign government	148	163
ABS	(38)	(56)
RMBS	33	13
CMBS	32	(17)
Redeemable preferred stock	3	3
Fixed income securities	3,531	3,682
Equity securities	67	35
EMA limited partnerships	--	1
Derivatives	(14)	(17)
Unrealized net capital gains and losses, pre-tax	$ 3,584	$ 3,701

The unrealized net capital gains for the fixed income portfolio totaled $3.53 billion and comprised $3.85 billion of gross unrealized gains and $321 million of gross unrealized losses as of March 31, 2013. This is compared to unrealized net capital gains for the fixed income portfolio totaling $3.68 billion, comprised of $4.11 billion of gross unrealized gains and $426 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	$ 1,934	$ 107	$ (49)	$ 1,992
Utilities	6,177	740	(14)	6,903
Consumer goods (cyclical and non-cyclical)	6,080	500	(12)	6,568
Capital goods	3,155	294	(12)	3,437
Transportation	1,511	171	(10)	1,672
Financial services	1,967	164	(6)	2,125
Energy	2,531	237	(3)	2,765
Technology	1,476	91	(3)	1,564
Basic industry	1,910	130	(2)	2,038

Communications	1,862	160	(1)	2,021
Other	711	67	(3)	775
Total corporate fixed income portfolio	29,314	2,661	(115)	31,860
U.S. government and agencies	1,776	221	--	1,997
Municipal	3,983	615	(29)	4,569
Foreign government	1,007	150	(2)	1,155
ABS	1,748	47	(85)	1,710
RMBS	1,589	81	(48)	1,622
CMBS	1,260	74	(42)	1,292
Redeemable preferred stock	15	3	--	18
Total fixed income securities	$ 40,692	$ 3,852	$ (321)	$ 44,223

The banking, utilities, consumer goods and capital 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 $67 million and comprised $68 million of gross unrealized gains and $1 million of gross unrealized losses as of March 31, 2013. This is compared to an unrealized net capital gain for the equity portfolio totaling $35 million, comprised of $36 million of gross unrealized gains and $1 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	$ 496	$ 521
Mortgage loans	91	85
Equity securities	2	1
Limited partnership interests	30	67
Short-term investments	1	--
Policy loans	12	13
Other	16	14
Investment income, before expense	648	701
Investment expense	(27)	(28)
Net investment income	$ 621	$ 673

Net investment income decreased 7.7% or $52 million in the first quarter of 2013 compared to the first quarter 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.

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	$ (2)	$ (20)
Change in intent write-downs	(7)	(16)
Net other-than-temporary impairment losses recognized in earnings	(9)	(36)
Sales	21	(9)
Valuation of derivative instruments	(4)	8
Settlements of derivative instruments	11	15
Realized capital gains and losses, pre-tax	19	(22)
Income tax (expense) benefit	(7)	7
Realized capital gains and losses, after-tax	$ 12	$ (15)

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	$ (26)	$ (18)
Mortgage loans	26	(3)
Limited partnership interests	--	(1)
Other investments	(2)	2
Impairment write-downs	$ (2)	$ (20)

Impairment write-downs on fixed income securities for the three months ended March 31, 2013 were primarily driven by CMBS that experienced deterioration in expected cash flows. 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 $7 million in the three months ended March 31, 2013 were primarily a result of plans to reduce holdings of ARS backed by student loans.

Sales generated $21 million of net realized gains in the three months ended March 31, 2013 primarily related to sales of fixed income securities.

Valuation and settlements of derivative instruments generated net realized capital gains of $7 million for the three months ended March 31, 2013 primarily including valuation gains on credit default contracts.

CAPITAL RESOURCES AND LIQUIDITY

Capital resources consist of shareholder's equity and notes due to related parties, representing funds deployed or available to be deployed to support business operations. The following table summarizes our capital resources.

($ in millions)		**March 31, 2013**		**December 31, 2012**
Common stock, retained income and additional capital paid-in	$	5,789	$	5,680
Accumulated other comprehensive income		1,660		1,633
Total shareholder's equity		7,449		7,313
Notes due to related parties		496		496
Total capital resources	$	7,945	$	7,809

Shareholder's equity increased in the first quarter of 2013, primarily due to net income and increased unrealized net capital gains on investments.

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, the current level of operating leverage and AIC's ratings. In January 2013, A.M. Best affirmed our financial strength rating of A+ and the outlook for the rating remained stable. In April 2013, Moody's affirmed our financial strength rating of A1 and the outlook for the rating was revised to stable from negative. In April 2013, S&P affirmed our financial strength rating of A+ and the outlook for the rating 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 the Company, we could be exposed to a downgrade in our ratings which we do not view as being material to our business model or strategies.

The Company, AIC and the 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. The Company and AIC each serve as a lender and borrower and the Corporation serves only as a lender. The Company also has a capital support agreement with AIC. Under the capital support agreement, AIC is committed to provide capital to the Company to maintain an adequate capital level. The maximum amount of potential funding under each of these agreements is $1.00 billion.

In addition to the Liquidity Agreement, the Company also has an intercompany loan agreement with the Corporation. The amount of intercompany loans available to the Company 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.

Allstate parent company capital capacity The Corporation has at the parent holding company level deployable assets totaling $2.73 billion as of March 31, 2013. These assets include assets 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.

The Company has access to additional borrowing to support liquidity through the Corporation 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.
- A $1.00 billion unsecured revolving credit facility is available for short-term liquidity requirements and backs the commercial paper facility. The Corporation has 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, the Corporation utilized the option on the first anniversary of the facility and 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 the Corporation 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 the Corporation's 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 by the Corporation with the Securities and Exchange Commission on April 30, 2012. The Corporation 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 the Corporation issues under this registration statement will be provided in the applicable prospectus supplements.

Liquidity exposure Contractholder funds were $38.12 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	$	5,958	15.6%
Subject to discretionary withdrawal with adjustments:			
Specified surrender charges [1]		12,573	33.0
Market value adjustments [2]		5,225	13.7
Subject to discretionary withdrawal without adjustments [3]		14,360	37.7
Total contractholder funds [4]	$	38,116	100.0%

[1] Includes $6.30 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 11.2% and 10.8% for the first three months of 2013 and 2012, respectively. We

strive 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.

Cash flows As reflected in our Condensed Consolidated Statements of Cash Flows, lower cash provided by operating activities in the first three months of 2013 compared to the first three months of 2012 was primarily due to lower net investment income, partially offset by lower contract benefits paid.

Lower cash provided by investing activities in the first three months of 2013 compared to the first three months of 2012 was primarily 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.

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” in Note 7 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 statements may address, among other things, our strategy for growth, 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 Life Insurance Company Annual Report on Form 10-K for 2012.

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.

Allstate Life Insurance Company
(Registrant)

May 3, 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**
15	Acknowledgment of awareness from Deloitte & Touche LLP, dated May 3, 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

Allstate Life Insurance Company
3100 Sanders Road
Northbrook, IL 60062

We have reviewed, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the unaudited interim financial information of Allstate Life Insurance Company and subsidiaries for the three-month periods ended March 31, 2013 and 2012, as indicated in our report dated May 3, 2013; because we did not perform an audit, we expressed no opinion on that information.

We are aware that our report referred to above, which is included in your Quarterly Report on Form 10-Q for the quarter ended March 31, 2013, is incorporated by reference in the following Registration Statements:

Form S-3 Registration Statement Nos.	Form N-4 Registration Statement Nos.
333-150286	333-102934
333-150577	333-114560
333-150583	333-114561
333-177476	333-114562
333-177477	333-121687
333-177478	333-121691
333-177479	333-121692
333-177480	333-121693
333-177481	333-121695
333-177666	
333-177671	
333-177672	
333-177673	
333-177675	
333-178570	
333-187073	

We also are aware that the aforementioned report, pursuant to Rule 436(c) under the Securities Act of 1933, is not considered a part of the Registration Statement prepared or certified by an accountant or a report prepared or certified by an accountant within the meaning of Sections 7 and 11 of that Act.

/s/ Deloitte & Touche LLP

Chicago, Illinois
May 3, 2013

CERTIFICATIONS **EXHIBIT 31 (i)**

I, Don Civgin, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Allstate Life Insurance Company;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 3, 2013

/s/ Don Civgin

Don Civgin
President and Chief Executive Officer

CERTIFICATIONS **EXHIBIT 31 (i)**

I, Jesse E. Merten, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Allstate Life Insurance Company;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 3, 2013

/s/ Jesse E. Merten

Jesse E. Merten
Senior Vice President and
Chief Financial Officer

EXHIBIT 32

SECTION 1350 CERTIFICATIONS

Each of the undersigned hereby certifies that to his knowledge the quarterly report on Form 10-Q for the fiscal period ended March 31, 2013 of Allstate Life Insurance Company filed with the Securities and Exchange Commission fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in such report fairly presents, in all material respects, the financial condition and result of operations of Allstate Life Insurance Company.

Date: May 3, 2013

/s/ Don Civgin
Don Civgin
President and Chief Executive Officer

/s/ Jesse E. Merten
Jesse E. Merten
Senior Vice President and Chief Financial Officer