UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

The Registrant meets the conditions set forth in General Instruction 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 September 30, 2012

OR

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

For the transition period from _____ to _____

Commission file number 000-31248

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 November 2, 2012, 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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September 30, 2012

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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 September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
	(unaudited)		(unaudited)	
Revenues				
Premiums	$ 145	$ 145	$ 443	$ 461
Contract charges	261	255	772	753
Net investment income	621	661	1,944	1,996
Realized capital gains and losses:				
Total other-than-temporary impairment losses	(9)	(84)	(51)	(207)
Portion of loss recognized in other comprehensive income	(4)	(4)	(4)	(17)
Net other-than-temporary impairment losses recognized in earnings	(13)	(88)	(55)	(224)
Sales and other realized capital gains and losses	(44)	306	(17)	559
Total realized capital gains and losses	(57)	218	(72)	335
	970	1,279	3,087	3,545
Costs and expenses				
Contract benefits	376	377	1,128	1,109
Interest credited to contractholder funds	208	396	939	1,211
Amortization of deferred policy acquisition costs	128	166	268	345
Operating costs and expenses	111	91	332	285
Restructuring and related charges	--	--	--	(2)
Interest expense	12	12	34	34
	835	1,042	2,701	2,982
Gain on disposition of operations	9	4	15	13
Income from operations before income tax expense	144	241	401	576
Income tax expense	41	81	117	190
Net income	103	160	284	386
Other comprehensive income, after-tax				
Change in unrealized net capital gains and losses	419	(23)	807	213
Change in unrealized foreign currency translation adjustments	(3)	1	(1)	3
Other comprehensive income (loss), after-tax	416	(22)	806	216
Comprehensive income	$ 519	$ 138	$ 1,090	$ 602

ALLSTATE LIFE INSURANCE COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

($ in millions, except par value data)		September 30, 2012		December 31, 2011
		(unaudited)		
Assets				
Investments				
Fixed income securities, at fair value (amortized cost $41,703 and $43,481)	$	45,455	$	45,428
Mortgage loans		6,267		6,546
Equity securities, at fair value (cost $142 and $143)		195		179
Limited partnership interests		1,860		1,612
Short-term, at fair value (amortized cost $1,261 and $593)		1,261		593
Policy loans		837		833
Other		1,151		1,086
Total investments		57,026		56,277
Cash		181		310
Deferred policy acquisition costs		1,795		2,165
Reinsurance recoverables		4,440		4,457
Accrued investment income		526		520
Other assets		404		406
Separate Accounts		6,820		6,984
Total assets	$	71,192	$	71,119
Liabilities				
Contractholder funds	$	39,430	$	41,669
Reserve for life-contingent contract benefits		14,131		13,666
Unearned premiums		20		23
Payable to affiliates, net		69		97
Other liabilities and accrued expenses		1,420		1,092
Deferred income taxes		1,450		821
Notes due to related parties		696		700
Separate Accounts		6,820		6,984
Total liabilities		64,036		65,052
Commitments and Contingent Liabilities (Note 8)				
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		2,343		2,060
Accumulated other comprehensive income:				
Unrealized net capital gains and losses:				
Unrealized net capital losses on fixed income securities with OTTI		(25)		(103)
Other unrealized net capital gains and losses		2,485		1,380
Unrealized adjustment to DAC, DSI and insurance reserves		(840)		(464)
Total unrealized net capital gains and losses		1,620		813
Unrealized foreign currency translation adjustments		(2)		(1)
Total accumulated other comprehensive income		1,618		812
Total shareholder's equity		7,156		6,067
Total liabilities and shareholder's equity	$	71,192	$	71,119

ALLSTATE LIFE INSURANCE COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

($ in millions)		Nine Months Ended September 30,		
		2012		2011
Cash flows from operating activities		(unaudited)		
Net income	$	284	$	386
Adjustments to reconcile net income to net cash provided by operating activities:				
Amortization and other non-cash items		(16)		(58)
Realized capital gains and losses		72		(335)

Gain on disposition of operations	(15)	(13)
Interest credited to contractholder funds	939	1,211
Changes in:		
Policy benefits and other insurance reserves	(530)	(523)
Unearned premiums	(3)	(3)
Deferred policy acquisition costs	87	171
Reinsurance recoverables, net	(96)	(97)
Income taxes	184	248
Other operating assets and liabilities	(86)	(59)
Net cash provided by operating activities	820	928
Cash flows from investing activities		
Proceeds from sales		
Fixed income securities	5,271	9,727
Equity securities	3	70
Limited partnership interests	117	131
Mortgage loans	11	74
Other investments	82	141
Investment collections		
Fixed income securities	2,134	2,460
Mortgage loans	649	554
Other investments	55	80
Investment purchases		
Fixed income securities	(5,592)	(7,830)
Equity securities	(2)	(13)
Limited partnership interests	(340)	(264)
Mortgage loans	(397)	(581)
Other investments	(83)	(161)
Change in short-term investments, net	(429)	(524)
Change in other investments, net	(11)	(236)
Disposition of operations	13	--
Net cash provided by investing activities	1,481	3,628
Cash flows from financing activities		
Contractholder fund deposits	1,490	1,330
Contractholder fund withdrawals	(3,916)	(5,806)
Repayment of notes due to related parties	(4)	--
Net cash used in financing activities	(2,430)	(4,476)
Net (decrease) increase in cash	(129)	80
Cash at beginning of period	310	118
Cash at end of period	$ 181	$ 198

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 September 30, 2012 and for the three-month and nine-month periods ended September 30, 2012 and 2011 are unaudited. The condensed consolidated financial statements reflect all adjustments (consisting only of normal recurring accruals), which are, in the opinion of management, necessary for the fair presentation of the financial position, results of operations and cash flows for the interim periods. These condensed consolidated financial statements and notes should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2011 and Current Report on Form 8-K filed May 4, 2012. The results of operations for the interim periods should not be considered indicative of results to be expected for the full year.

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

Premiums and contract charges

The following table summarizes premiums and contract charges by product.

($ in millions)	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Premiums				
Traditional life insurance	$ 111	$ 105	$ 334	$ 314
Immediate annuities with life contingencies	10	16	36	74

Accident and health insurance	24	24	73	73
Total premiums	145	145	443	461
Contract charges				
Interest-sensitive life insurance	256	248	756	729
Fixed annuities	5	7	16	24
Total contract charges	261	255	772	753
Total premiums and contract charges	$ 406	$ 400	$ 1,215	$ 1,214

Adopted accounting standards

Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts

In October 2010, the FASB issued guidance modifying the definition of the types of costs incurred by insurance entities that can be capitalized in the acquisition of new and renewal insurance contracts. The guidance specifies that the costs must be directly related to the successful acquisition of insurance contracts. The guidance also specifies that advertising costs should be included as deferred acquisition costs ("DAC") only when the direct-response advertising accounting criteria are met. The Company adopted the new guidance on a retrospective basis as of January 1, 2012. The cumulative effect of the adoption to shareholder's equity as of January 1, 2011 was a decrease of $313 million, net of taxes. The impacts of the retrospective adjustments on previously issued financial statements are summarized in the following table.

($ in millions)	Three months ended September 30, 2011		Nine months ended September 30, 2011	
	Previously Reported	As Adjusted	Previously Reported	As Adjusted
Amortization of DAC	$ 198	$ 166	$ 412	$ 345
Operating costs and expenses	73	91	229	285
Gain on disposition of operations	2	4	6	13
Income tax expense	75	81	184	190
Net income	150	160	374	386

	As of December 31, 2011	
	Previously Reported	As Adjusted
DAC	2,588	2,165
Reserve for life-contingent contract benefits	13,709	13,666
Other liabilities and accrued expenses	1,043	1,092
Deferred income taxes	971	821
Retained income	2,377	2,060
Unrealized adjustment to DAC, DSI and insurance reserves	(502)	(464)

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

Criteria for Determining Effective Control for Repurchase Agreements

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

Amendments to Fair Value Measurement and Disclosure Requirements

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

Presentation of Comprehensive Income

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

Pending accounting standard

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

In December 2011, the FASB issued guidance requiring expanded disclosures, including both gross and net information, for financial instruments and derivative instruments that are either offset in the reporting entity's financial statements or those that are subject to an enforceable master netting arrangement or similar agreement. The guidance is effective for reporting periods beginning on or after January 1, 2013 and is to be applied

retrospectively. The new guidance affects disclosures only and will have no impact on the Company's results of operations or financial position.

2. Related Party Transactions

Effective September 30, 2012, Lincoln Benefit Life Company, a consolidated subsidiary of ALIC, entered into a coinsurance reinsurance agreement with Lincoln Benefit Reinsurance Company ("LB Re"), an unconsolidated affiliate of the Company, to cede certain interest-sensitive life insurance policies to LB Re. In connection with the agreement, the Company recorded reinsurance recoverables of $2 million and payable to affiliates of $3 million. The $1 million loss on the transaction was recorded as a decrease to retained income since the transaction was between affiliates under common control.

In the first quarter of 2012, Road Bay Investments, LLC ("RBI"), a consolidated subsidiary of ALIC, repaid $1 million and $3 million of principal on the 7.00% Note due 2017 and the 5.80% Note due 2018, respectively, to American Heritage Life Insurance Company ("AHL"), an unconsolidated affiliate of the Company.

3. Supplemental Cash Flow Information

Non-cash modifications of certain mortgage loans, fixed income securities, limited partnership interests and other investments, as well as mergers completed with equity securities, totaled $138 million and $450 million for the nine months ended September 30, 2012 and 2011, 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 are as follows:

($ in millions)	Nine months ended September 30, 2012	Nine months ended September 30, 2011
Net change in proceeds managed		
Net change in short-term investments	$ (240)	$ (84)
Operating cash flow used	$ (240)	$ (84)
Net change in liabilities		
Liabilities for collateral, beginning of year	$ (263)	$ (465)
Liabilities for collateral, end of period	(503)	(549)
Operating cash flow provided	$ 240	$ 84

4. Investments

Fair values

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

($ in millions)	Amortized cost	Gross unrealized Gains	Gross unrealized Losses	Fair value
September 30, 2012				
U.S. government and agencies	$ 2,027	$ 259	$ --	$ 2,286
Municipal	4,267	604	(74)	4,797
Corporate	29,052	3,041	(130)	31,963
Foreign government	883	167	--	1,050
Residential mortgage-backed securities ("RMBS")	2,017	87	(96)	2,008
Commercial mortgage-backed securities ("CMBS")	1,465	61	(91)	1,435
Asset-backed securities ("ABS")	1,977	58	(137)	1,898
Redeemable preferred stock	15	3	--	18
Total fixed income securities	$ 41,703	$ 4,280	$ (528)	$ 45,455
December 31, 2011				
U.S. government and agencies	$ 2,502	$ 241	$ --	$ 2,743
Municipal	4,380	426	(114)	4,692
Corporate	28,496	2,234	(326)	30,404
Foreign government	927	142	(1)	1,068
RMBS	2,954	74	(314)	2,714
CMBS	1,862	45	(224)	1,683
ABS	2,345	44	(281)	2,108
Redeemable preferred stock	15	1	--	16
Total fixed income securities	$ 43,481	$ 3,207	$ (1,260)	$ 45,428

Scheduled maturities

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

($ in millions)	Amortized cost	Fair value
Due in one year or less	$ 2,749	$ 2,791
Due after one year through five years	8,834	9,480
Due after five years through ten years	14,503	16,137

Due after ten years		11,623		13,141
		37,709		41,549
RMBS and ABS		3,994		3,906
Total	$	41,703	$	45,455

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

Net investment income

Net investment income is as follows:

($ in millions)	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Fixed income securities	$ 521	$ 558	$ 1,567	$ 1,730
Mortgage loans	86	85	256	258
Equity securities	2	3	5	5
Limited partnership interests [(1)]	11	18	117	34
Short-term investments	1	1	1	2
Other	29	22	85	45
Investment income, before expense	650	687	2,031	2,074
Investment expense	(29)	(26)	(87)	(78)
Net investment income	$ 621	$ 661	$ 1,944	$ 1,996

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

Realized capital gains and losses

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

($ in millions)	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Fixed income securities	$ (60)	$ 429	$ (116)	$ 494
Mortgage loans	(3)	(28)	5	(33)
Equity securities	(1)	--	(1)	14
Limited partnership interests [(1)]	--	11	1	63
Derivatives	8	(186)	34	(207)
Other	(1)	(8)	5	4
Realized capital gains and losses	$ (57)	$ 218	$ (72)	$ 335

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

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

($ in millions)	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Impairment write-downs	$ (12)	$ (85)	$ (38)	$ (174)
Change in intent write-downs	(1)	(3)	(17)	(50)
Net other-than-temporary impairment losses recognized in earnings	(13)	(88)	(55)	(224)
Sales	(52)	481	(52)	705
Valuation of derivative instruments	(3)	(196)	(6)	(227)
Settlements of derivative instruments	11	10	41	20
EMA limited partnership income	--	11	--	61
Realized capital gains and losses	$ (57)	$ 218	$ (72)	$ 335

Gross gains of $51 million and $491 million and gross losses of $112 million and $17 million were realized on sales of fixed income securities during the three months ended September 30, 2012 and 2011, respectively. Gross gains of $128 million and $748 million and gross losses of $209 million and $117 million were realized on sales of fixed income securities during the nine months ended September 30, 2012 and 2011, respectively.

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

($ in millions)	Three months ended September 30, 2012			Nine months ended September 30, 2012		
	Gross	Included	Net	Gross	Included	Net

		in OCI			in OCI	
Fixed income securities:						
Corporate	$ --	$ (2)	$ (2)	$ (14)	$ (2)	$ (16)
RMBS	(1)	(5)	(6)	(18)	(8)	(26)
CMBS	(4)	3	(1)	(19)	6	(13)
Total fixed income securities	(5)	(4)	(9)	(51)	(4)	(55)
Equity securities	(1)	--	(1)	(1)	--	(1)
Mortgage loans	(1)	--	(1)	3	--	3
Limited partnership interests	--	--	--	(2)	--	(2)
Other	(2)	--	(2)	--	--	--
Other-than-temporary impairment losses	$ (9)	$ (4)	$ (13)	$ (51)	$ (4)	$ (55)

	Three months ended September 30, 2011			Nine months ended September 30, 2011		
	Gross	Included in OCI	Net	Gross	Included in OCI	Net
Fixed income securities:						
Municipal	$ --	$ --	$ --	$ (12)	$ (3)	$ (15)
Corporate	(14)	--	(14)	(18)	1	(17)
RMBS	(35)	(1)	(36)	(93)	(7)	(100)
CMBS	(1)	(3)	(4)	(27)	(10)	(37)
ABS	--	--	--	(6)	2	(4)
Total fixed income securities	(50)	(4)	(54)	(156)	(17)	(173)
Equity securities	--	--	--	(5)	--	(5)
Mortgage loans	(29)	--	(29)	(38)	--	(38)
Limited partnership interests	--	--	--	(1)	--	(1)
Other	(5)	--	(5)	(7)	--	(7)
Other-than-temporary impairment losses	$ (84)	$ (4)	$ (88)	$ (207)	$ (17)	$ (224)

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 $137 million and $90 million as of September 30, 2012 and December 31, 2011, respectively, of net unrealized gains related to changes in valuation of the fixed income securities subsequent to the impairment measurement date.

($ in millions)	September 30, 2012	December 31, 2011
Municipal	$ (5)	$ (5)
Corporate	(1)	(6)
RMBS	(134)	(198)
CMBS	(21)	(19)
ABS	(14)	(21)
Total	$ (175)	$ (249)

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

($ in millions)	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Beginning balance	$ (460)	$ (544)	$ (581)	$ (701)
Additional credit loss for securities previously other-than-temporarily impaired	(7)	(30)	(29)	(62)
Additional credit loss for securities not previously other-than-temporarily impaired	(2)	(21)	(10)	(61)
Reduction in credit loss for securities disposed or collected	80	45	231	255
Reduction in credit loss for securities the Company has made the decision to sell or more likely than not will be required to sell	--	--	--	13
Change in credit loss due to accretion of increase in cash flows	--	3	--	9
Ending balance	$ (389)	$ (547)	$ (389)	$ (547)

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
September 30, 2012	**value**	**Gains**	**Losses**	**gains (losses)**
Fixed income securities	$ 45,455	$ 4,280	$ (528)	$ 3,752
Equity securities	195	53	--	53
Short-term investments	1,261	--	--	--
Derivative instruments [(1)]	(14)	2	(16)	(14)
EMA limited partnerships [(2)]				2
Unrealized net capital gains and losses, pre-tax				3,793
Amounts recognized for:				
Insurance reserves [(3)]				(876)
DAC and DSI [(4)]				(417)
Amounts recognized				(1,293)
Deferred income taxes				(880)
Unrealized net capital gains and losses, after-tax				$ 1,620

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

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

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

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

	Fair	Gross unrealized		Unrealized net
December 31, 2011	**value**	**Gains**	**Losses**	**gains (losses)**
Fixed income securities	$ 45,428	$ 3,207	$ (1,260)	$ 1,947
Equity securities	179	38	(2)	36
Short-term investments	593	--	--	--
Derivative instruments [(1)]	(12)	3	(15)	(12)
EMA limited partnerships				1
Unrealized net capital gains and losses, pre-tax				1,972
Amounts recognized for:				
Insurance reserves				(594)
DAC and DSI				(120)
Amounts recognized				(714)
Deferred income taxes				(445)
Unrealized net capital gains and losses, after-tax				$ 813

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

Change in unrealized net capital gains and losses

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

($ in millions)	
Fixed income securities	$ 1,805
Equity securities	17
Derivative instruments	(2)
EMA limited partnerships	1
Total	1,821
Amounts recognized for:	
Insurance reserves	(282)
DAC and DSI	(297)
Amounts recognized	(579)
Deferred income taxes	(435)
Increase in unrealized net capital gains and losses	$ 807

Portfolio monitoring

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

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

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

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

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
September 30, 2012							
Fixed income securities							
Municipal	10	$ 84	$ (7)	61	$ 468	$ (67)	$ (74)
Corporate	61	639	(23)	77	910	(107)	(130)
Foreign government	--	--	--	1	1	--	--
RMBS	110	30	(1)	118	510	(95)	(96)
CMBS	4	21	--	49	448	(91)	(91)
ABS	10	75	(2)	80	779	(135)	(137)
Redeemable preferred stock	1	--	--	--	--	--	--
Total fixed income securities	196	849	(33)	386	3,116	(495)	(528)
Equity securities	3	18	--	1	--	--	--
Total fixed income and equity securities	199	$ 867	$ (33)	387	$ 3,116	$ (495)	$ (528)
Investment grade fixed income securities	162	$ 620	$ (25)	233	$ 2,164	$ (258)	$ (283)
Below investment grade fixed income securities	34	229	(8)	153	952	(237)	(245)
Total fixed income securities	196	$ 849	$ (33)	386	$ 3,116	$ (495)	$ (528)
December 31, 2011							
Fixed income securities							
Municipal	8	$ 67	$ (7)	97	$ 624	$ (107)	$ (114)
Corporate	226	2,025	(72)	100	1,207	(254)	(326)
Foreign government	7	41	(1)	1	1	--	(1)
RMBS	140	152	(4)	161	809	(310)	(314)
CMBS	42	361	(47)	68	488	(177)	(224)
ABS	32	255	(13)	107	1,010	(268)	(281)
Redeemable preferred stock	1	--	--	--	--	--	--
Total fixed income securities	456	2,901	(144)	534	4,139	(1,116)	(1,260)
Equity securities	3	35	(2)	--	--	--	(2)
Total fixed income and equity securities	459	$ 2,936	$ (146)	534	$ 4,139	$ (1,116)	$ (1,262)
Investment grade fixed income securities	351	$ 2,439	$ (111)	328	$ 2,869	$ (626)	$ (737)
Below investment grade fixed income securities	105	462	(33)	206	1,270	(490)	(523)
Total fixed income securities	456	$ 2,901	$ (144)	534	$ 4,139	$ (1,116)	$ (1,260)

As of September 30, 2012, $251 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 $251 million, $192 million are related to unrealized losses on investment grade fixed income securities. Investment grade is defined as a security having a rating of Aaa, Aa, A or Baa from Moody's, a rating of AAA, AA, A or BBB from Standard & Poor's ("S&P"), Fitch, Dominion or Realpoint, a rating of aaa, aa, a or bbb from A.M. Best, or a comparable internal rating if an externally provided rating is not available. Unrealized losses on investment grade securities are principally related to widening credit spreads or rising interest rates since the time of initial purchase.

As of September 30, 2012, the remaining $277 million of unrealized losses are related to securities in unrealized loss positions greater than or equal to 20% of amortized cost or cost. Investment grade fixed income securities comprising $91 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 $277 million, $186 million are related to below investment grade fixed income securities. Of these amounts, $174 million are related to below investment grade fixed income securities that had been in an unrealized loss position greater than or equal to 20% of amortized cost for a period of twelve or more consecutive months as of September 30, 2012. Unrealized losses on below investment grade securities are principally related to RMBS, CMBS and ABS and were the result of wider credit spreads resulting from higher risk premiums since the time of initial purchase. These wider spreads are largely due to the risk associated with the underlying collateral supporting certain RMBS, CMBS and ABS securities.

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

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

Limited partnerships

As of September 30, 2012 and December 31, 2011, the carrying value of equity method limited partnerships totaled $1.23 billion and $858 million, respectively. The Company recognizes an impairment loss for equity method limited partnerships when evidence demonstrates that the loss is other than temporary. Evidence of a loss in value that is other than temporary may include the absence of an ability to recover the carrying amount of the investment or the inability of the investee to sustain a level of earnings that would justify the carrying amount of the investment. The Company had no write-downs related to equity method limited partnerships for the three or nine months ended September 30, 2012 and 2011.

As of September 30, 2012 and December 31, 2011, the carrying value for cost method limited partnerships was $631 million and $754 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 September 30, 2012 and 2011, and $2 million and $1 million for the nine months ended September 30, 2012 and 2011, respectively.

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 September 30, 2012.

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

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

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

($ in millions)	September 30, 2012			December 31, 2011		
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	$ 295	$ --	$ 295	$ 345	$ --	$ 345
1.0 - 1.25	1,225	--	1,225	1,488	--	1,488
1.26 - 1.50	1,513	17	1,530	1,475	19	1,494
Above 1.50	2,907	130	3,037	2,847	128	2,975
Total non-impaired mortgage loans	$ 5,940	$ 147	$ 6,087	$ 6,155	$ 147	$ 6,302

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

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

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

The average balance of impaired loans was $214 million and $198 million for the nine months ended September 30, 2012 and 2011, respectively.

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

($ in millions)	Three months ended September 30,				Nine months ended September 30,			
		2012		2011		2012		2011
Beginning balance	$	48	$	68	$	63	$	84
Net increase (decrease) in valuation allowance		1		29		(3)		38
Charge offs		(2)		(27)		(13)		(52)
Ending balance	$	47	$	70	$	47	$	70

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

($ in millions)		September 30, 2012		December 31, 2011
Less than 90 days past due	$	9	$	--
90 days or greater past due		7		43
Total past due		16		43
Current loans		6,251		6,503
Total mortgage loans	$	6,267	$	6,546

5. Fair Value of Assets and Liabilities

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

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

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

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

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

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

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

The Company has two types of situations where investments are classified as Level 3 in the fair value hierarchy. The first is where quotes continue to be received from independent third-party valuation service providers and all significant inputs are market observable; however, there has been a significant

decrease in the volume and level of activity for the asset when compared to normal market activity such that the degree of market observability has declined to a point where categorization as a Level 3 measurement is considered appropriate. The indicators considered in determining whether a significant decrease in the volume and level of activity for a specific asset has occurred include the level of new issuances in the primary market, trading volume in the secondary market, the level

of credit spreads over historical levels, applicable bid-ask spreads, and price consensus among market participants and other pricing sources.

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

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

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

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

Level 1 measurements

- Fixed income securities: Comprise certain U.S. Treasuries. Valuation is based on unadjusted quoted prices for identical assets in active markets that the Company can access.
- Equity securities: Comprise actively traded, exchange-listed equity securities. Valuation is based on unadjusted quoted prices for identical assets in active markets that the Company can access.
- Short-term: Comprise actively traded money market funds that have daily quoted net asset values for identical assets that the Company can access.
- Separate account assets: Comprise actively traded mutual funds that have daily quoted net asset values for identical assets that the Company can access. Net asset values for the actively traded mutual funds in which the separate account assets are invested are obtained daily from the fund managers.

Level 2 measurements

- Fixed income securities:

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

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

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

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

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

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

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

- Equity securities: The primary inputs to the valuation include quoted prices or quoted net asset values for identical or similar assets in markets that are not active.
- Short-term: The primary inputs to the valuation include quoted prices for identical or similar assets in markets that are not active, contractual cash flows, benchmark yields and credit spreads. For certain short-term investments, amortized cost is used as the best estimate of fair value.
- Other investments: Free-standing exchange listed derivatives that are not actively traded are valued based on quoted prices for identical instruments in markets that are not active.

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

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

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

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

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

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

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

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

($ in millions)	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Counterparty and cash collateral netting	Balance as of September 30, 2012
Assets					
Fixed income securities:					
U.S. government and agencies	$ 976	$ 1,310	$ --		$ 2,286
Municipal	--	4,386	411		4,797
Corporate	--	30,543	1,420		31,963
Foreign government	--	1,050	--		1,050
RMBS	--	2,008	--		2,008
CMBS	--	1,414	21		1,435
ABS	--	1,712	186		1,898
Redeemable preferred stock	--	17	1		18
Total fixed income securities	976	42,440	2,039		45,455
Equity securities	141	40	14		195
Short-term investments	207	1,054	--		1,261
Other investments:					
Free-standing derivatives	--	312	2	$ (70)	244
Separate account assets	6,820	--	--		6,820
Other assets	--	--	1		1
Total recurring basis assets	8,144	43,846	2,056	(70)	53,976
Non-recurring basis [1]	--	--	16		16
Total assets at fair value	$ 8,144	$ 43,846	$ 2,072	$ (70)	$ 53,992
% of total assets at fair value	15.1 %	81.2 %	3.8 %	(0.1) %	100.0 %
Liabilities					
Contractholder funds:					
Derivatives embedded in life and annuity contracts	$ --	$ --	$ (551)		$ (551)
Other liabilities:					
Free-standing derivatives	--	(142)	(32)	$ 37	(137)
Total liabilities at fair value	$ --	$ (142)	$ (583)	$ 37	$ (688)
% of total liabilities at fair value	-- %	20.6 %	84.7 %	(5.3) %	100.0 %

[1] Includes $9 million of mortgage loans and $7 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 as of September 30, 2012.

($ in millions)	Fair value	Valuation technique	Unobservable input	Range	Weighted average
ARS backed by student loans	$ 275	Discounted cash flow model	Anticipated date liquidity will return to the market	18 - 60 months	34 - 46 months
Derivatives embedded in life and annuity contracts — Equity-indexed and forward starting options	$ (413)	Stochastic cash flow model	Projected option cost	1.0 - 2.0 %	1.95 %

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

As of September 30, 2012, Level 3 fair value measurements include $1.59 billion 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 summarizes the Company's assets and liabilities measured at fair value on a recurring and non-recurring basis as of December 31, 2011:

($ in millions)	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Counterparty and cash collateral netting	Balance as of December 31, 2011
Assets					
Fixed income securities:					
U.S. government and agencies	$ 1,614	$ 1,129	$ --		$ 2,743
Municipal	--	4,305	387		4,692
Corporate	--	29,085	1,319		30,404
Foreign government	--	1,068	--		1,068
RMBS	--	2,667	47		2,714
CMBS	--	1,653	30		1,683
ABS	--	1,854	254		2,108
Redeemable preferred stock	--	15	1		16
Total fixed income securities	1,614	41,776	2,038		45,428
Equity securities	127	38	14		179
Short-term investments	46	547	--		593
Other investments:					
Free-standing derivatives	--	268	1	$ (103)	166
Separate account assets	6,984	--	--		6,984
Other assets	--	--	1		1
Total recurring basis assets	8,771	42,629	2,054	(103)	53,351
Non-recurring basis [(1)]	--	--	24		24
Total assets at fair value	$ 8,771	$ 42,629	$ 2,078	$ (103)	$ 53,375
% of total assets at fair value	16.4 %	79.9 %	3.9 %	(0.2) %	100.0 %
Liabilities					
Contractholder funds:					
Derivatives embedded in life and annuity contracts	$ --	$ --	$ (723)		$ (723)
Other liabilities:					
Free-standing derivatives	--	(96)	(89)	$ 60	(125)
Total liabilities at fair value	$ --	$ (96)	$ (812)	$ 60	$ (848)
% of total liabilities at fair value	-- %	11.3 %	95.8 %	(7.1) %	100.0 %

(1) Includes $19 million of mortgage loans and $5 million of other investments written-down to fair value in connection with recognizing other-than-temporary impairments.

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

($ in millions)

	Balance as of June 30, 2012	Total gains (losses) included in: Net income [1]	OCI	Transfers into Level 3	Transfers out of Level 3
Assets					
Fixed income securities:					
Municipal	$ 363	$ --	$ 7	$ 53	$ --
Corporate	1,403	9	38	74	--
CMBS	21	(1)	1	--	--
ABS	274	(9)	33	42	(4)
Redeemable preferred stock	1	--	--	--	--
Total fixed income securities	2,062	(1)	79	169	(4)
Equity securities	15	(1)	--	--	--
Other investments:					
Free-standing derivatives, net	(71)	10	--	--	--
Other assets	1	--	--	--	--
Total recurring Level 3 assets	$ 2,007	$ 8	$ 79	$ 169	$ (4)
Liabilities					
Contractholder funds:					
Derivatives embedded in life and annuity contracts	$ (707)	$ 160	$ --	$ --	$ --
Total recurring Level 3 liabilities	$ (707)	$ 160	$ --	$ --	$ --

	Purchases	Sales	Issues	Settlements	Balance as of September 30, 2012
Assets					
Fixed income securities:					
Municipal	$ --	$ (12)	$ --	$ --	$ 411
Corporate	54	(113)	--	(45)	1,420
CMBS	--	--	--	--	21
ABS	--	(150)	--	--	186
Redeemable preferred stock	--	--	--	--	1
Total fixed income securities	54	(275)	--	(45)	2,039
Equity securities	--	--	--	--	14
Other investments:					
Free-standing derivatives, net	21	--	--	10	(30) [2]
Other assets	--	--	--	--	1
Total recurring Level 3 assets	$ 75	$ (275)	$ --	$ (35)	$ 2,024
Liabilities					
Contractholder funds:					
Derivatives embedded in life and annuity contracts	$ --	$ --	$ (24)	$ 20	$ (551)
Total recurring Level 3 liabilities	$ --	$ --	$ (24)	$ 20	$ (551)

(1) The effect to net income totals $168 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, $143 million in interest credited to contractholder funds and $18 million in contract benefits.

(2) Comprises $2 million of assets and $32 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 nine months ended September 30, 2012.

($ in millions)

	Balance as of December 31, 2011	Total gains (losses) included in: Net income [1]	OCI	Transfers into Level 3	Transfers out of Level 3
Assets					
Fixed income securities:					
Municipal	$ 387	$ --	$ 9	$ 53	$ (10)
Corporate	1,319	16	58	207	(10)
RMBS	47	--	--	--	(47)
CMBS	30	(3)	9	--	--
ABS	254	20	45	42	(4)
Redeemable preferred stock	1	--	--	--	--
Total fixed income securities	2,038	33	121	302	(71)
Equity securities	14	(1)	1	--	--
Other investments:					
Free-standing derivatives, net	(88)	22	--	--	--
Other assets	1	--	--	--	--
Total recurring Level 3 assets	$ 1,965	$ 54	$ 122	$ 302	$ (71)
Liabilities					
Contractholder funds:					
Derivatives embedded in life and annuity contracts	$ (723)	$ 151	$ --	$ --	$ --
Total recurring Level 3 liabilities	$ (723)	$ 151	$ --	$ --	$ --

	Purchases	Sales	Issues	Settlements	Balance as of September 30, 2012
Assets					
Fixed income securities:					
Municipal	$ --	$ (28)	$ --	$ --	$ 411
Corporate	98	(187)	--	(81)	1,420
RMBS	--	--	--	--	--
CMBS	--	--	--	(15)	21
ABS	--	(161)	--	(10)	186
Redeemable preferred stock	1	(1)	--	--	1
Total fixed income securities	99	(377)	--	(106)	2,039
Equity securities	5	(5)	--	--	14
Other investments:					
Free-standing derivatives, net	27	--	--	9	(30) [2]
Other assets	--	--	--	--	1
Total recurring Level 3 assets	$ 131	$ (382)	$ --	$ (97)	$ 2,024

Liabilities					
Contractholder funds:					
Derivatives embedded in life and annuity contracts	$ --	$ --	$ (53)	$ 74	$ (551)
Total recurring Level 3 liabilities	$ --	$ --	$ (53)	$ 74	$ (551)

(1) The effect to net income totals $205 million and is reported in the Condensed Consolidated Statements of Operations and Comprehensive Income as follows: $37 million in realized capital gains and losses, $17 million in net investment income, $119 million in interest credited to contractholder funds and $32 million in contract benefits.
(2) Comprises $2 million of assets and $32 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 September 30, 2011.

($ in millions)

		Total gains (losses) included in:			
	Balance as of June 30, 2011	**Net income** (1)	**OCI**	**Transfers into Level 3**	**Transfers out of Level 3**
Assets					
Fixed income securities:					
Municipal	$ 433	$ --	$ (2)	$ --	$ (22)
Corporate	1,567	(6)	(20)	3	(82)
RMBS	847	--	2	--	(764)
CMBS	904	--	(4)	--	(868)
ABS	1,786	(37)	(73)	--	(88)
Redeemable preferred stock	1	--	--	--	--
Total fixed income securities	5,538	(43)	(97)	3	(1,824)
Equity securities	13	--	--	--	--
Other investments:					
Free-standing derivatives, net	(67)	(40)	--	--	--
Other assets	1	--	--	--	--
Total recurring Level 3 assets	$ 5,485	$ (83)	$ (97)	$ 3	$ (1,824)
Liabilities					
Contractholder funds:					
Derivatives embedded in life and annuity contracts	$ (629)	$ 2	$ --	$ --	$ --
Total recurring Level 3 liabilities	$ (629)	$ 2	$ --	$ --	$ --

	Purchases	**Sales**	**Issues**	**Settlements**	**Balance as of September 30, 2011**
Assets					
Fixed income securities:					
Municipal	$ --	$ (11)	$ --	$ --	$ 398
Corporate	207	(48)	--	(43)	1,578
RMBS	--	--	--	(4)	81
CMBS	--	--	--	--	32
ABS	67	(1)	--	(73)	1,581
Redeemable preferred stock	--	--	--	--	1
Total fixed income securities	274	(60)	--	(120)	3,671
Equity securities	--	--	--	--	13
Other investments:					
Free-standing derivatives, net	5	--	--	(1)	(103) (2)
Other assets	--	--	--	--	1
Total recurring Level 3 assets	$ 279	$ (60)	$ --	$ (121)	$ 3,582
Liabilities					
Contractholder funds:					
Derivatives embedded in life and annuity contracts	$ --	$ --	$ (15)	$ 45	$ (597)
Total recurring Level 3 liabilities	$ --	$ --	$ (15)	$ 45	$ (597)

(1) The effect to net income totals $(81) million and is reported in the Condensed Consolidated Statements of Operations as follows: $(93) million in realized capital gains and losses, $13 million in net investment income, $54 million in interest credited to contractholder funds and $(55) million in contract benefits.
(2) Comprises $1 million of assets and $104 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 nine months ended September 30, 2011.

($ in millions)

		Total gains (losses) included in:			
	Balance as of December 31, 2010	**Net income** (1)	**OCI**	**Transfers into Level 3**	**Transfers out of Level 3**
Assets					
Fixed income securities:					
Municipal	$ 601	$ --	$ 13	$ --	$ (33)
Corporate	1,760	27	(2)	183	(193)
RMBS	1,189	(57)	78	--	(821)
CMBS	844	(42)	111	65	(878)
ABS	1,974	17	(47)	--	(183)
Redeemable preferred stock	1	--	--	--	--
Total fixed income securities	6,369	(55)	153	248	(2,108)
Equity securities	29	(5)	--	--	(10)
Other investments:					
Free-standing derivatives, net	(77)	(37)	--	--	--
Other assets	1	--	--	--	--
Total recurring Level 3 assets	$ 6,322	$ (97)	$ 153	$ 248	$ (2,118)
Liabilities					
Contractholder funds:					

Derivatives embedded in life and annuity contracts	$ (653)	$ (24)	$ --	$ --	$ --
Total recurring Level 3 liabilities	$ (653)	$ (24)	$ --	$ --	$ --

	Purchases	Sales	Issues	Settlements	Balance as of September 30, 2011
Assets					
Fixed income securities:					
Municipal	$ 10	$ (193)	$ --	$ --	$ 398
Corporate	262	(408)	--	(51)	1,578
RMBS	--	(222)	--	(86)	81
CMBS	--	(66)	--	(2)	32
ABS	146	(131)	--	(195)	1,581
Redeemable preferred stock	--	--	--	--	1
Total fixed income securities	418	(1,020)	--	(334)	3,671
Equity securities	--	(1)	--	--	13
Other investments:					
Free-standing derivatives, net	20	--	--	(9)	(103) [(2)]
Other assets	--	--	--	--	1
Total recurring Level 3 assets	$ 438	$ (1,021)	$ --	$ (343)	$ 3,582
Liabilities					
Contractholder funds:					
Derivatives embedded in life and annuity contracts	$ --	$ --	$ (42)	$ 122	$ (597)
Total recurring Level 3 liabilities	$ --	$ --	$ (42)	$ 122	$ (597)

(1) The effect to net income totals $(121) million and is reported in the Condensed Consolidated Statements of Operations as follows: $(122) million in realized capital gains and losses, $28 million in net investment income, $(9) million in interest credited to contractholder funds and $(18) million in contract benefits.

(2) Comprises $1 million of assets and $104 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.

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

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

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

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

($ in millions)	**Three months ended September 30,**		**Nine months ended September 30,**	
	2012	**2011**	**2012**	**2011**
Assets				
Fixed income securities:				
Corporate	$ 5	$ (13)	$ 12	$ 1
RMBS	--	--	--	--
CMBS	(1)	(1)	(2)	(10)
ABS	--	(38)	--	(29)
Total fixed income securities	4	(52)	10	(38)
Equity securities	(1)	--	(1)	--
Other investments:				
Free-standing derivatives, net	(7)	(39)	4	(42)
Total recurring Level 3 assets	$ (4)	$ (91)	$ 13	$ (80)
Liabilities				
Contractholder funds:				
Derivatives embedded in life and annuity contracts	$ 160	$ 2	$ 151	$ (24)
Total recurring Level 3 liabilities	$ 160	$ 2	$ 151	$ (24)

The amounts in the table above represent the change in unrealized gains and losses included in net income for the period of time that the asset or liability was determined to be in Level 3. These gains and losses total $156 million for the three months ended September 30, 2012 and are reported as follows: $(9) million in realized capital gains and losses, $5 million in net investment income, $142 million in interest credited to contractholder funds and $18 million in contract benefits. These gains and losses total $(89) million for the three months ended September 30, 2011 and are reported as follows: $(102) million in

realized capital gains and losses, $11 million in net investment income, $57 million in interest credited to contractholder funds and $(55) million in contract benefits. These gains and losses total $164 million for the nine months ended September 30, 2012 and are reported as follows: $14 million in net investment income, $118 million in interest credited to contractholder funds and $32 million in contract benefits. These gains and losses total $(104) million for the nine months ended September 30, 2011 and are reported as follows: $(116) million in realized capital gains and losses, $36 million in net investment income, $(6) million in interest credited to contractholder funds and $(18) 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)	**September 30, 2012**		**December 31, 2011**	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Mortgage loans	$ 6,267	$ 6,567	$ 6,546	$ 6,739
Cost method limited partnerships	631	774	754	882
Bank loans	281	282	299	290
Notes due from related party	275	275	275	235

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

Financial liabilities

($ in millions)	**September 30, 2012**		**December 31, 2011**	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Contractholder funds on investment contracts	$ 27,903	$ 28,999	$ 30,161	$ 30,468
Notes due to related parties	696	696	700	659
Liability for collateral	503	503	263	263

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.

6. Derivative Financial Instruments

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

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, floors, swaptions and futures are utilized to change the interest rate characteristics of existing assets and liabilities to ensure the relationship is maintained within specified ranges and to reduce exposure to rising or falling interest rates. 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 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 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 legally enforceable master netting agreements and are presented on a net basis, by counterparty agreement, in the Condensed Consolidated Statements of Financial Position. For certain exchange traded derivatives, the exchange requires margin deposits as well as daily cash settlements of margin accounts. As of September 30, 2012, the Company pledged $3 million of cash and securities in the form of margin deposits.

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

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

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

($ in millions, except number of contracts)	Asset derivatives					
		Volume [1]				
	Balance sheet location	Notional amount	Number of contracts	Fair value, net	Gross asset	Gross liability
Derivatives designated as accounting hedging instruments						
Foreign currency swap agreements	Other investments	$ 101	n/a	$ (6)	$ 2	$ (8)
Total		101	n/a	(6)	2	(8)
Derivatives not designated as accounting hedging instruments						
Interest rate contracts						
Interest rate swap agreements	Other investments	7,941	n/a	56	74	(18)
Interest rate swaption agreements	Other investments	250	n/a	--	--	--
Interest rate cap and floor agreements	Other investments	673	n/a	2	2	--
Financial futures contracts and options	Other assets	--	2	--	--	--
Equity and index contracts						
Options, futures and warrants [2]	Other investments	147	14,600	226	226	--
Options, futures and warrants	Other assets	--	167	--	--	--
Embedded derivative financial instruments						
Conversion options	Fixed income securities	5	n/a	1	1	--
Equity-indexed call options	Fixed income securities	90	n/a	10	10	--
Credit default swaps	Fixed income securities	12	n/a	(12)	--	(12)
Credit default contracts						
Credit default swaps – buying protection	Other investments	122	n/a	(1)	--	(1)
Credit default swaps – selling protection	Other investments	100	n/a	--	--	--
Other contracts						
Other contracts	Other assets	4	n/a	1	1	--
Total		9,344	14,769	283	314	(31)
Total asset derivatives		$ 9,445	14,769	$ 277	$ 316	$ (39)

[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	$ 50	n/a	$ (9)	$ --	$ (9)
Total		50	n/a	(9)	--	(9)
Derivatives not designated as accounting hedging instruments						
Interest rate contracts						
Interest rate swap agreements	Other liabilities & accrued expenses	85	n/a	9	9	--
Interest rate cap and floor agreements	Other liabilities & accrued expenses	359	n/a	--	--	--
Financial futures contracts and options	Other liabilities & accrued expenses	--	496	--	--	--
Equity and index contracts						
Options and futures	Other liabilities & accrued expenses	--	13,070	(105)	--	(105)
Foreign currency contracts						

	Balance sheet location	Notional amount	Number of contracts	Fair value, net	Gross asset	Gross liability
Foreign currency forwards and options	Other liabilities & accrued expenses	44	n/a	--	--	--
Embedded derivative financial instruments						
Guaranteed accumulation benefits	Contractholder funds	853	n/a	(85)	--	(85)
Guaranteed withdrawal benefits	Contractholder funds	573	n/a	(44)	--	(44)
Equity-indexed and forward starting options in life and annuity product contracts	Contractholder funds	3,835	n/a	(413)	--	(413)
Other embedded derivative financial instruments	Contractholder funds	85	n/a	(9)	--	(9)
Credit default contracts						
Credit default swaps – buying protection	Other liabilities & accrued expenses	114	n/a	--	1	(1)
Credit default swaps – selling protection	Other liabilities & accrued expenses	130	n/a	(32)	--	(32)
Total		6,078	13,566	(679)	10	(689)
Total liability derivatives		6,128	13,566	(688)	$ 10	$ (698)
Total derivatives		$ 15,573	28,335	$ (411)		

(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 Condensed Consolidated Statement of Financial Position as of December 31, 2011.

($ in millions, except number of contracts)	Asset derivatives					
		Volume (1)				
	Balance sheet location	Notional amount	Number of contracts	Fair value, net	Gross asset	Gross liability
Derivatives designated as accounting hedging instruments						
Interest rate swap agreements	Other investments	$ 144	n/a	$ (8)	$ --	$ (8)
Foreign currency swap agreements	Other investments	127	n/a	(5)	3	(8)
Total		271	n/a	(13)	3	(16)
Derivatives not designated as accounting hedging instruments						
Interest rate contracts						
Interest rate swap agreements	Other investments	8,028	n/a	122	137	(15)
Interest rate swaption agreements	Other investments	500	n/a	--	--	--
Interest rate cap and floor agreements	Other investments	1,591	n/a	(12)	--	(12)
Financial futures contracts and options	Other assets	n/a	40	--	--	--
Equity and index contracts						
Options, futures and warrants (2)	Other investments	163	15,180	104	104	--
Options, futures and warrants	Other assets	n/a	1,011	--	--	--
Foreign currency contracts						
Foreign currency swap agreements	Other investments	50	n/a	6	6	--
Embedded derivative financial instruments						
Conversion options	Fixed income securities	5	n/a	--	--	--
Equity-indexed call options	Fixed income securities	150	n/a	11	11	--
Credit default swaps	Fixed income securities	170	n/a	(113)	--	(113)
Credit default contracts						
Credit default swaps – buying protection	Other investments	110	n/a	2	4	(2)
Credit default swaps – selling protection	Other investments	32	n/a	--	--	--
Other contracts						
Other contracts	Other investments	5	n/a	--	--	--
Other contracts	Other assets	4	n/a	1	1	--
Total		10,808	16,231	121	263	(142)
Total asset derivatives		$ 11,079	16,231	$ 108	$ 266	$ (158)

(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						
Interest rate swap agreements	Other liabilities & accrued expenses	$ 28	n/a	$ (5)	$ --	$ (5)
Foreign currency swap agreements	Other liabilities & accrued expenses	50	n/a	(7)	--	(7)
Total		78	n/a	(12)	--	(12)
Derivatives not designated as accounting hedging instruments						
Interest rate contracts						
Interest rate swap agreements	Other liabilities & accrued expenses	85	n/a	8	8	--
Interest rate cap and floor agreements	Other liabilities & accrued expenses	914	n/a	(9)	--	(9)
Equity and index contracts						
Options and futures	Other liabilities & accrued expenses	n/a	14,985	(49)	--	(49)
Embedded derivative financial instruments						
Guaranteed accumulation benefits	Contractholder funds	917	n/a	(105)	--	(105)
Guaranteed withdrawal benefits	Contractholder funds	613	n/a	(57)	--	(57)
Equity-indexed and forward starting options in life and annuity product contracts	Contractholder funds	3,996	n/a	(553)	--	(553)
Other embedded derivative financial instruments	Contractholder funds	85	n/a	(8)	--	(8)
Credit default contracts						
Credit default swaps – buying protection	Other liabilities & accrued expenses	127	n/a	5	6	(1)
Credit default swaps – selling protection	Other liabilities & accrued expenses	270	n/a	(68)	1	(69)
Total		7,007	14,985	(836)	15	(851)
Total liability derivatives		7,085	14,985	(848)	$ 15	$ (863)
Total derivatives		$ 18,164	31,216	$ (740)		

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

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

($ in millions)	Three months ended September 30,		Nine months ended September 30,	
Effective portion	**2012**	**2011**	**2012**	**2011**
(Loss) gain recognized in OCI on derivatives during the period	$ (3)	$ 20	$ (3)	$ 7
Loss recognized in OCI on derivatives during the term of the hedging relationship	(14)	(10)	(14)	(10)
Loss reclassified from AOCI into income (net investment income)	--	(1)	--	--
Loss reclassified from AOCI into income (realized capital gains and losses)	--	--	(1)	--
Ineffective portion and amount excluded from effectiveness testing				
Gain recognized in income on derivatives (realized capital gains and losses)	--	--	--	--

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

($ in millions)	Three months ended September 30, 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	$ --	$ --	$ --	$ --	$ --
Subtotal	--	--	--	--	--
Derivatives not designated as accounting hedging instruments					
Interest rate contracts	--	(1)	--	--	(1)
Equity and index contracts	--	--	--	19	19
Embedded derivative financial instruments	--	2	18	138	158
Foreign currency contracts	--	--	--	--	--
Credit default contracts	--	7	--	--	7
Other contracts	--	--	--	1	1
Subtotal	--	8	18	158	184
Total	$ --	$ 8	$ 18	$ 158	$ 184

	Nine months ended September 30, 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	--	2	--	--	2
Equity and index contracts	--	--	--	56	56
Embedded derivative financial instruments	--	20	32	140	192
Foreign currency contracts	--	(1)	--	--	(1)
Credit default contracts	--	14	--	--	14
Other contracts	--	--	--	3	3
Subtotal	--	35	32	199	266
Total	$ (1)	$ 35	$ 32	$ 199	$ 265

	Three months ended September 30, 2011				
	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	--	(130)	--	--	(130)
Equity and index contracts	--	--	--	(71)	(71)
Embedded derivative financial instruments	--	(49)	(55)	87	(17)
Credit default contracts	--	(7)	--	--	(7)
Other contracts	--	--	--	1	1
Subtotal	--	(186)	(55)	17	(224)
Total	$ (1)	$ (186)	$ (55)	$ 17	$ (225)

Nine months ended September 30, 2011				
Net investment	Realized capital	Contract benefits	Interest credited to	Total gain (loss)

	income	gains and losses		contractholder funds	recognized in net income on derivatives
Derivatives in fair value accounting hedging relationships					
Interest rate contracts	$ (2)	$ (8)	$ --	$ (5)	$ (15)
Foreign currency and interest rate contracts	--	--	--	(32)	(32)
Subtotal	(2)	(8)	--	(37)	(47)
Derivatives not designated as accounting hedging instruments					
Interest rate contracts	--	(152)	--	--	(152)
Equity and index contracts	--	--	--	(25)	(25)
Embedded derivative financial instruments	--	(53)	(18)	74	3
Credit default contracts	--	6	--	--	6
Other contracts	--	--	--	6	6
Subtotal	--	(199)	(18)	55	(162)
Total	$ (2)	$ (207)	$ (18)	$ 18	$ (209)

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

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

The Company manages its exposure to credit risk by utilizing highly rated counterparties, establishing risk control limits, executing legally enforceable master netting agreements ("MNAs") and obtaining collateral where appropriate. The Company uses MNAs for OTC derivative transactions that permit either party to net payments due for transactions and collateral is either pledged or obtained when certain predetermined exposure limits are exceeded. As of September 30, 2012, counterparties pledged $84 million in cash and securities to the Company, and the Company pledged $36 million in securities to counterparties which includes $20 million of collateral posted under MNAs for contracts containing credit-risk-contingent provisions that are in a liability position and $16 million of collateral posted under MNAs for contracts without credit-risk-contingent liabilities. The Company has not incurred any losses on derivative financial instruments due to counterparty nonperformance. Other derivatives, including futures and certain option contracts, are traded on organized exchanges which require margin deposits and guarantee the execution of trades, thereby mitigating any potential credit risk.

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

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

($ in millions)	September 30, 2012				December 31, 2011			
Rating [1]	Number of counter-parties	Notional amount [2]	Credit exposure [2]	Exposure, net of collateral [2]	Number of counter-parties	Notional amount [2]	Credit exposure [2]	Exposure, net of collateral [2]
AA-	--	$ --	$ --	$ --	1	$ 25	$ 1	$ 1
A+	1	1,510	7	2	3	2,936	24	4
A	4	3,759	22	--	2	3,913	14	--
A-	2	411	--	--	2	3,815	25	--
BBB+	1	3,617	23	--	2	57	41	41
Total	8	$ 9,297	$ 52	$ 2	10	$ 10,746	$ 105	$ 46

[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 both Moody's and S&P. Credit-risk-contingent cross-default provisions allow the counterparties to terminate the derivative instruments if the Company defaults by pre-determined threshold amounts on certain debt instruments. Credit-risk-contingent credit support annex agreements specify the amount of collateral the Company must post to counterparties based on 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 both Moody's and S&P.

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

($ in millions)	September 30, 2012	December 31, 2011
Gross liability fair value of contracts containing credit-risk-contingent features	$ 56	$ 133
Gross asset fair value of contracts containing credit-risk-contingent features and subject to MNAs	(36)	(60)
Collateral posted under MNAs for contracts containing credit-risk-contingent features	(20)	(72)
Maximum amount of additional exposure for contracts with credit-risk-contingent features if all features were triggered concurrently	$ --	$ 1

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
September 30, 2012						
Single name						
Investment grade corporate debt	$ --	$ 5	$ --	$ --	$ 5	$ --
Municipal	25	--	--	--	25	(4)
Subtotal	25	5	--	--	30	(4)
Baskets						
First-to-default						
Municipal	--	100	--	--	100	(28)
Subtotal	--	100	--	--	100	(28)
Index						
Investment grade corporate debt	1	26	68	5	100	--
Total	$ 26	$ 131	$ 68	$ 5	$ 230	$ (32)
December 31, 2011						
Single name						
Investment grade corporate debt	$ 40	$ 45	$ 15	$ 10	$ 110	$ (1)
High yield debt	--	--	--	2	2	--
Municipal	25	--	--	--	25	(5)
Subtotal	65	45	15	12	137	(6)
Baskets						
Tranche						
Investment grade corporate debt	--	--	--	65	65	(29)
First-to-default						
Municipal	--	100	--	--	100	(33)
Subtotal	--	100	--	65	165	(62)
Total	$ 65	$ 145	$ 15	$ 77	$ 302	$ (68)

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

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

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

7. Reinsurance

The effects of reinsurance on premiums and contract charges are as follows:

($ in millions)	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Direct	$ 520	$ 540	$ 1,591	$ 1,655
Assumed				
Affiliate	29	28	86	84
Non-affiliate	13	5	22	15
Ceded–non-affiliate	(156)	(173)	(484)	(540)
Premiums and contract charges, net of reinsurance	$ 406	$ 400	$ 1,215	$ 1,214

The effects of reinsurance on contract benefits are as follows:

($ in millions)	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Direct	$ 525	$ 557	$ 1,426	$ 1,372
Assumed				
Affiliate	19	18	54	56
Non-affiliate	11	4	21	12
Ceded–non-affiliate	(179)	(202)	(373)	(331)
Contract benefits, net of reinsurance	$ 376	$ 377	$ 1,128	$ 1,109

The effects of reinsurance on interest credited to contractholder funds are as follows:

($ in millions)	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Direct	$ 208	$ 398	$ 942	$ 1,216
Assumed				
Affiliate	2	2	7	7
Non-affiliate	5	3	11	9
Ceded–non-affiliate	(7)	(7)	(21)	(21)
Interest credited to contractholder funds, net of reinsurance	$ 208	$ 396	$ 939	$ 1,211

8. 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. 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, 2010, based on assessable premiums, was approximately 1.8%.

As of September 30, 2012, 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 September 30, 2012. The obligations associated with these fixed income securities expire at various dates on or before March 11, 2018.

Related to the disposal through reinsurance of substantially all of 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 September 30, 2012.

Regulation and Compliance

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

9. Other Comprehensive Income

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

	Three months ended September 30,					
	2012			2011		
	Pre-tax	Tax	After-tax	Pre-tax	Tax	After-tax
Unrealized net holding gains arising during the period, net of related offsets	$ 581	$ (203)	$ 378	$ 405	$ (142)	$ 263
Less: reclassification adjustment of realized capital gains and losses	(63)	22	(41)	440	(154)	286
Unrealized net capital gains and losses	644	(225)	419	(35)	12	(23)
Unrealized foreign currency translation adjustments	(5)	2	(3)	2	(1)	1
Other comprehensive income (loss)	$ 639	$ (223)	416	$ (33)	$ 11	(22)
Net income			103			160
Comprehensive income			$ 519			$ 138

	Nine months ended September 30,					
	2012			2011		
	Pre-tax	Tax	After-tax	Pre-tax	Tax	After-tax
Unrealized net holding gains arising during the period, net of related offsets	$ 1,116	$ (391)	$ 725	$ 870	$ (304)	$ 566
Less: reclassification adjustment of realized capital gains and losses	(126)	44	(82)	543	(190)	353

Unrealized net capital gains and losses	1,242	(435)	807	327	(114)	213
Unrealized foreign currency translation adjustments	(2)	1	(1)	5	(2)	3
Other comprehensive income	$ 1,240	$ (434)	806	$ 332	$ (116)	216
Net income			284			386
Comprehensive income			$ 1,090			$ 602

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 September 30, 2012, and the related condensed consolidated statements of operations and comprehensive income for the three-month and nine-month periods ended September 30, 2012 and 2011, and of cash flows for the nine-month periods ended September 30, 2012 and 2011. These interim financial statements are the responsibility of the Company's management.

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

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

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statement of financial position of Allstate Life Insurance Company and subsidiaries as of December 31, 2011, 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, 2012 (which report includes an explanatory paragraph relating to a change in the Company's recognition and presentation for other-than-temporary impairments of debt securities in 2009 and dated May 4, 2012 as to the effects of the retrospective adoption of a change in accounting for costs associated with acquiring or renewing insurance contracts), we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated statement of financial position as of December 31, 2011 is fairly stated, in all material respects, in relation to the consolidated statement of financial position from which it has been derived.

/s/ Deloitte & Touche LLP

Chicago, Illinois
November 2, 2012

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

OVERVIEW

The following discussion highlights significant factors influencing the consolidated financial position and results of operations of 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 2011 and Current Report on Form 8-K filed May 4, 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 $103 million and $284 million in the third quarter and first nine months of 2012, respectively, compared to $160 million and $386 million in the third quarter and first nine months of 2011, respectively.
- Premiums and contract charges on underwritten products, including traditional life, interest-sensitive life and accident and health insurance, totaled $391 million in the third quarter of 2012, an increase of 3.7% from the prior year period, and $1.16 billion in the first nine months of 2012, an increase of 4.2% from the prior year period.
- Investments totaled $57.03 billion as of September 30, 2012, reflecting an increase in carrying value of $749 million from $56.28 billion as of December 31, 2011. Net investment income decreased 6.1% to $621 million in the third quarter of 2012 and 2.6% to $1.94 billion in the first nine months of 2012 from $661 million and $2.00 billion in the third quarter and first nine months of 2011, respectively.
- Net realized capital losses totaled $57 million in the third quarter of 2012 compared to net realized capital gains of $218 million in the third quarter of 2011. Net realized capital losses totaled $72 million in the first nine months of 2012 compared to net realized capital gains of $335 million in the first nine months of 2011.

- During third quarter 2012, a $25 million pre-tax charge to income was recorded related to our annual comprehensive review of the deferred policy acquisition costs ("DAC"), deferred sales inducement costs and secondary guarantee liability balances. This compares to an $8 million pre-tax charge to income in the first quarter of 2011.
- Valuation changes on derivatives embedded in equity-indexed annuity contracts resulted in a $75 million after-tax credit to net income in third quarter 2012 and a $66 million after-tax credit to net income in the first nine months of 2012, compared to a $5 million after-tax charge to net income in third quarter 2011 and a $5 million after-tax charge to net income in the first nine months of 2011.
- Contractholder funds totaled $39.43 billion as of September 30, 2012, reflecting decreases of $2.24 billion from $41.67 billion as of December 31, 2011 and $2.89 billion from $42.32 billion as of September 30, 2011.

OPERATIONS

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

($ in millions)	Three months ended September 30, 2012	Three months ended September 30, 2011	Nine months ended September 30, 2012	Nine months ended September 30, 2011
Revenues				
Premiums	$ 145	$ 145	$ 443	$ 461
Contract charges	261	255	772	753
Net investment income	621	661	1,944	1,996
Realized capital gains and losses	(57)	218	(72)	335
Total revenues	970	1,279	3,087	3,545
Costs and expenses				
Contract benefits	(376)	(377)	(1,128)	(1,109)
Interest credited to contractholder funds	(208)	(396)	(939)	(1,211)
Amortization of DAC	(128)	(166)	(268)	(345)
Operating costs and expenses	(111)	(91)	(332)	(285)
Restructuring and related charges	--	--	--	2
Interest expense	(12)	(12)	(34)	(34)
Total costs and expenses	(835)	(1,042)	(2,701)	(2,982)
Gain on disposition of operations	9	4	15	13
Income tax expense	(41)	(81)	(117)	(190)
Net income	$ 103	$ 160	$ 284	$ 386
Investments as of September 30			$ 57,026	$ 57,274

Net income was $103 million in the third quarter of 2012 compared to $160 million in the same period of 2011. Net income was $284 million in the first nine months of 2012 compared to $386 million in the first nine months of 2011. The decreases in both periods were primarily due to net realized capital losses in the current year compared to net realized capital gains in the prior year and lower net investment income, partially offset by decreased interest credited to contractholder funds and lower amortization of DAC.

Analysis of revenues Total revenues decreased 24.2% or $309 million in the third quarter of 2012 and 12.9% or $458 million in the first nine months of 2012 compared to the same periods of 2011 due to net realized capital losses in the current year periods compared to net realized capital gains in the prior year periods and lower net investment income.

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 September 30, 2012	Three months ended September 30, 2011	Nine months ended September 30, 2012	Nine months ended September 30, 2011
Underwritten products				
Traditional life insurance premiums	$ 111	$ 105	$ 334	$ 314
Accident and health insurance premiums	24	24	73	73
Interest-sensitive life insurance contract charges	256	248	756	729
Subtotal	391	377	1,163	1,116
Annuities				
Immediate annuities with life contingencies premiums	10	16	36	74
Other fixed annuity contract charges	5	7	16	24
Subtotal	15	23	52	98

Premiums and contract charges [(1)]	$ 406	$ 400	$ 1,215	$ 1,214

[(1)] Contract charges related to the cost of insurance totaled $178 million and $165 million in the third quarter of 2012 and 2011, respectively, and $514 million and $484 million in the first nine months of 2012 and 2011, respectively.

Total premiums and contract charges increased 1.5% in the third quarter of 2012 and increased slightly in the first nine months of 2012 compared to the same periods of 2011 primarily due to higher contract charges on interest-sensitive life insurance products primarily resulting from the aging of our policyholders and lower reinsurance ceded, and increased traditional life insurance premiums due to lower reinsurance ceded and higher sales through Allstate agencies, partially offset by lower sales of immediate annuities with life contingencies. Sales of immediate annuities with life contingencies fluctuate with changes in our pricing competitiveness relative to other insurers.

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

($ in millions)	**Three months ended September 30,**		**Nine months ended September 30,**	
	2012	**2011**	**2012**	**2011**
Contractholder funds, beginning balance	$ 40,157	$ 43,492	$ 41,669	$ 46,458
Deposits				
Fixed annuities	272	132	609	438
Interest-sensitive life insurance	301	299	918	899
Total deposits	573	431	1,527	1,337
Interest credited	206	391	941	1,195
Maturities, benefits, withdrawals and other adjustments				
Maturities of and interest payments on institutional products	(1)	(26)	(90)	(819)
Benefits	(340)	(394)	(1,023)	(1,130)
Surrenders and partial withdrawals	(936)	(1,342)	(2,818)	(3,866)
Contract charges	(248)	(240)	(741)	(714)
Net transfers from separate accounts	3	3	7	9
Fair value hedge adjustments for institutional products	--	--	--	(34)
Other adjustments [(1)]	16	1	(42)	(120)
Total maturities, benefits, withdrawals and other adjustments	(1,506)	(1,998)	(4,707)	(6,674)
Contractholder funds, ending balance	$ 39,430	$ 42,316	$ 39,430	$ 42,316

[(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 1.8% and 5.4% in the third quarter and first nine months of 2012, respectively, compared to decreases of 2.7% and 8.9% in the third quarter and first nine months of 2011, respectively, reflecting our continuing strategy to reduce our concentration in spread-based products. Average contractholder funds decreased 7.2% and 8.6% in the third quarter and first nine months of 2012, respectively, compared to the same periods of 2011.

Contractholder deposits increased 32.9% and 14.2% in the third quarter and first nine months of 2012, respectively, compared to the same periods of 2011 due to increased fixed annuity deposits on new equity-indexed annuity products launched in second quarter 2012.

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

Surrenders and partial withdrawals on deferred fixed annuities and interest-sensitive life insurance products decreased 30.3% to $936 million in the third quarter of 2012 and 27.1% to $2.82 billion in the first nine months of 2012 from $1.34 billion and $3.87 billion in the third quarter and first nine months of 2011, respectively. The prior year periods had elevated surrenders on fixed annuities resulting from a large number of contracts reaching the 30-45 day period (typically at their 5 or 6 year anniversary) during which there is no surrender charge as well as crediting rate actions taken by management. The annualized surrender and partial withdrawal rate on deferred fixed annuities and interest-sensitive life insurance products, based on the beginning of year contractholder funds, was 10.9% in the first nine months of 2012 compared to 13.4% in the same period of 2011.

Analysis of costs and expenses Total costs and expenses decreased 19.9% or $207 million in the third quarter of 2012 and 9.4% or $281 million in the first nine months of 2012 compared to the same periods of 2011 primarily due to lower interest credited to contractholder funds and amortization of DAC.

Contract benefits in the third quarter of 2012 were comparable to the same period of 2011 as better mortality experience on annuities and a reduction in reserves for secondary guarantees on interest-sensitive life insurance were offset by worse mortality experience on life insurance. Our annual review of assumptions in third quarter 2012 resulted in a $13 million decrease in the reserves for secondary guarantees on interest-sensitive life insurance due to favorable projected mortality. Contract benefits increased 1.7% or $19 million in the first nine months of 2012 compared to the same period of 2011 primarily due to worse mortality experience on life insurance, partially offset by lower sales of immediate annuities with life contingencies and the reduction in reserves for secondary guarantees on interest-sensitive life insurance.

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 $135 million in both the third quarters of 2012 and 2011 and $405 million in both the first nine months of 2012 and 2011.

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

($ in millions)	**Three months ended**	**Nine months ended**

	September 30,		September 30,	
	2012	2011	2012	2011
Life insurance	$ 87	$ 86	$ 258	$ 270
Accident and health insurance	8	8	22	17
Annuities	(13)	(26)	(46)	(46)
Total benefit spread	$ 82	$ 68	$ 234	$ 241

Benefit spread increased 20.6% or $14 million in the third quarter of 2012 compared to the same period of 2011 primarily due to better mortality experience on annuities, the reduction in reserves for secondary guarantees on interest-sensitive life insurance and lower reinsurance ceded on life insurance, partially offset by worse mortality experience on life insurance. Benefit spread decreased 2.9% or $7 million in the first nine months of 2012 compared to the same period of 2011 primarily due to worse mortality experience on life insurance, partially offset by lower reinsurance premiums ceded on life insurance, higher cost of insurance contract charges on interest-sensitive life insurance and the reduction in reserves for secondary guarantees on interest-sensitive life insurance.

Interest credited to contractholder funds decreased 47.5% or $188 million in the third quarter of 2012 and 22.5% or $272 million in the first nine months of 2012 compared to the same periods of 2011 primarily due to the valuation change on derivatives embedded in equity-indexed annuity contracts that reduced interest credited expense, lower average contractholder funds and lower interest crediting rates. Valuation changes on derivatives embedded in equity-indexed annuity contracts that are not hedged decreased interest credited to contractholder funds by $149 million and $135 million in the third quarter and first nine months of 2012, respectively, compared to a $6 million increase and a $2 million decrease in the third quarter and first nine months of 2011, respectively. The third quarter 2012 valuation change of $149 million comprises a $20 million charge for current quarter valuation changes and a $169 million credit related to a change in a valuation input. During third quarter 2012, we reviewed the significant valuation inputs for these embedded derivatives and reduced the projected option cost to reflect management's current and anticipated crediting rate setting actions, which were informed by the existing and projected low interest rate environment and are consistent with our strategy to reduce exposure to spread-based business. The reduction in projected interest rates to the level currently being credited, approximately 2%, resulted in a reduction of contractholder funds and interest credited expense by $169 million. Amortization of deferred sales inducement costs was $11 million and $13 million in the third quarter and first nine months of 2012, respectively, compared to $8 million and $23 million in the third quarter and first nine months of 2011, 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 September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Annuities and institutional products	$ 39	$ 54	$ 205	$ 145
Life insurance	26	18	65	46
Accident and health insurance	4	1	10	6
Net investment income on investments supporting capital	60	63	185	181
Investment spread before valuation changes on embedded derivatives that are not hedged	129	136	465	378
Valuation changes on derivatives embedded in equity-indexed annuity contracts that are not hedged	149	(6)	135	2
Total investment spread	$ 278	$ 130	$ 600	$ 380

Investment spread before valuation changes on embedded derivatives that are not hedged decreased 5.1% or $7 million in the third quarter of 2012 compared to the same period of 2011 due to the continued managed reduction in our spread-based business in force and lower yields on fixed income securities, partially offset by lower crediting rates. Investment spread before valuation changes on embedded derivatives that are not hedged increased 23.0% or $87 million in the first nine months of 2012 compared to the same period of 2011 due to income from limited partnerships, lower crediting rates and the termination of interest rate swaps in first quarter 2011, partially offset by lower yields on fixed income securities and the continued managed reduction in our spread-based business in force. For further analysis on the valuation changes on derivatives embedded in equity-indexed annuity contracts, see the interest credited to contractholder funds section.

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.

	Three months ended September 30,					
	Weighted average investment yield		Weighted average interest crediting rate		Weighted average investment spreads	
	2012	2011	2012	2011	2012	2011
Interest-sensitive life insurance	5.5 %	5.4 %	4.0 %	4.1 %	1.5 %	1.3 %
Deferred fixed annuities and institutional products	4.6	4.7	3.2	3.3	1.4	1.4
Immediate fixed annuities with and without life contingencies	6.1	6.4	6.1	6.2	--	0.2
Investments supporting capital, traditional life and other products	3.9	3.9	n/a	n/a	n/a	n/a

	Nine months ended September 30,					
	Weighted average investment yield		Weighted average interest crediting rate		Weighted average investment spreads	
	2012	2011	2012	2011	2012	2011
Interest-sensitive life insurance	5.3 %	5.4 %	4.0 %	4.2 %	1.3 %	1.2 %
Deferred fixed annuities and institutional products	4.6	4.6	3.2	3.3	1.4	1.3
Immediate fixed annuities with and without life contingencies	6.9	6.3	6.1	6.2	0.8	0.1
Investments supporting capital, traditional life and other products	4.0	3.9	n/a	n/a	n/a	n/a

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

($ in millions)	September 30,	
	2012	2011
Immediate fixed annuities with life contingencies	$ 8,872	$ 8,796
Other life contingent contracts and other	5,259	4,711
Reserve for life-contingent contract benefits	$ 14,131	$ 13,507
Interest-sensitive life insurance	$ 10,315	$ 10,126
Deferred fixed annuities	22,926	26,016
Immediate fixed annuities without life contingencies	3,831	3,734
Institutional products	1,874	1,914
Other	484	526
Contractholder funds	$ 39,430	$ 42,316

Amortization of DAC decreased 22.9% or $38 million in the third quarter of 2012 and 22.3% or $77 million in the first nine months of 2012 compared to the same periods of 2011. The components of amortization of DAC are summarized in the following table.

($ in millions)	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
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	$ 59	$ 69	$ 183	$ 203
Amortization relating to realized capital gains and losses[(1)] and valuation changes on embedded derivatives that are not hedged	35	97	51	133
Amortization acceleration for changes in assumptions ("DAC unlocking")	34	--	34	9
Total amortization of DAC	$ 128	$ 166	$ 268	$ 345

(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 amortization of DAC in the third quarter and first nine months of 2012 compared to the same periods of 2011 was primarily due to decreased amortization relating to realized capital gains and losses and decreased amortization on fixed annuity products due to the DAC balance for contracts issued prior to 2010 being fully amortized, partially offset by increased amortization acceleration for changes in assumptions and increased amortization relating to valuation changes on embedded derivatives that are not hedged. Amortization relating to valuation changes on derivatives embedded in equity-indexed annuity contracts was $26 million in third quarter 2012.

Our annual comprehensive review of the profitability of our products to determine DAC balances for our interest-sensitive life, fixed annuities and other investment contracts covers assumptions for persistency, mortality, expenses, investment returns, including capital gains and losses, interest crediting rates to policyholders, and the effect of any hedges in all product lines. In the third quarter of 2012, the review resulted in an acceleration of DAC amortization (charge to income) of $34 million. Amortization acceleration of $38 million related to variable life insurance and was primarily due to an increase in projected mortality. Amortization acceleration of $4 million related to fixed annuities and was primarily due to lower projected investment returns. Amortization deceleration of $8 million related to interest-sensitive life insurance and was primarily due to an increase in projected persistency.

In the first quarter of 2011, the review resulted in an acceleration of DAC amortization (charge to income) of $9 million. Amortization acceleration of $15 million related to interest-sensitive life insurance and was primarily due to an increase in projected expenses. Amortization deceleration of $6 million related to equity-indexed annuities and was primarily due to an increase in projected investment margins.

The following table provides the effect on DAC amortization of changes in assumptions relating to the gross profit components of investment margin, benefit margin and expense margin for the nine months ended September 30.

($ in millions)	2012	2011
Investment margin	$ 3	$ (3)
Benefit margin	33	(6)
Expense margin	(2)	18
Net acceleration	$ 34	$ 9

Operating costs and expenses increased 22.0% or $20 million in the third quarter of 2012 and 16.5% or $47 million in the first nine months of 2012 compared to the same periods of 2011. The following table summarizes operating costs and expenses.

($ in millions)	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Non-deferrable commissions	$ 9	$ 9	$ 26	$ 28
General and administrative expenses	92	71	276	225
Taxes and licenses	10	11	30	32
Total operating costs and expenses	$ 111	$ 91	$ 332	$ 285
Restructuring and related charges	$ --	$ --	$ --	$ (2)

General and administrative expenses increased 29.6% or $21 million in the third quarter of 2012 and 22.7% or $51 million in the first nine months of 2012 compared to the same periods of 2011 primarily due to higher employee related expenses, lower reinsurance expense allowances, increased marketing costs, reduced insurance department assessments in the prior year and higher net Allstate agencies distribution channel expenses reflecting decreased fees from sales of third party financial products.

Gain on disposition of $15 million in the first nine months of 2012 relates to the amortization of the deferred gain from the disposition through reinsurance of substantially all of our variable annuity business in 2006, and the sale of Surety Life Insurance Company, which was not used for new business, in third quarter 2012.

INVESTMENTS HIGHLIGHTS

- Investments totaled $57.03 billion as of September 30, 2012, an increase of 1.3% from $56.28 billion as of December 31, 2011.
- Unrealized net capital gains totaled $3.79 billion as of September 30, 2012, increasing from $1.97 billion as of December 31, 2011.
- Net investment income was $621 million in the third quarter of 2012, a decrease of 6.1% from $661 million in the third quarter of 2011, and $1.94 billion in the first nine months of 2012, a decrease of 2.6% from $2.00 billion in the first nine months of 2011.
- Net realized capital losses were $57 million in the third quarter of 2012 compared to net realized capital gains of $218 million in the third quarter of 2011, and net realized capital losses were $72 million in the first nine months of 2012 compared to net realized capital gains of $335 million in the first nine months of 2011.

INVESTMENTS

The composition of the investment portfolio as of September 30, 2012 is presented in the table below.

($ in millions)	Investments	Percent to total
Fixed income securities [1]	$ 45,455	79.7%
Mortgage loans	6,267	11.0
Equity securities [2]	195	0.3
Limited partnership interests [3]	1,860	3.3
Short-term [4]	1,261	2.2
Policy loans	837	1.5
Other	1,151	2.0
Total	$ 57,026	100.0%

[1] Fixed income securities are carried at fair value. Amortized cost basis for these securities was $41.70 billion.
[2] Equity securities are carried at fair value. Cost basis for these securities was $142 million.
[3] We have commitments to invest in additional limited partnership interests totaling $691 million.
[4] Short-term investments are carried at fair value. Amortized cost basis for these investments was $1.26 billion.

Total investments increased to $57.03 billion as of September 30, 2012, from $56.28 billion as of December 31, 2011, primarily due to higher valuations of fixed income securities, partially offset by net reductions in contractholder funds of $2.24 billion. Valuations of fixed income securities are typically driven by a combination of changes in relevant risk-free interest rates and credit spreads over the period. Risk-free interest rates are typically referenced as the yield on U.S. Treasury securities, whereas credit spread is the additional yield on fixed income securities above the risk-free rate that market participants require to compensate them for assuming credit, liquidity and/or prepayment risks. The increase in valuation of fixed income securities for the nine months ended September 30, 2012 was due to decreasing risk-free interest rates and tightening credit spreads.

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

($ in millions)	Fair value as of September 30, 2012	Percent to total investments	Fair value as of December 31, 2011	Percent to total investments
U.S. government and agencies	$ 2,286	4.0%	$ 2,743	4.9%
Municipal	4,797	8.4	4,692	8.3
Corporate	31,963	56.1	30,404	54.0
Foreign government	1,050	1.9	1,068	1.9
Residential mortgage-backed securities (“RMBS”)	2,008	3.5	2,714	4.8
Commercial mortgage-backed securities (“CMBS”)	1,435	2.5	1,683	3.0
Asset-backed securities	1,898	3.3	2,108	3.8

(“ABS”)				
Redeemable preferred stock	18	--	16	--
Total fixed income securities	$ 45,455	79.7%	$ 45,428	80.7%

As of September 30, 2012, 92.4% 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, 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 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 September 30, 2012.

($ 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	$ 2,286	$ 259	$ --	$ --	$ --	$ --
Municipal						
Tax exempt	--	--	25	--	--	--
Taxable	274	34	2,787	431	1,003	114
Auction rate securities (“ARS”)	96	(8)	135	(21)	12	(2)
Corporate						
Public	655	64	1,548	151	8,093	907
Privately placed	575	49	991	92	3,262	342
Foreign government	406	98	163	10	205	22
RMBS						
U.S. government sponsored entities (“U.S. Agency”)	845	46	--	--	--	--
Prime residential mortgage-backed securities (“Prime”)	104	3	24	--	128	4
Alt-A residential mortgage-backed securities (“Alt-A”)	--	--	3	--	53	2
Subprime residential mortgage-backed securities (“Subprime”)	--	--	23	(1)	18	(1)
CMBS	784	44	130	5	154	2
ABS						
Collateralized debt obligations (“CDO”)	102	2	634	(1)	254	(37)
Consumer and other asset-backed securities (“Consumer and other ABS”)	336	14	122	2	97	3
Redeemable preferred stock	--	--	1	--	--	--
Total fixed income securities	$ 6,463	$ 605	$ 6,586	$ 668	$ 13,279	$ 1,356

	Baa		Ba or lower		Total	
	Fair value	Unrealized gain/(loss)	Fair value	Unrealized gain/(loss)	Fair value	Unrealized gain/(loss)
U.S. government and agencies	$ --	$ --	$ --	$ --	$ 2,286	$ 259
Municipal						
Tax exempt	2	--	--	--	27	--
Taxable	342	(5)	90	(7)	4,496	567
ARS	13	(3)	18	(3)	274	(37)
Corporate						
Public	9,196	860	1,360	66	20,852	2,048
Privately placed	5,396	356	887	24	11,111	863
Foreign government	276	37	--	--	1,050	167
RMBS						
U.S. Agency	--	--	--	--	845	46
Prime	21	1	209	17	486	25
Alt-A	45	--	235	(13)	336	(11)
Subprime	10	(1)	290	(66)	341	(69)
CMBS	151	(14)	216	(67)	1,435	(30)
ABS						
CDO	171	(32)	132	(29)	1,293	(97)
Consumer and other ABS	40	2	10	(3)	605	18
Redeemable preferred stock	17	3	--	--	18	3
Total fixed income securities	$ 15,680	$ 1,204	$ 3,447	$ (81)	$ 45,455	$ 3,752

Municipal bonds, including tax exempt, taxable and ARS securities, totaled $4.80 billion as of September 30, 2012 with an unrealized net capital gain of $530 million. The municipal bond portfolio includes general obligations of state and local issuers, 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 $31.96 billion as of September 30, 2012 with an unrealized net capital gain of $2.91 billion. Privately placed securities primarily consist of corporate issued senior debt securities that are directly negotiated with the borrower or are in

unregistered form.

RMBS, *CMBS* and *ABS* are structured securities that are primarily collateralized by residential and commercial real estate loans and other consumer or corporate borrowings. 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.

RMBS, including U.S. Agency, Prime, Alt-A and Subprime, totaled $2.01 billion, with 63.4% rated investment grade, as of September 30, 2012. 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. The following table shows our RMBS portfolio as of September 30, 2012 based upon vintage year of the issuance of the securities.

($ in millions)	**U.S. Agency**		**Prime**		**Alt-A**		**Subprime**		**Total RMBS**	
	Fair value	**Unrealized gain/(loss)**	**Fair value**	**Unrealized gain/(loss)**	**Fair value**	**Unrealized gain/(loss)**	**Fair value**	**Unrealized gain/(loss)**	**Fair value**	**Unrealized gain/(loss)**
2010	$ --	$ --	$ 112	$ 3	$ 39	$ 2	$ --	$ --	$ 151	$ 5
2009	123	6	28	1	6	--	--	--	157	7
2008	131	8	--	--	--	--	--	--	131	8
2007	40	2	86	11	22	(3)	136	(34)	284	(24)
2006	45	2	67	5	81	(3)	66	(7)	259	(3)
2005	167	6	73	1	84	--	96	(21)	420	(14)
Pre-2005	339	22	120	4	104	(7)	43	(7)	606	12
Total	$ 845	$ 46	$ 486	$ 25	$ 336	$ (11)	$ 341	$ (69)	$ 2,008	$ (9)

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 $202 million and $139 million of first lien and second lien securities, respectively. The Subprime portfolio unrealized net capital loss of $69 million as of September 30, 2012 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 $1.44 billion, with 84.9% rated investment grade, as of September 30, 2012. The CMBS portfolio is subject to credit risk, but unlike certain other structured securities, is generally not subject to prepayment risk due to protections within the underlying commercial mortgage loans. Of the CMBS investments, 95.9% 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.

The following table shows our CMBS portfolio as of September 30, 2012 based upon vintage year of the underlying collateral.

($ in millions)	**Fair value**	**Unrealized gain/(loss)**
2007	$ 285	$ 7
2006	428	(38)
2005	158	(13)
Pre-2005	564	14
Total CMBS	$ 1,435	$ (30)

The unrealized net capital loss of $30 million as of September 30, 2012 on our CMBS portfolio was primarily the result of wider credit spreads than at initial purchase in our 2005-2006 vintage year CMBS. Wider spreads are largely due to the risk associated with the underlying collateral supporting these CMBS securities.

ABS, including CDO and Consumer and other ABS, totaled $1.90 billion, with 92.5% rated investment grade, as of September 30, 2012. 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. The unrealized net capital loss of $79 million as of September 30, 2012 on our ABS portfolio was primarily the result of wider credit spreads than at initial purchase.

CDO totaled $1.29 billion, with 89.8% rated investment grade, as of September 30, 2012. CDO consist primarily of obligations collateralized by high yield and investment grade corporate credits including $1.12 billion of cash flow collateralized loan obligations ("CLO") with unrealized losses of $34 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 $173 million of securities consisted of market value CDO, project finance CDO, trust preferred CDO and collateralized bond obligations with unrealized losses of $63 million.

Consumer and other ABS totaled $605 million, with 98.3% rated investment grade, as of September 30, 2012. Consumer and other ABS consists of $174 million of consumer auto and $431 million of other ABS with unrealized gains of $1 million and $17 million, respectively.

Mortgage loans Our mortgage loan portfolio totaled $6.27 billion as of September 30, 2012, compared to $6.55 billion as of December 31, 2011, and primarily comprises loans secured by first mortgages on developed commercial real estate. Key considerations used to manage our exposure include property type and geographic diversification.

For further detail on our mortgage loan portfolio, see Note 4 of the condensed consolidated financial statements.

Limited partnership interests consist of investments in private equity/debt funds, real estate funds, hedge funds and tax credit funds. The limited partnership interests portfolio is well diversified across a number of characteristics including fund managers, vintage years, strategies, geography (including international), and company/property types. The following table presents information about our limited partnership interests as of September 30, 2012.

($ in millions)	**Private equity/debt funds**	**Real estate funds**	**Hedge funds**	**Tax credit funds**	**Total**
Cost method of accounting ("Cost")	$ 486	$ 145	$ --	$ --	$ 631
Equity method of accounting ("EMA")	682	211	2	334	1,229
Total	$ 1,168	$ 356	$ 2	$ 334	$ 1,860
Number of managers	90	26	1	11	
Number of individual funds	146	50	2	20	
Largest exposure to single fund	$ 39	$ 23	$ 2	$ 29	

The following table shows the earnings from our limited partnership interests by fund type and accounting classification.

($ in millions)	**Three months ended September 30,**							
	2012				**2011**			
	Cost	**EMA** [(1)]	**Total income**	**Impairment write-downs**	**Cost**	**EMA** [(1)]	**Total income**	**Impairment write-downs**
Private equity/debt funds	$ 9	$ 3	$ 12	$ --	$ 14	$ 10	$ 24	$ --
Real estate funds	1	4	5	--	4	5	9	--
Hedge funds	--	(1)	(1)	--	--	(1)	(1)	--
Tax credit funds	--	(5)	(5)	--	--	(3)	(3)	--
Total	$ 10	$ 1	$ 11	$ --	$ 18	$ 11	$ 29	$ --

	Nine months ended September 30,							
	2012				**2011**			
	Cost	**EMA** [(1)]	**Total income**	**Impairment write-downs**	**Cost**	**EMA** [(1)]	**Total income**	**Impairment write-downs**
Private equity/debt funds	$ 27	$ 73	$ 100	$ --	$ 30	$ 45	$ 75	$ (1)
Real estate funds	2	26	28	(2)	4	21	25	--
Hedge funds	--	(1)	(1)	--	--	(1)	(1)	--
Tax credit funds	--	(10)	(10)	--	--	(4)	(4)	--
Total	$ 29	$ 88	$ 117	$ (2)	$ 34	$ 61	$ 95	$ (1)

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

Limited partnership interests produced income, excluding impairment write-downs, of $11 million and $117 million in the three months and nine months ended September 30, 2012, respectively, compared to $29 million and $95 million in the three months and nine months ended September 30, 2011, respectively. 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 $3.79 billion as of September 30, 2012 compared to $1.97 billion as of December 31, 2011. The increase from December 31, 2011 was due to decreasing risk-free interest rates and tightening credit spreads. The following table presents unrealized net capital gains and losses.

($ in millions)	**September 30, 2012**	**December 31, 2011**
U.S. government and agencies	$ 259	$ 241
Municipal	530	312
Corporate	2,911	1,908
Foreign government	167	141
RMBS	(9)	(240)
CMBS	(30)	(179)
ABS	(79)	(237)
Redeemable preferred stock	3	1
Fixed income securities	3,752	1,947
Equity securities	53	36
EMA limited partnerships	2	1
Derivatives	(14)	(12)
Unrealized net capital gains and losses, pre-tax	$ 3,793	$ 1,972

The unrealized net capital gains for the fixed income portfolio totaled $3.75 billion and comprised $4.28 billion of gross unrealized gains and $528 million of gross unrealized losses as of September 30, 2012. This is compared to unrealized net capital gains for the fixed income portfolio totaling $1.95 billion, comprised of $3.21 billion of gross unrealized gains and $1.26 billion of gross unrealized losses as of December 31, 2011.

Gross unrealized gains and losses on fixed income securities by type and sector as of September 30, 2012 are provided in the table below.

($ in millions)	Par value [1]	Amortized cost	Gross unrealized Gains	Gross unrealized Losses	Fair value	Amortized cost as a percent of par value [2]	Fair value as a percent of par value [2]
Corporate:							
Banking	$ 1,927	$ 1,927	$ 120	$ (61)	$ 1,986	100.0%	103.1%
Financial services	1,921	1,928	180	(17)	2,091	100.4	108.8
Capital goods	3,388	3,386	360	(14)	3,732	99.9	110.2
Utilities	6,267	6,268	807	(12)	7,063	100.0	112.7
Transportation	1,526	1,526	185	(10)	1,701	100.0	111.5
Consumer goods (cyclical and non-cyclical)	5,893	5,952	576	(8)	6,520	101.0	110.6
Basic industry	1,829	1,835	145	(2)	1,978	100.3	108.1
Communications	1,816	1,820	205	(2)	2,023	100.2	111.4
Energy	2,295	2,315	272	--	2,587	100.9	112.7
Technology	1,319	1,336	120	--	1,456	101.3	110.4
Other	849	759	71	(4)	826	89.4	97.3
Total corporate fixed income portfolio	29,030	29,052	3,041	(130)	31,963	100.1	110.1
U.S. government and agencies	2,404	2,027	259	--	2,286	84.3	95.1
Municipal	5,759	4,267	604	(74)	4,797	74.1	83.3
Foreign government	993	883	167	--	1,050	88.9	105.7
RMBS	2,297	2,017	87	(96)	2,008	87.8	87.4
CMBS	1,544	1,465	61	(91)	1,435	94.9	92.9
ABS	2,072	1,977	58	(137)	1,898	95.4	91.6
Redeemable preferred stock	14	15	3	--	18	107.1	128.6
Total fixed income securities	$ 44,113	$ 41,703	$ 4,280	$ (528)	$ 45,455	94.5	103.0

[1] Included in par value are zero-coupon securities that are generally purchased at a deep discount to the par value that is received at maturity. These primarily included corporate, U.S. government and agencies, municipal and foreign government zero-coupon securities with par value of $446 million, $947 million, $2.25 billion and $382 million, respectively.
[2] Excluding the impact of zero-coupon securities, the percentage of amortized cost to par value would be 100.4% for corporates, 101.4% for U.S. government and agencies, 99.0% for municipals and 102.3% for foreign governments. Similarly, excluding the impact of zero-coupon securities, the percentage of fair value to par value would be 110.4% for corporates, 106.3% for U.S. government and agencies, 112.5% for municipals and 115.1% for foreign governments.

The banking, financial services and capital goods sectors had the highest concentration of gross unrealized losses in our corporate fixed income securities portfolio as of September 30, 2012. 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 $53 million, comprising all gross unrealized gains as of September 30, 2012. This is compared to an unrealized net capital gain for the equity portfolio totaling $36 million, comprised of $38 million of gross unrealized gains and $2 million of gross unrealized losses as of December 31, 2011.

As of September 30, 2012, the total fair value of our direct investments in fixed income and equity securities in the Eurozone (European Union member states using the Euro currency) is $1.07 billion, with net unrealized capital gains of $61 million, comprised of $81 million of gross unrealized gains and $20 million of gross unrealized losses. The following table summarizes our total direct exposure related to the Eurozone and the "GIIPS" group of countries, including Greece, Ireland, Italy, Portugal and Spain. As of September 30, 2012, we do not have any direct exposure to Greece.

($ in millions)	Banking		Corporate		Total	
	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses
GIIPS						
Fixed income securities	$ 15	$ (7)	$ 355	$ (9)	$ 370	$ (16)
Total	15	(7)	355	(9)	370	(16)
Eurozone non-GIIPS						
Fixed income securities	103	(4)	577	--	680	(4)
Equity securities	--	--	23	--	23	--
Total	103	(4)	600	--	703	(4)
Total Eurozone	$ 118	$ (11)	$ 955	$ (9)	$ 1,073	$ (20)

We have no sovereign debt investments in the Eurozone. Other direct exposure to investments in fixed income securities in European Union ("EU") member states that do not use the Euro currency is $1.51 billion, with net unrealized capital gains of $133 million. Remaining direct exposure to non-EU countries total $548 million, with net unrealized capital gains of $52 million. The large majority of these investments are in multinational public companies with global revenue sources that are well diversified across region and sector, including a higher allocation to energy, capital goods, non-cyclical consumer goods and communications sectors. We also have additional indirect and diversified exposures through investments in multinational equity funds and limited partnership interests that invest in Europe.

We have a comprehensive portfolio monitoring process to identify and evaluate each fixed income and equity security that may be other-than-temporarily impaired. The 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 we may have a concern, are evaluated based on facts and circumstances for inclusion on our watch-list. All investments in an unrealized loss position as of September 30, 2012 were included in our portfolio monitoring process for determining whether declines in value were other than temporary.

The extent and duration of a decline in fair value for fixed income securities have become less indicative of actual credit deterioration with respect to an issue or issuer. While we continue to use declines in fair value and the length of time a security is in an unrealized loss position as indicators of potential credit deterioration, our determination of whether a security's decline in fair value is other than temporary has placed greater emphasis on our analysis of the underlying credit and collateral and related estimates of future cash flows.

The following table summarizes the fair value and gross unrealized losses of fixed income securities in a gross unrealized loss position by type and investment grade classification as of September 30, 2012.

($ in millions)	Investment grade		Below investment grade		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Municipal	$ 490	$ (63)	$ 62	$ (11)	$ 552	$ (74)
Corporate	1,179	(106)	370	(24)	1,549	(130)
Foreign government	1	--	--	--	1	--
RMBS	96	(4)	444	(92)	540	(96)
CMBS	277	(19)	192	(72)	469	(91)
ABS	741	(91)	113	(46)	854	(137)
Total	$ 2,784	$ (283)	$ 1,181	$ (245)	$ 3,965	$ (528)

We have experienced declines in the fair values of fixed income securities primarily due to wider credit spreads resulting from higher risk premiums since the time of initial purchase. Wider spreads are largely due to the risk associated with the underlying collateral supporting certain residential and commercial mortgage-backed securities and macroeconomic conditions impacting certain sectors or asset classes. Consistent with their ratings, our portfolio monitoring process indicates that investment grade securities have a low risk of default. Securities rated below investment grade, comprising securities with a rating of Ba, B and Caa or lower, have a higher risk of default. As of September 30, 2012, RMBS represents 38% of the fair value of our below investment grade fixed income securities in a gross unrealized loss position, with Subprime RMBS comprising $69 million of the total $92 million RMBS gross unrealized losses.

Fair values for our structured securities are obtained from third-party valuation service providers and are subject to review as disclosed in our Application of Critical Accounting Estimates. In accordance with accounting principles generally accepted in the United States of America ("GAAP"), when fair value is less than the amortized cost of a security and we have not made the decision to sell the security and it is not more likely than not we will be required to sell the security before recovery of its amortized cost basis, we evaluate if we expect to receive cash flows sufficient to recover the entire amortized cost basis of the security. We calculate the estimated recovery value by discounting our best estimate of future cash flows at the security's original or current effective rate, as appropriate, and compare this to the amortized cost of the security. If we do not expect to receive cash flows sufficient to recover the entire amortized cost basis of the security, the credit loss component of the impairment is recorded in earnings, with the remaining amount of the unrealized loss related to other factors ("non-credit-related") recognized in other comprehensive income.

The non-credit-related unrealized losses for our structured securities, including our below investment grade Subprime, are heavily influenced by risk factors other than those related to our best estimate of future cash flows. The difference between these securities' original or current effective rates and the yields implied by their fair value indicates that a higher risk premium is included in the valuation of these securities than existed at purchase. This risk premium represents the return that a market participant requires as compensation to assume the risk associated with the uncertainties regarding the future performance of the underlying collateral. The risk premium is comprised of: default risk, which reflects the probability of default and the uncertainty related to collection of contractual principal and interest; liquidity risk, which reflects the risk associated with exiting the investment in an illiquid market, both in terms of timeliness and cost; and volatility risk, which reflects the potential valuation volatility during an investor's holding period. Other factors reflected in the risk premium include the costs associated with underwriting, monitoring and holding these types of complex securities. Certain aspects of the default risk are included in the development of our best estimate of future cash flows, as appropriate. Other aspects of the risk premium are considered to be temporary in nature and are expected to reverse over the remaining lives of the securities as future cash flows are received.

Other-than-temporary impairment assessment for below investment grade Subprime RMBS

As of September 30, 2012, the fair value of our below investment grade Subprime securities with gross unrealized losses totaled $254 million, a decrease of 31.9% compared to $373 million as of December 31, 2011, primarily due to sales. As of September 30, 2012, gross unrealized losses for our below investment grade Subprime portfolio totaled $69 million, an improvement of 65.5% compared to $200 million as of December 31, 2011, due to sales, increased valuations, principal collections and impairment write-downs. For our below investment grade

Subprime with gross unrealized gains totaling $3 million, we have recognized cumulative write-downs in earnings totaling $69 million as of September 30, 2012.

The credit loss evaluation for Subprime securities with gross unrealized losses is performed in two phases. The first phase estimates the future cash flows of the entire securitization trust from which our security was issued. A critical part of this estimate involves forecasting default rates and loss severities of the residential mortgage loans that collateralize the securitization trust. The factors that affect the default rates and loss severities include, but are not limited to, historical collateral performance, collateral type, transaction vintage year, geographic concentrations, borrower credit quality, origination practices of the transaction sponsor, and practices of the mortgage loan servicers. Current loan-to-value ratios of underlying collateral are not consistently available and accordingly they are not a primary factor in our impairment evaluation. While our projections are developed internally and customized to our specific holdings, they are informed by and benchmarked against credit opinions obtained from third parties, such as industry analysts, nationally recognized credit rating agencies and an RMBS loss modeling advisory service. The default rate and loss severity forecasts result in an estimate of trust-level projected additional collateral loss.

We then analyze the actual cumulative collateral losses incurred to date by the securitization trust, our projected additional collateral losses expected to be incurred and the position of the class of securities we own in the securitization trust relative to the trust's other classes to determine whether any of the collateral losses will be applied to our class. If our class has remaining credit enhancement sufficient to withstand the projected additional collateral losses, no collateral losses will be realized by our class and we expect to collect all contractual principal and interest of the security we own. Remaining credit enhancement is 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 we own and (ii) the expected impact of other structural features embedded in the securitization trust that could have an impact on our class, such as overcollateralization and excess spread.

For securities where there is insufficient remaining credit enhancement for the class of securities we own, a recovery value is calculated based on our best estimate of future cash flows specific to that security. This estimate is based on the contractual principal payments and current interest payments of the securities we own, adjusted for actual cumulative collateral losses incurred to date and the projected additional collateral losses expected to be incurred. This estimate also takes into consideration additional secondary sources of credit support, such as reliable bond insurance. For securities without secondary

sources of credit support or for which the secondary sources do not fully offset the actual and projected additional collateral losses applied to them, a credit loss is recorded in earnings to the extent amortized cost exceeds recovery value.

93.2%, 6.5% and 0.3% of the fair value of our below investment grade Subprime securities with gross unrealized losses were issued with Aaa, Aa and A original ratings and capital structure classifications, respectively. As described previously, Subprime securities with higher original ratings typically have priority in receiving the principal repayments on the underlying collateral compared to those with lower original ratings. While the projected cash flow assumptions for our below investment grade Subprime securities with gross unrealized losses have deteriorated since the securities were originated, as reflected by their current credit ratings, these securities continue to retain the payment priority features that existed at the origination of the securitization trust.

The following tables show trust-level, class-level and security-specific detailed information for our below investment grade Subprime securities with gross unrealized losses that are not reliably insured, by credit rating.

($ in millions)	**September 30, 2012**							
	With other-than-temporary impairments recorded in earnings			**Without other-than-temporary impairments recorded in earnings**				
	B	**Caa or lower**	**Total**	**Ba**	**B**	**Caa or lower**	**Total**	**Total**
Trust-level								
Actual cumulative collateral losses incurred to date [1]	17.4 %	16.1 %	16.2 %	7.3 %	6.3 %	9.2 %	8.7 %	n/a
Projected additional collateral losses to be incurred [2]	40.0 %	35.0 %	35.2 %	24.2 %	19.4 %	29.2 %	27.8 %	n/a
Class-level								
Average remaining credit enhancement [3]	23.1 %	13.2 %	13.7 %	35.9 %	34.3 %	36.0 %	35.9 %	n/a
Security-specific								
Number of positions	2	27	29	3	1	6	10	39
Par value	$ 15	$ 280	$ 295	$ 7	$ 1	$ 25	$ 33	$ 328
Amortized cost	$ 10	$ 191	$ 201	$ 7	$ 1	$ 25	$ 33	$ 234
Fair value	$ 7	$ 154	$ 161	$ 7	$ 1	$ 18	$ 26	$ 187
Gross unrealized losses								
Total	$ (3)	$ (37)	$ (40)	$ --	$ --	$ (7)	$ (7)	$ (47)
Over 24 months [4]	$ (3)	$ (37)	$ (40)	$ --	$ --	$ (7)	$ (7)	$ (47)
Cumulative write-downs recognized	$ (5)	$ (81)	$ (86)	$ --	$ --	$ --	$ --	$ (86)
Principal payments received during the period								$ 9

	December 31, 2011							
	With other-than-temporary impairments recorded in earnings			**Without other-than-temporary impairments recorded in earnings**				
	B	**Caa or lower**	**Total**	**Ba**	**B**	**Caa or lower**	**Total**	**Total**
Trust-level								
Actual cumulative collateral losses incurred to date	16.3 %	17.4 %	17.4 %	3.3 %	7.4 %	11.0 %	7.5 %	n/a
Projected additional collateral losses to be incurred	39.9 %	40.7 %	40.7 %	30.1 %	33.8 %	39.2 %	34.7 %	n/a
Class-level								
Average remaining credit enhancement	22.2 %	16.4 %	16.8 %	44.5 %	48.4 %	47.6 %	47.0 %	n/a
Security-specific								
Number of positions	4	48	52	6	11	17	34	86
Par value	$ 28	$ 452	$ 480	$ 47	$ 60	$ 59	$ 166	$ 646
Amortized cost	$ 21	$ 285	$ 306	$ 47	$ 60	$ 59	$ 166	$ 472
Fair value	$ 15	$ 186	$ 201	$ 34	$ 33	$ 32	$ 99	$ 300
Gross unrealized losses								
Total	$ (6)	$ (99)	$ (105)	$ (13)	$ (27)	$ (27)	$ (67)	$ (172)
Over 24 months [4]	$ (6)	$ (98)	$ (104)	$ (13)	$ (27)	$ (27)	$ (67)	$ (171)
Cumulative write-downs recognized	$ (7)	$ (162)	$ (169)	$ --	$ --	$ --	$ --	$ (169)
Principal payments received during the period								$ 34

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[1] Weighted average actual cumulative collateral losses incurred to date as of period end are based on the actual principal losses incurred as a percentage of the remaining principal amount of the loans in the trust. The weighting calculation is based on the par value of each security. Actual losses on the securities we hold are less than the losses on the underlying collateral as presented in this table. Actual cumulative realized principal losses on the below investment grade Subprime securities we own, as reported by the trust servicers, were $4 million as of September 30, 2012.

[2] Weighted average projected additional collateral losses to be incurred as of period end are based on our projections of future losses to be incurred by the trust, taking into consideration the actual cumulative collateral losses incurred to date, as a percentage of the remaining principal amount of the loans in the trust. Our projections are developed internally and customized to our specific holdings and are informed by and benchmarked against credit opinions obtained from third parties, such as industry analysts, nationally recognized credit rating agencies and an RMBS loss modeling advisory service. Projected additional collateral losses to be incurred are compared to average remaining credit enhancement for each security. For securities where the projected additional collateral losses exceed remaining credit enhancement, a recovery value is calculated to determine whether impairment losses should be recorded in earnings. The weighting calculation is based on the par value of each security.

[3] Weighted average remaining credit enhancement as of period end is based on structural subordination and the expected impact of other structural features existing in the securitization trust beneficial to our class and reflects our projection of future principal losses that can occur as a percentage of the remaining principal amount of the loans in the trust before the class of the security we own will incur its first dollar of principal loss. The weighting calculation is based on the par value of each security.

[4] As of September 30, 2012, $20 million of unrealized losses on securities with other-than-temporary impairments recognized in earnings and $6 million of unrealized losses on securities without other-than-temporary impairments recognized in earnings have been greater than or equal to

20% of those securities' amortized cost for a period of more than 24 consecutive months. As of December 31, 2011, $68 million of unrealized losses on securities with other-than-temporary impairments recognized in earnings and $54 million of unrealized losses on securities without other-than-temporary impairments recognized in earnings have been greater than or equal to 20% of those securities' amortized cost for a period of more than 24 consecutive months.

The above tables include information only about below investment grade Subprime securities with gross unrealized losses that are not reliably insured as of each period presented. As such, the par value and composition of securities included can vary significantly from period to period due to changes in variables such as credit ratings, principal payments, sales, purchases and realized principal losses.

As of September 30, 2012, our Subprime securities that are reliably insured include eight below investment grade Subprime securities with a total fair value of $67 million and aggregate gross unrealized losses of $22 million, all of which are rated B. These securities are insured by one bond insurer rated B that we estimate has sufficient claims paying capacity to service its obligations on these securities. The securitization trusts from which our securities were issued are currently receiving contractual payments from the bond insurer and considering the combination of expected future payments from the bond insurer and cash flows available from the underlying collateral, we expect the trust to have adequate cash flows to make all contractual payments due to the class of securities we own. As a result, our security-specific estimates of future cash flows indicate that these securities' estimated recovery values equal or exceed

their amortized cost. Accordingly, no other-than-temporary impairments have been recognized on these securities. As of December 31, 2011, our Subprime securities that are reliably insured included eight below investment grade Subprime securities with a total fair value of $73 million and aggregate gross unrealized losses of $28 million.

As of September 30, 2012, our below investment grade Subprime securities with gross unrealized losses that are not reliably insured and without other-than-temporary impairments recorded in earnings had incurred actual cumulative collateral losses of 8.7%. Our impairment evaluation forecasts more severe assumptions than the trusts are actually experiencing, including a projected weighted average underlying default rate of 40.1% and a projected weighted average loss severity of 71.5%, which resulted in projected additional collateral losses of 27.8%. As the average remaining credit enhancement for these securities of 35.9% exceeds the projected additional collateral losses of 27.8%, these securities have not been impaired.

As of September 30, 2012, our below investment grade Subprime securities with gross unrealized losses that are not reliably insured and with other-than-temporary impairments recorded in earnings had incurred actual cumulative collateral losses of 16.2%. Our impairment evaluation forecasts more severe assumptions than the trusts are actually experiencing, including a projected weighted average underlying default rate of 50.3% and a projected weighted average loss severity of 70.9%, which resulted in projected additional collateral losses of 35.2%. As the average remaining credit enhancement for these securities of 13.7% is insufficient to withstand the projected additional collateral losses, we have recognized cumulative write-downs in earnings on the securities as reflected in the table above using our calculated recovery value at the time of impairment. The current average recovery value of these securities as a percentage of par was 70.7% and exceeded these securities' current average amortized cost as a percentage of par of 68.0%, which demonstrates our conclusion that the nature of the remaining unrealized loss on these securities is temporary and will reverse over time. The comparison indicates that recovery value exceeds amortized cost based on a comprehensive evaluation of financial, economic and capital markets assumptions developed for this reporting period.

We believe the unrealized losses on our Subprime securities, including those over 24 months, result from the current risk premium on these securities, which should continue to reverse over the securities' remaining lives. We expect to receive our estimated share of contractual principal and interest collections used to determine the securities' recovery value. As of September 30, 2012, we do not have the intent to sell and it is not more likely than not we will be required to sell these securities before the recovery of their amortized cost basis. We believe that our valuation and impairment processes are comprehensive, employ the most current views about collateral and securitization trust financial positions, and demonstrate our recorded impairments and that the remaining unrealized losses on these positions are temporary.

Net investment income The following table presents net investment income.

($ in millions)	Three months ended September 30, 2012	Three months ended September 30, 2011	Nine months ended September 30, 2012	Nine months ended September 30, 2011
Fixed income securities	$ 521	$ 558	$ 1,567	$ 1,730
Mortgage loans	86	85	256	258
Equity securities	2	3	5	5
Limited partnership interests [(1)]	11	18	117	34
Short-term investments	1	1	1	2
Other	29	22	85	45
Investment income, before expense	650	687	2,031	2,074
Investment expense	(29)	(26)	(87)	(78)
Net investment income	$ 621	$ 661	$ 1,944	$ 1,996

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

Net investment income decreased 6.1% or $40 million in the third quarter of 2012 and 2.6% or $52 million in the first nine months of 2012 compared to the same periods of 2011, primarily due to lower average investment balances and lower fixed income yields. The decrease in the first nine months of 2012 was partially offset by income from limited partnerships.

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 September 30, 2012	Three months ended September 30, 2011	Nine months ended September 30, 2012	Nine months ended September 30, 2011
Impairment write-downs	$ (12)	$ (85)	$ (38)	$ (174)
Change in intent write-downs	(1)	(3)	(17)	(50)
Net other-than-temporary impairment losses recognized in earnings	(13)	(88)	(55)	(224)
Sales	(52)	481	(52)	705
Valuation of derivative instruments	(3)	(196)	(6)	(227)
Settlements of derivative instruments	11	10	41	20
EMA limited partnership income [(1)]	--	11	--	61
Realized capital gains and losses, pre-tax	(57)	218	(72)	335
Income tax benefit (expense)	20	(76)	25	(118)
Realized capital gains and losses, after-tax	$ (37)	$ 142	$ (47)	$ 217

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

Impairment write-downs are presented in the following table.

($ in millions)	Three months ended September 30, 2012	Three months ended September 30, 2011	Nine months ended September 30, 2012	Nine months ended September 30, 2011
Fixed income securities	$ (9)	$ (51)	$ (39)	$ (123)
Mortgage loans	(1)	(29)	3	(38)

Equity securities	--	--	--	(5)
Limited partnership interests	--	--	(2)	(1)
Other investments	(2)	(5)	--	(7)
Impairment write-downs	$ (12)	$ (85)	$ (38)	$ (174)

Impairment write-downs for the three months and nine months ended September 30, 2012 were primarily driven by RMBS and CMBS that experienced deterioration in expected cash flows and corporate fixed income securities impacted by issuer specific circumstances. Impairment write-downs on below investment grade RMBS and CMBS were $6 million and $1 million for the three months ended September 30, 2012, respectively, and $16 million and $10 million for the nine months ended September 30, 2012, respectively. The valuation allowance on mortgage

loans was primarily reduced by $8 million in the nine months ended September 30, 2012 due to increases in the fair value of the collateral less costs to sell for certain impaired loans.

Change in intent write-downs were $1 million in the three months ended September 30, 2012 compared to $3 million in the three months ended September 30, 2011, and $17 million in the nine months ended September 30, 2012 compared to $50 million in the nine months ended September 30, 2011. The change in intent write-downs in the nine months ended September 30, 2012 were primarily a result of ongoing comprehensive reviews of our portfolios resulting in write-downs of individually identified investments, primarily RMBS and corporate fixed income securities.

Sales generated $52 million of net realized losses for both the three months and nine months ended September 30, 2012, primarily related to sales of Subprime RMBS and CMBS in connection with risk reduction activities.

Valuation and settlements of derivative instruments net realized capital gains totaling $8 million for the three months ended September 30, 2012 included $3 million of losses on the valuation of derivative instruments and $11 million of gains on the settlement of derivative instruments. This is compared to net realized capital losses totaling $186 million for the three months ended September 30, 2011, including $196 million of losses on the valuation of derivative instruments and $10 million of gains on the settlement of derivative instruments. Valuation and settlements of derivative instruments net realized capital gains totaling $35 million for the nine months ended September 30, 2012 included $6 million of losses on the valuation of derivative instruments and $41 million of gains on the settlement of derivative instruments. This is compared to net realized capital losses totaling $207 million for the nine months ended September 30, 2011, including $227 million of losses on the valuation of derivative instruments and $20 million of gains on the settlement of derivative instruments. The net realized capital gains on derivative instruments for the three months and nine months ended September 30, 2012 primarily included gains on credit default swaps due to the tightening of credit spreads on the underlying credit names. As a component of our approach to managing interest rate risk, realized gains and losses on certain derivative instruments are most appropriately considered in conjunction with the unrealized gains and losses on the fixed income portfolio. This approach mitigates the impacts of general interest rate changes to our overall financial condition.

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)	**September 30, 2012**	**December 31, 2011**
Common stock, retained income and additional capital paid-in	$ 5,538	$ 5,255
Accumulated other comprehensive income	1,618	812
Total shareholder's equity	7,156	6,067
Notes due to related parties	696	700
Total capital resources	$ 7,852	$ 6,767

Shareholder's equity increased in the first nine months of 2012, primarily due to increased unrealized net capital gains on investments and net income.

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 Allstate Insurance Company's ("AIC's") ratings. On January 26, 2012, A.M. Best affirmed our financial strength rating of A+ and the outlook for the rating was revised to stable from negative. In April 2012, S&P affirmed our financial strength rating of A+ and the outlook for the rating remained negative. There has been no change to our financial strength rating from Moody's since December 31, 2011. 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 of one notch or more which we do not view as being material to our business model or strategies.

The Company, AIC and The Allstate Corporation (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 holding company capital capacity The Corporation has at the parent holding company level $2.34 billion of deployable invested assets as of September 30, 2012. These assets include investments that are generally saleable within one quarter totaling $1.92 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 September 30, 2012, there were no balances outstanding and therefore the remaining borrowing capacity was $1.00 billion; however, the outstanding balance can fluctuate daily.
- A credit facility is available for short-term liquidity requirements and backs the commercial paper facility. The $1.00 billion unsecured revolving credit facility has an initial term of five years expiring in April 2017. The facility is fully subscribed among 12 lenders with the largest commitment being $115 million. The Corporation has the option to extend the expiration by one year at the first and second anniversary of the facility, upon approval of existing or replacement lenders. 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 19.9% as of September 30, 2012. 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 third quarter and first nine months of 2012. 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 417 million shares of treasury stock as of September 30, 2012), 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 $39.43 billion as of September 30, 2012. The following table summarizes contractholder funds by their contractual withdrawal provisions as of September 30, 2012.

($ in millions)			Percent to total
Not subject to discretionary withdrawal	$	6,042	15.3%
Subject to discretionary withdrawal with adjustments:			
Specified surrender charges [1]		13,795	35.0
Market value adjustments [2]		5,575	14.1
Subject to discretionary withdrawal without adjustments [3]		14,018	35.6
Total contractholder funds [4]	$	39,430	100.0%

[1] Includes $7.28 billion of liabilities with a contractual surrender charge of less than 5% of the account balance.
[2] $4.61 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] 74% of these contracts have a minimum interest crediting rate guarantee of 3% or higher.
[4] Includes $1.05 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 31.5% and 28.5% in the third quarter and first nine months of 2012, respectively, compared to the same periods of 2011. The annualized surrender and partial withdrawal rate on deferred fixed annuities and interest-sensitive life insurance products, based on the beginning of year contractholder funds, was 10.9% and 13.4% for the first nine months of 2012 and 2011, 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 September 30, 2012, total institutional products outstanding were $1.84 billion, with scheduled maturities of $1.75 billion in 2013 and $85 million in 2016.

Our asset-liability management practices limit 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 nine months of 2012 compared to the first nine months of 2011 was primarily due to lower net investment income.

Lower cash provided by investing activities in the first nine months of 2012 compared to the first nine months of 2011 was primarily due to lower financing needs as reflected in lower sales of fixed income securities, partially offset by decreased purchases of fixed income securities.

Lower cash used in financing activities in the first nine months of 2012 compared to the first nine months of 2011 was primarily due to lower surrenders and partial withdrawals on fixed annuities and decreased maturities of institutional products.

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 September 30, 2012, 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 8 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 2011.

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)

November 2, 2012

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

Exhibit No.	Description
10.1	Reinsurance Agreement effective September 30, 2012 between Lincoln Benefit Life Company and Lincoln Benefit Reinsurance Company, incorporated herein by reference to Exhibit 10.1 to Allstate Life Insurance Company's Current Report on Form 8-K filed October 3, 2012.
15	Acknowledgment of awareness from Deloitte & Touche LLP, dated November 2, 2012, concerning unaudited interim financial information.
31(i)	Rule 13a-14(a) Certification of Principal Executive Officer

31(i)	Rule 13a-14(a) Certification of Principal Financial Officer
32	Section 1350 Certifications
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase

EXHIBIT 15

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 periods ended September 30, 2012 and 2011, as indicated in our report dated November 2, 2012; 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 September 30, 2012, 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	

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
November 2, 2012

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.

November 2, 2012

/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.

November 2, 2012

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

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 September 30, 2012 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.

November 2, 2012

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

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