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, 2010

OR

o 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 o

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 o No o

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 definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer o	Accelerated filer o
Non-accelerated filer x (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

As of November 3, 2010, the registrant had 23,800 common shares, $227 par value, outstanding, all of which are held by Allstate Insurance Company.

ALLSTATE LIFE INSURANCE COMPANY
INDEX TO QUARTERLY REPORT ON FORM 10-Q
September 30, 2010

		PAGE
PART I	FINANCIAL INFORMATION	
Item 1.	Financial Statements	
	Condensed Consolidated Statements of Operations for the Three-Month and Nine-Month Periods Ended September 30, 2010 and 2009 (unaudited)	1

	Condensed Consolidated Statements of Financial Position as of September 30, 2010 (unaudited) and December 31, 2009	2
	Condensed Consolidated Statements of Cash Flows for the Nine-Month Periods Ended September 30, 2010 and 2009 (unaudited)	3
	Notes to Condensed Consolidated Financial Statements (unaudited)	4
	Report of Independent Registered Public Accounting Firm	42
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	
	Operations Highlights	43
	Operations	43
	Investments Highlights	49
	Investments	49
	Capital Resources and Liquidity Highlights	73
	Capital Resources and Liquidity	74
Item 4.	Controls and Procedures	76
PART II	**OTHER INFORMATION**	
Item 1.	Legal Proceedings	77
Item 1A.	Risk Factors	77
Item 5.	Other Information	77
Item 6.	Exhibits	77

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ALLSTATE LIFE INSURANCE COMPANY AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

($ in millions)	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
	(unaudited)		(unaudited)	
Revenues				
Premiums	$ 151	$ 134	$ 458	$ 440
Contract charges	249	241	743	706
Net investment income	683	722	2,090	2,260
Realized capital gains and losses:				
Total other-than-temporary impairment losses	(43)	(404)	(396)	(1,120)
Portion of loss recognized in other comprehensive income	(55)	125	(65)	229
Net other-than-temporary impairment losses recognized in earnings	(98)	(279)	(461)	(891)
Sales and other realized capital gains and losses	61	47	(89)	743
Total realized capital gains and losses	(37)	(232)	(550)	(148)
	1,046	865	2,741	3,258
Costs and expenses				
Contract benefits	365	327	1,135	1,018
Interest credited to contractholder funds	435	485	1,326	1,598
Amortization of deferred policy acquisition costs	69	61	150	758
Operating costs and expenses	85	74	254	244
Restructuring and related charges	—	4	(1)	23
Interest expense	11	11	33	32
	965	962	2,897	3,673
Gain on disposition of operations	4	2	7	6
Income (loss) from operations before income tax expense (benefit)	85	(95)	(149)	(409)
Income tax expense (benefit)	25	(38)	(64)	(16)
Net income (loss)	$ 60	$ (57)	$ (85)	$ (393)

See notes to condensed consolidated financial statements.

ALLSTATE LIFE INSURANCE COMPANY AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

($ in millions, except par value data)	September 30, 2010 (unaudited)	December 31, 2009
Assets		
Investments		
Fixed income securities, at fair value (amortized cost $48,145 and $49,842)	$ 49,781	$ 47,658
Mortgage loans	6,833	7,780
Equity securities, at fair value (cost $160 and $159)	186	183
Limited partnership interests	1,127	1,028
Short-term, at fair value (amortized cost $1,003 and $1,669)	1,003	1,669
Policy loans	837	823
Other	980	1,076
Total investments	60,747	60,217
Cash	109	145
Deferred policy acquisition costs	2,863	3,664
Reinsurance recoverables	4,303	4,016
Accrued investment income	555	540
Deferred income taxes	—	203
Other assets	521	963
Separate Accounts	8,459	9,072
Total assets	$ 77,557	$ 78,820
Liabilities		
Contractholder funds	$ 47,177	$ 50,850
Reserve for life-contingent contract benefits	13,242	12,256
Unearned premiums	27	30
Payable to affiliates, net	97	119
Other liabilities and accrued expenses	1,561	1,432
Deferred income taxes	624	—
Notes due to related parties	677	675
Separate Accounts	8,459	9,072
Total liabilities	71,864	74,434
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	3,189	3,189
Retained income	1,856	1,969
Accumulated other comprehensive income:		
Unrealized net capital gains and losses:		
Unrealized net capital losses on fixed income securities with OTTI	(106)	(274)
Other unrealized net capital gains and losses	1,174	(1,146)
Unrealized adjustment to DAC, DSI and insurance reserves	(425)	643
Total unrealized net capital gains and losses	643	(777)
Total accumulated other comprehensive income (loss)	643	(777)
Total shareholder's equity	5,693	4,386
Total liabilities and shareholder's equity	$ 77,557	$ 78,820

See notes to condensed consolidated financial statements.

ALLSTATE LIFE INSURANCE COMPANY AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

($ in millions)	Nine Months Ended September 30, 2010 (unaudited)	2009
Cash flows from operating activities		
Net loss	$ (85)	$ (393)
Adjustments to reconcile net loss to net cash provided by operating activities:		

Amortization and other non-cash items	(117)	(219)
Realized capital gains and losses	550	148
Gain on disposition of operations	(7)	(6)
Interest credited to contractholder funds	1,326	1,598
Changes in:		
Policy benefits and other insurance reserves	(216)	(268)
Unearned premiums	(3)	(2)
Deferred policy acquisition costs	(131)	471
Reinsurance recoverables, net	(308)	(241)
Income taxes	566	360
Other operating assets and liabilities	12	134
Net cash provided by operating activities	1,587	1,582
Cash flows from investing activities		
Proceeds from sales		
Fixed income securities	8,478	10,111
Equity securities	90	28
Limited partnership interests	78	58
Mortgage loans	110	138
Other investments	71	401
Investment collections		
Fixed income securities	1,933	2,572
Mortgage loans	767	1,049
Other investments	76	88
Investment purchases		
Fixed income securities	(8,949)	(11,593)
Equity securities	(51)	(101)
Limited partnership interests	(173)	(149)
Mortgage loans	(45)	(15)
Other investments	(88)	(18)
Change in short-term investments, net	522	2,091
Change in other investments, net	(173)	(223)
Net cash provided by investing activities	2,646	4,437
Cash flows from financing activities		
Repayment of note due to related party	(4)	—
Capital contribution	—	250
Contractholder fund deposits	1,823	2,621
Contractholder fund withdrawals	(6,088)	(8,720)
Net cash used in financing activities	(4,269)	(5,849)
Net (decrease) increase in cash	(36)	170
Cash at beginning of period	145	93
Cash at end of period	$ 109	$ 263

See notes to condensed consolidated financial statements.

ALLSTATE LIFE INSURANCE COMPANY AND SUBSIDIARIES
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, 2010, and for the three-month and nine-month periods ended September 30, 2010 and 2009 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, 2009. The results of operations for the interim periods should not be considered indicative of results to be expected for the full year.

Premiums and contract charges

The following table summarizes premiums and contract charges by product.

	Three months ended September 30,		Nine months ended September 30,	
($ in millions)	2010	2009	2010	2009

Premiums				
Traditional life insurance	$ 100	$ 96	$ 302	$ 289
Immediate annuities with life contingencies	26	15	84	83
Accident and health insurance	25	23	72	68
Total premiums	151	134	458	440
Contract charges				
Interest-sensitive life insurance	240	229	711	671
Fixed annuities	9	12	32	35
Total contract charges	249	241	743	706
Total premiums and contract charges	$ 400	$ 375	$ 1,201	$ 1,146

Adopted accounting standards

Disclosures about Fair Value Measurements

In January 2010, the Financial Accounting Standards Board ("FASB") issued new accounting guidance which expands disclosure requirements relating to fair value measurements. The guidance adds requirements for disclosing amounts of and reasons for significant transfers into and out of Levels 1 and 2 and requires gross rather than net disclosures about purchases, sales, issuances and settlements relating to Level 3 measurements. The guidance also provides clarification that fair value measurement disclosures are required for each class of assets and liabilities. Disclosures about the valuation techniques and inputs used to measure fair value for measurements that fall in either Level 2 or Level 3 are also required. The Company adopted the provisions of the new guidance as of March 31, 2010, except for disclosures about purchases, sales, issuances and settlements in the roll forward of activity in Level 3 fair value measurements, which are required for fiscal years beginning after December 15, 2010. Disclosures are not required for earlier periods presented for comparative purposes. The new guidance affects disclosures only; and therefore, the adoption had no impact on the Company's results of operations or financial position.

Consolidation of Variable Interest Entities

In June 2009, the FASB issued new accounting guidance which requires an entity to perform a qualitative analysis to determine whether it holds a controlling financial interest (i.e., is a primary beneficiary) in a variable interest entity ("VIE"). The analysis identifies the primary beneficiary of a VIE as the entity that has both the power

to direct the activities of the VIE that most significantly impact the economic performance of the VIE and the obligation to absorb losses, or the right to receive benefits, that could potentially be significant to the VIE. The Company adopted the new guidance as of January 1, 2010. The adoption had no impact on the Company's results of operations or financial position.

In the normal course of investing activities, the Company invests in variable interests issued by VIEs. These variable interests include structured investments such as residential mortgage-backed securities, commercial mortgage-backed securities and asset-backed securities as well as limited partnerships, special purpose entities and trusts. For these variable interests, the Company concluded it is not the primary beneficiary due to the amount of the Company's interest in the VIEs and the Company's lack of power to direct the activities that are most significant to the economic performance of the VIEs. The Company's maximum exposure to loss on these interests is limited to the amount of the Company's investment, including future funding commitments, as applicable.

Embedded Credit Derivatives Scope Exception

In March 2010, the FASB issued accounting guidance clarifying the scope exception for embedded credit derivative features, including those in certain collateralized debt obligations and synthetic collateralized debt obligations. Embedded credit derivative features related to the transfer of credit risk that is only in the form of subordination of one financial instrument to another continue to qualify for the scope exception. Other embedded credit derivative features must be analyzed for potential bifurcation and separate accounting as a derivative, with periodic changes in fair value recorded in net income. The adoption of the new guidance as of July 1, 2010 resulted in the bifurcation of the credit default swaps embedded in synthetic collateralized debt obligations purchased after January 1, 2007, and the related net unrealized capital losses were reclassified from accumulated other comprehensive income to retained income. The cumulative effect of adoption, net of related deferred policy acquisition costs ("DAC"), deferred sales inducement costs ("DSI") and tax adjustments, was a $19 million increase in unrealized net capital gains and losses, a $9 million decrease in total assets and a $28 million decrease in retained income.

Pending accounting standards

Consolidation Analysis Considering Investments Held through Separate Accounts

In April 2010, the FASB issued guidance clarifying that an insurer is not required to combine interests in investments held in a qualifying separate account with its interests in the same investments held in the general account when performing a consolidation evaluation. The guidance is effective for fiscal years and interim periods beginning after December 15, 2010 with early adoption permitted. The adoption of this guidance is not expected to have a material impact on the Company's results of operations or financial position.

Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses

In July 2010, the FASB issued guidance requiring expanded disclosures relating to the credit quality of financing receivables and the related allowances for credit losses. The new guidance requires a greater level of disaggregated information, as well as additional disclosures about credit quality indicators, past

due information and modifications of its financing receivables. The new guidance is effective for reporting periods ending after December 15, 2010. The new guidance affects disclosures only; and therefore, the adoption will have no impact on the Company's results of operations or financial position.

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 contracts. The guidance specifies that incremental direct costs of contract acquisition attributable to successful efforts should be included as deferred acquisition costs. The guidance also specifies that deferred acquisition costs include advertising costs only when the direct-response advertising accounting criteria are met. The new guidance is effective for reporting periods beginning after December 15, 2011 and should be applied prospectively, with retrospective application permitted. If application of the guidance would result in the capitalization of acquisition costs that had not previously been capitalized prior to adoption, the entity may elect not to capitalize those additional costs. The Company is in process of evaluating the impact of adoption on the Company's results of operations and financial position.

2. Related Party Transaction

In March 2010, in accordance with an asset purchase agreement between Road Bay Investments, LLC ("RBI"), a consolidated subsidiary of ALIC, and American Heritage Life Insurance Company ("AHL"), an unconsolidated affiliate of ALIC, AHL sold to RBI mortgage loans with a carrying value of $6 million on the date of sale. As payment, RBI issued a 7.00% note due March 26, 2017 to AHL for the same amount. As security for the performance of RBI's obligations under the agreement and note, RBI granted a pledge of and security interest in RBI's right, title and interest in the mortgage loans and their proceeds. In August 2010, RBI repaid $4 million of principal on the outstanding note. The note due from RBI to AHL is classified as notes due to related parties in the Condensed Consolidated Statements of Financial Position.

3. Supplemental Cash Flow Information

Non-cash investment exchanges, including modifications of certain mortgage loans, fixed income securities, limited partnerships and other investments, as well as mergers completed with equity securities, totaled $506 million and $277 million for the nine months ended September 30, 2010 and 2009, respectively.

Liabilities for collateral received in conjunction with the Company's securities lending and over-the-counter ("OTC") derivatives are reported in other liabilities and accrued expenses or other investments in the Condensed Consolidated Statements of Financial Position. 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, 2010	2009
Net change in proceeds managed		
Net change in short-term investments	$ 148	$ (155)
Operating cash flow provided (used)	$ 148	$ (155)
Net change in liabilities		
Liabilities for collateral, beginning of year	$ (617)	$ (340)
Liabilities for collateral, end of period	(469)	(495)
Operating cash flow (used) provided	$ (148)	$ 155

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
At September 30, 2010				
U.S. government and agencies	$ 3,948	$ 359	$ —	$ 4,307
Municipal	4,858	259	(212)	4,905
Corporate	27,009	2,186	(271)	28,924
Foreign government	2,056	415	—	2,471
Residential mortgage-backed securities ("RMBS")	5,108	151	(570)	4,689
Commercial mortgage-backed securities ("CMBS")	2,275	56	(438)	1,893

Asset-backed securities ("ABS")	2,876	72	(371)	2,577
Redeemable preferred stock	15	—	—	15
Total fixed income securities	$ 48,145	$ 3,498	$ (1,862)	$ 49,781
At December 31, 2009				
U.S. government and agencies	$ 3,426	$ 168	$ (13)	$ 3,581
Municipal	5,578	50	(519)	5,109
Corporate	27,314	1,015	(790)	27,539
Foreign government	1,906	258	(11)	2,153
RMBS	5,596	76	(1,006)	4,666
CMBS	3,390	30	(952)	2,468
ABS	2,616	48	(537)	2,127
Redeemable preferred stock	16	—	(1)	15
Total fixed income securities	$ 49,842	$ 1,645	$ (3,829)	$ 47,658

Scheduled maturities

The scheduled maturities for fixed income securities are as follows at September 30, 2010:

($ in millions)	Amortized cost	Fair value
Due in one year or less	$ 1,827	$ 1,861
Due after one year through five years	13,611	14,338
Due after five years through ten years	11,002	12,253
Due after ten years	13,721	14,063
	40,161	42,515
RMBS and ABS	7,984	7,266
Total	$ 48,145	$ 49,781

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, 2010	Three months ended September 30, 2009	Nine months ended September 30, 2010	Nine months ended September 30, 2009
Fixed income securities	$ 615	$ 635	$ 1,879	$ 1,955
Mortgage loans	90	118	289	381
Equity securities	1	2	3	4
Limited partnership interests	3	2	10	6
Short-term investments	1	2	3	12
Other	(3)	(12)	(16)	(28)
Investment income, before expense	707	747	2,168	2,330
Investment expense	(24)	(25)	(78)	(70)
Net investment income	$ 683	$ 722	$ 2,090	$ 2,260

Realized capital gains and losses

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

($ in millions)	Three months ended September 30, 2010	Three months ended September 30, 2009	Nine months ended September 30, 2010	Nine months ended September 30, 2009
Fixed income securities	$ (18)	$ (62)	$ (285)	$ 86
Mortgage loans	(1)	(65)	(54)	(113)
Equity securities	15	1	35	(23)
Limited partnership interests	(6)	(33)	(12)	(257)
Derivatives	(25)	(56)	(237)	234
Other	(2)	(17)	3	(75)
Realized capital gains and losses	$ (37)	$ (232)	$ (550)	$ (148)

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

($ in millions)	Three months ended September 30,	Nine months ended September 30,

	2010	2009	2010	2009
Impairment write-downs	$ (78)	$ (278)	$ (361)	$ (833)
Change in intent write-downs	(20)	(1)	(100)	(58)
Net other-than-temporary impairment losses recognized in earnings	(98)	(279)	(461)	(891)
Sales	88	106	148	627
Valuation of derivative instruments	10	(60)	(193)	202
Settlements of derivative instruments	(34)	7	(45)	30
EMA limited partnership income	(3)	(6)	1	(116)
Realized capital gains and losses	$ (37)	$ (232)	$ (550)	$ (148)

Gross gains of $204 million and $250 million and gross losses of $139 million and $101 million were realized on sales of fixed income securities during the three months ended September 30, 2010 and 2009, respectively. Gross gains of $370 million and $879 million and gross losses of $282 million and $216 million were realized on sales of fixed income securities during the nine months ended September 30, 2010 and 2009, respectively.

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

	Three months ended September 30, 2010			Nine months ended September 30, 2010		
($ in millions)	Gross	Included in OCI	Net	Gross	Included in OCI	Net
Fixed income securities:						
Municipal	$ (1)	$ —	$ (1)	$ (49)	$ —	$ (49)
Corporate	(9)	(1)	(10)	(51)	1	(50)
RMBS	(25)	(28)	(53)	(174)	(13)	(187)
CMBS	(1)	(26)	(27)	(44)	(37)	(81)
ABS	—	—	—	(8)	(16)	(24)
Total fixed income securities	(36)	(55)	(91)	(326)	(65)	(391)
Mortgage loans	(3)	—	(3)	(50)	—	(50)
Limited partnership interests	(4)	—	(4)	(20)	—	(20)
Other-than-temporary impairment losses	$ (43)	$ (55)	$ (98)	$ (396)	$ (65)	$ (461)

	Three months ended September 30, 2009			Nine months ended September 30, 2009		
	Gross	Included in OCI	Net	Gross	Included in OCI	Net
Fixed income securities:						
Municipal	$ —	$ —	$ —	$ (16)	$ —	$ (16)
Corporate	(110)	—	(110)	(180)	(9)	(189)
Foreign government	—	—	—	(17)	—	(17)
RMBS	(139)	96	(43)	(307)	200	(107)
CMBS	(89)	61	(28)	(142)	61	(81)
ABS	(8)	(32)	(40)	(175)	(23)	(198)
Total fixed income securities	(346)	125	(221)	(837)	229	(608)
Mortgage loans	(30)	—	(30)	(79)	—	(79)
Equity securities	—	—	—	(26)	—	(26)
Limited partnership interests	(27)	—	(27)	(142)	—	(142)
Other	(1)	—	(1)	(36)	—	(36)
Other-than-temporary impairment losses	$ (404)	$ 125	$ (279)	$ (1,120)	$ 229	$ (891)

The total amount of other-than-temporary impairment losses included in accumulated other comprehensive income for fixed income securities, which were not included in earnings, are presented in the following table. The amount excludes $221 million and $136 million as of September 30, 2010 and December 31, 2009, 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, 2010	December 31, 2009
Corporate	$ (18)	$ (18)
RMBS	(268)	(323)
CMBS	(58)	(127)
ABS	(40)	(90)
Total	$ (384)	$ (558)

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, 2010	Three months ended September 30, 2009	Nine months ended September 30, 2010	Nine months ended September 30, 2009
Beginning balance	$ (864)	$ (1,193)	$ (808)	$ —
Beginning balance of cumulative credit loss for securities held at April 1, 2009	—	—	—	(1,059)
Cumulative effect of change in accounting principle	81	—	81	—
Additional credit loss for securities previously other-than-temporarily impaired	(67)	(72)	(180)	(101)
Additional credit loss for securities not previously other-than-temporarily impaired	(4)	(149)	(118)	(278)
Reduction in credit loss for securities disposed or collected	42	365	210	389
Reduction in credit loss for securities other-than-temporarily impaired to fair value	26	—	27	—
Change in credit loss due to accretion of increase in cash flows and time value of cash flows for securities previously other-than-temporarily impaired	1	—	3	—
Ending balance	$ (785)	$ (1,049)	$ (785)	$ (1,049)

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

Unrealized net capital gains and losses

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

($ in millions)	Fair value	Gross unrealized Gains	Gross unrealized Losses	Unrealized net gains (losses)
At September 30, 2010				
Fixed income securities (1)	$ 49,781	$ 3,498	$ (1,862)	$ 1,636
Equity securities	186	30	(4)	26
Short-term investments	1,003	—	—	—
Derivative instruments (2)	(12)	2	(14)	(12)
Unrealized net capital gains and losses, pre-tax				1,650
Amounts recognized for:				
Insurance reserves (3)				(608)
DAC and DSI (4)				(45)
Amounts recognized				(653)
Deferred income taxes				(354)
Unrealized net capital gains and losses, after-tax				$ 643

(1) Unrealized net capital gains and losses for fixed income securities as of September 30, 2010 comprises $(163) million related to unrealized net capital losses on fixed income securities with OTTI and $1,799 million related to other unrealized net capital gains and losses.

(2) Included in the fair value of derivative instruments are $2 million classified as assets and $14 million classified as liabilities.

(3) The insurance reserves adjustment represents the amount by which the reserve balance would increase if the net unrealized gains in the applicable product portfolios were realized and reinvested at current lower interest rates, resulting in a premium deficiency. Although the Company evaluates

premium deficiencies on the combined performance of life insurance and immediate annuities with life contingencies, the adjustment primarily relates to structured settlement annuities with life contingencies, in addition to annuity buy-outs and certain payout annuities with life contingencies.

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

	Fair value	Gross unrealized		Unrealized net gains (losses)
		Gains	Losses	
At December 31, 2009				
Fixed income securities (1)	$ 47,658	$ 1,645	$ (3,829)	$ (2,184)
Equity securities	183	31	(7)	24
Short-term investments	1,669	—	—	—
Derivative instruments (2)	(20)	2	(20)	(18)
Unrealized net capital gains and losses, pre-tax				(2,178)
Amounts recognized for:				
Insurance reserves				—
DAC and DSI				990
Amounts recognized				990
Deferred income taxes				411
Unrealized net capital gains and losses, after-tax				$ (777)

(1) Unrealized net capital gains and losses for fixed income securities as of December 31, 2009 comprises $(422) million related to unrealized net capital losses on fixed income securities with OTTI and $(1,762) million related to other unrealized net capital gains and losses.

(2) Included in the fair value of derivative instruments are $(2) million classified as assets and $18 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, 2010 is as follows:

($ in millions)	
Fixed income securities	$ 3,820
Equity securities	2
Derivative instruments	6
Total	3,828
Amounts recognized for:	
Insurance reserves	(608)
DAC and DSI	(1,035)
Decrease in amounts recognized	(1,643)
Deferred income taxes	(765)
Increase in unrealized net capital gains and losses	$ 1,420

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 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.

	Less than 12 months			12 months or more			Total
($ in millions)	**Number of issues**	**Fair value**	**Unrealized losses**	**Number of issues**	**Fair value**	**Unrealized losses**	**Total unrealized losses**
At September 30, 2010							
Fixed income securities							
U.S. government and agencies	2	$ 32	$ —	—	$ —	$ —	$ —
Municipal	6	32	—	181	1,266	(212)	(212)
Corporate	60	763	(40)	183	2,455	(231)	(271)
Foreign government	—	—	—	2	11	—	—
RMBS	88	115	(2)	255	1,346	(568)	(570)
CMBS	3	19	—	141	1,012	(438)	(438)
ABS	36	280	(16)	134	1,225	(355)	(371)
Redeemable preferred stock	—	—	—	1	—	—	—
Total fixed income securities (1)	195	1,241	(58)	897	7,315	(1,804)	(1,862)
Equity securities	3	48	(2)	1	16	(2)	(4)
Total fixed income and equity securities	198	$ 1,289	$ (60)	898	$ 7,331	$ (1,806)	$ (1,866)
Investment grade fixed income securities	165	$ 1,051	$ (51)	629	$ 5,602	$ (978)	$ (1,029)
Below investment grade fixed income securities	30	190	(7)	268	1,713	(826)	(833)
Total fixed income securities	195	$ 1,241	$ (58)	897	$ 7,315	$ (1,804)	$ (1,862)
At December 31, 2009							
Fixed income securities							
U.S. government and agencies	27	$ 1,952	$ (13)	—	$ —	$ —	$ (13)
Municipal	144	1,634	(62)	280	1,912	(457)	(519)
Corporate	300	3,979	(131)	398	5,155	(659)	(790)
Foreign government	10	360	(11)	1	1	—	(11)
RMBS	162	604	(14)	310	1,727	(992)	(1,006)
CMBS	19	186	(3)	257	1,796	(949)	(952)
ABS	21	203	(19)	163	1,363	(518)	(537)
Redeemable preferred stock	1	—	—	1	13	(1)	(1)
Total fixed income securities (1)	684	8,918	(253)	1,410	11,967	(3,576)	(3,829)
Equity securities	7	11	(2)	1	13	(5)	(7)
Total fixed income and equity securities	691	$ 8,929	$ (255)	1,411	$ 11,980	$ (3,581)	$ (3,836)
Investment grade fixed income securities	650	$ 8,667	$ (191)	1,119	$ 10,260	$ (2,467)	$ (2,658)
Below investment grade fixed income securities	34	251	(62)	291	1,707	(1,109)	(1,171)
Total fixed income securities	684	$ 8,918	$ (253)	1,410	$ 11,967	$ (3,576)	$ (3,829)

---

(1) Gross unrealized losses resulting from factors other than credit on fixed income securities with other-than-temporary impairments for which the Company has recorded a credit loss in earnings total $1 million for the less than 12 month category and $261 million for the 12 months or greater category as of September 30, 2010 and $16 million for the less than 12 month category and $468 million for the 12 months or greater category as of December 31, 2009.

As of September 30, 2010, $496 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 $496 million, $396 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 in some instances, rising interest rates since the time of initial purchase.

As of September 30, 2010, the remaining $1.37 billion of unrealized losses are related to securities in unrealized loss positions greater than or equal to 20% of amortized cost or cost. Investment grade securities comprising $633 million of these unrealized losses were evaluated based on factors such as expected 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 $1.37 billion, $737 million are related to below investment grade fixed income securities. Of these amounts, $712 million of the below investment grade fixed income securities had been in an unrealized loss position for a period of twelve or more consecutive months as of September 30, 2010. 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 larger risk premiums since the time of initial purchase, largely due

to macroeconomic conditions and credit market deterioration, including the impact of declining residential and commercial real estate valuations.

RMBS, CMBS and ABS securities 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, taking into consideration credit enhancements from reliable bond insurers, where applicable. Unrealized losses on equity securities are primarily related to equity market fluctuations.

As of September 30, 2010, 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, 2010, 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 partnership impairment

As of September 30, 2010 and December 31, 2009, the carrying value of equity method limited partnership interests totaled $507 million and $495 million, respectively. The Company recognizes an impairment loss for equity method investments when evidence demonstrates that it is other-than-temporarily impaired. 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 partnership interests for the three months ended September 30, 2010 and 2009. The Company had write-downs related to equity-method limited partnership interests of $1 million and $5 million for the nine months ended September 30, 2010 and 2009, respectively.

As of September 30, 2010 and December 31, 2009, the carrying value for cost method limited partnership interests was $620 million and $533 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 limited partnerships; actual recent cash flows received being significantly less than expected cash flows; reduced valuations based on financing completed at a lower value; completed sale of a material underlying investment at a price significantly lower than expected; or any other adverse events since the last financial statements received that might affect the fair value of the investee's capital. Additionally, the Company's portfolio monitoring process includes a quarterly review of all cost method limited partnerships to identify instances where the net asset value is below established thresholds for certain periods of time, as well as investments that are performing below expectations, for further impairment consideration. If a cost method limited partnership is other-than-temporarily impaired, the carrying value is written down to fair value, generally estimated to be equivalent to the reported net asset value of the underlying funds. The Company had write-downs related to cost method investments of $4 million and $27 million for the three months ended September 30, 2010 and 2009, respectively, and $19 million and $137 million for the nine months ended September 30, 2010 and 2009, respectively.

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 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 occurs in two primary instances. The first relates to the Company's use of broker quotes. The second relates to auction rate securities ("ARS") backed by student loans for which a key input, the anticipated date liquidity will return to this market, is not market observable.

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. As of September 30, 2010, 77.1% of total assets are measured at fair value and 0.9% of total liabilities are measured at fair value.

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 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 U.S. and international 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 - U.S. government sponsored entities ("U.S. Agency"), Prime residential mortgage-backed securities ("Prime") and Alt-A residential mortgage-backed securities ("Alt-A"); ABS - auto and student loans and other: 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.

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.

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.

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

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

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

  OTC derivatives, including interest rate swaps, foreign currency swaps, foreign exchange forward contracts, 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.

- Contractholder funds: Derivatives embedded in certain annuity contracts are valued based on internal models that rely on inputs such as interest rate yield curves and equity index volatility assumptions that are market observable for substantially the full term of the contract. The valuation techniques are widely accepted in the financial services industry and do not include 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 estimates of future coupon rates if auction failures continue, maturity assumptions and illiquidity premium. 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"), and other high-yield municipal bonds. 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. 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 - Subprime residential mortgage-backed securities ("Subprime") and Alt-A: The primary inputs to the valuation 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, prepayment speeds, collateral performance and credit spreads. Also included are Subprime and Alt-A securities that are valued based on non-binding broker quotes. Due to the reduced availability of actual market prices or relevant observable inputs as a result of the decrease in liquidity that has been experienced in the market for these securities, Subprime and certain Alt-A securities are categorized as Level 3.

Foreign government: Valued based on non-binding broker quotes.

CMBS: The primary inputs to the valuation 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, collateral performance and credit spreads. Also included are CMBS that are valued based on non-binding broker quotes. Due to the reduced availability of actual market prices or relevant observable inputs as a result of the decrease in liquidity that has been experienced in the market for these securities, certain CMBS are categorized as Level 3.

ABS - Collateralized debt obligations ("CDO"): Valued based on non-binding broker quotes received from brokers who are familiar with the investments. Due to the reduced availability of actual market prices or relevant observable inputs as a result of the decrease in liquidity that has been experienced in the market for these securities, all CDO are categorized as Level 3.

ABS - student loans and other: The primary inputs to the valuation 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, prepayment speeds, collateral performance and credit spreads. Also included are ABS that are valued based on non-binding broker quotes. Due to the reduced availability of actual market prices or relevant observable inputs as a result of the decrease in liquidity that has been experienced in the market for these securities, certain ABS are categorized as Level 3.

· Other investments: Certain OTC derivatives, such as interest rate caps and floors, certain credit default swaps and OTC 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 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 use stochastically determined cash flows based on the contractual elements of embedded derivatives and other applicable market data. 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. 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, 2010:

($ 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, 2010
Assets					
Fixed income securities:					
U.S. government and agencies	$ 1,496	$ 2,811	$ —		$ 4,307
Municipal	—	4,273	632		4,905
Corporate	—	26,939	1,985		28,924
Foreign government	—	2,471	—		2,471
RMBS	—	3,421	1,268		4,689
CMBS	—	1,119	774		1,893
ABS	—	689	1,888		2,577
Redeemable preferred stock	—	14	1		15
Total fixed income securities	1,496	41,737	6,548		49,781
Equity securities	121	36	29		186
Short-term investments	132	871	—		1,003
Other investments:					
Free-standing derivatives	—	544	4	$ (247)	301
Separate account assets	8,459	—	—		8,459
Other assets	—	—	2		2
Total recurring basis assets	10,208	43,188	6,583	(247)	59,732
Non-recurring basis (1)	—	—	72		72
Total assets at fair value	$ 10,208	$ 43,188	$ 6,655	$ (247)	$ 59,804
% of total assets at fair value	17.1%	72.2%	11.1%	(0.4)%	100.0%
Liabilities					
Contractholder funds:					
Derivatives embedded in annuity contracts	$ —	$ (145)	$ (142)		$ (287)
Other liabilities:					
Free-standing derivatives	(1)	(535)	(97)	$ 243	(390)
Total liabilities at fair value	$ (1)	$ (680)	$ (239)	$ 243	$ (677)
% of total liabilities at fair value	0.2%	100.4%	35.3%	(35.9)%	100.0%

(1) Includes $55 million of mortgage loans, $13 million of limited partnership interests and $4 million of other investments written-down to fair value in connection with recognizing other-than-temporary impairments.

The following table summarizes the Company's assets and liabilities measured at fair value on a recurring and non-recurring basis as of December 31, 2009:

($ 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, 2009
Assets					
Fixed income securities:					
U.S. government and agencies	$ 1,596	$ 1,985	$ —		$ 3,581
Municipal	—	4,363	746		5,109
Corporate	—	25,519	2,020		27,539
Foreign government	—	2,133	20		2,153
RMBS	—	3,614	1,052		4,666
CMBS	—	1,146	1,322		2,468
ABS	—	417	1,710		2,127
Redeemable preferred stock	—	14	1		15
Total fixed income securities	1,596	39,191	6,871		47,658
Equity securities	129	27	27		183
Short-term investments	133	1,536	—		1,669
Other investments:					
Free-standing derivatives	—	808	32	$ (411)	429
Separate account assets	9,072	—	—		9,072
Other assets	—	—	2		2
Total recurring basis assets	10,930	41,562	6,932	(411)	59,013
Non-recurring basis (1)	—	—	219		219
Total assets at fair value	$ 10,930	$ 41,562	$ 7,151	$ (411)	$ 59,232
% of total assets at fair value	18.4%	70.2%	12.1%	(0.7)%	100.0%
Liabilities					
Contractholder funds:					
Derivatives embedded in annuity contracts	$ —	$ (217)	$ (110)		$ (327)
Other liabilities:					
Free-standing derivatives	(1)	(556)	(85)	$ 243	(399)
Total liabilities at fair value	$ (1)	$ (773)	$ (195)	$ 243	$ (726)
% of total liabilities at fair value	0.1%	106.5%	26.9%	(33.5)%	100.0%

(1) Includes $205 million of mortgage loans and $14 million of limited partnership interests 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, 2010.

		Total realized and unrealized gains (losses) included in:					
($ in millions)	Balance as of June 30, 2010	Net income (1)	OCI on Statement of Financial Position	Purchases, sales, issuances and settlements, net	Transfers into Level 3	Transfers out of Level 3	Balance as of September 30, 2010
Assets							
Fixed income securities:							
Municipal	$ 603	$ —	$ (1)	$ 28	$ 2	$ —	$ 632
Corporate	2,018	14	67	(127)	164	(151)	1,985
RMBS	1,362	(51)	118	(161)	—	—	1,268
CMBS	792	(68)	131	(119)	38	—	774
ABS	1,880	27	56	48	—	(123)	1,888
Redeemable preferred stock	1	—	—	—	—	—	1
Total fixed income securities	6,656	(78)	371	(331)	204	(274)	6,548
Equity securities	29	15	—	(15)	—	—	29
Other investments:							
Free-standing derivatives, net	(108)	10	—	5	—	—	(93)(2)
Other assets	2	—	—	—	—	—	2
Total recurring Level 3 assets	$ 6,579	$ (53)	$ 371	$ (341)	$ 204	$ (274)	$ 6,486
Liabilities							
Contractholder funds:							
Derivatives embedded in annuity contracts	$ (119)	$ (23)	$ —	$ —	$ —	$ —	$ (142)
Total recurring Level 3 liabilities	$ (119)	$ (23)	$ —	$ —	$ —	$ —	$ (142)

(1) The effect to net income totals $(76) million and is reported in the Condensed Consolidated Statements of Operations as follows: $(63) million in realized capital gains and losses, $10 million in net investment income and $23 million in contract benefits.

(2) Comprises $4 million of assets and $97 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, 2010.

		Total realized and unrealized gains (losses) included in:					
($ in millions)	Balance as of December 31, 2009	Net income (1)	OCI on Statement of Financial Position	Purchases, sales, issuances and settlements, net	Transfers into Level 3	Transfers out of Level 3	Balance as of September 30, 2010
Assets							
Fixed income securities:							
Municipal	$ 746	$ (10)	$ 9	$ (88)	$ 2	$ (27)	$ 632
Corporate	2,020	(8)	187	(188)	336	(362)	1,985
Foreign government	20	—	—	(20)	—	—	—
RMBS	1,052	(179)	366	35	—	(6)	1,268
CMBS	1,322	(176)	432	(453)	62	(413)	774
ABS	1,710	43	133	202	—	(200)	1,888
Redeemable preferred stock	1	—	—	—	—	—	1
Total fixed income securities	6,871	(330)	1,127	(512)	400	(1,008)	6,548
Equity securities	27	15	1	(14)	—	—	29
Other investments:							
Free-standing derivatives, net	(53)	(55)	—	15	—	—	(93)(2)
Other assets	2	—	—	—	—	—	2
Total recurring Level 3 assets	$ 6,847	$ (370)	$ 1,128	$ (511)	$ 400	$ (1,008)	$ 6,486
Liabilities							
Contractholder funds:							
Derivatives embedded in annuity contracts	$ (110)	$ (35)	$ —	$ 3	$ —	$ —	$ (142)
Total recurring Level 3 liabilities	$ (110)	$ (35)	$ —	$ 3	$ —	$ —	$ (142)

(1) The effect to net income totals $(405) million and is reported in the Condensed Consolidated Statements of Operations as follows: $(424) million in realized capital gains and losses, $57 million in net investment income, $3 million in interest credited to contractholder funds and $35 million in contract benefits.

(2) Comprises $4 million of assets and $97 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, the security is transferred into Level 3. Transfers in and out of level categorizations are reported as having occurred at the beginning of the quarter in which the transfer occurred. Therefore, for all transfers into Level 3, all realized and changes in unrealized gains and losses in the quarter of transfer are reflected in the Level 3 rollforward table.

There were no transfers between Level 1 and Level 2 during the three and nine months ended September 30, 2010.

During the three and nine months ended September 30, 2010, certain CMBS and ABS were transferred into Level 2 from Level 3 as a result of increased liquidity in the market and the availability of market observable quoted prices for similar 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, 2010, including those related to Corporate fixed income securities, 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 resulting in the security being classified as Level 3. Transfers out of Level 3 during the three and nine months ended September 30, 2010, including those related to Corporate fixed income securities, 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

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

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 total gains and (losses) included in net income during the period for Level 3 assets and liabilities still held at September 30, 2010.

($ in millions)	Three months ended September 30, 2010	Nine months ended September 30, 2010
Assets		
Fixed income securities:		
Municipal	$ —	$ (8)
Corporate	5	(27)
RMBS	(49)	(141)
CMBS	(22)	(42)
ABS	26	49
Total fixed income securities	(40)	(169)
Other investments:		
Free-standing derivatives, net	13	(44)
Total recurring Level 3 assets	$ (27)	$ (213)
Liabilities		
Contractholder funds:		
Derivatives embedded in annuity contracts	$ (23)	$ (35)
Total recurring Level 3 liabilities	$ (23)	$ (35)

The amounts in the table above represent gains and losses included in net income during the period presented for the period of time that the asset or liability was determined to be in Level 3. These gains and losses total $(50) million for the three months ended September 30, 2010 and are reported in the Condensed Consolidated Statements of Operations as follows: $(33) million in realized capital gains and losses, $5 million in net investment income, $(1) million in interest credited to contractholder funds and $23 million in contract benefits. These gains and losses total $(248) million for the nine months ended September 30, 2010 and are reported in the Condensed Consolidated Statements of Operations as follows: $(243) million in realized capital gains and losses, $35 million in net investment income, $5 million in interest credited to contractholder funds and $35 million in contract benefits.

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, 2009.

($ in millions)	Balance as of June 30, 2009	Total realized and unrealized gains (losses) included in: Net income (1)	Total realized and unrealized gains (losses) included in: OCI on Statement of Financial Position	Purchases, sales, issuances and settlements, net	Net transfers in and/or (out) of Level 3	Balance as of September 30, 2009	Total gains (losses) included in net income for financial instruments still held at September 30, 2009 (3)
Assets							
Fixed income securities:							
Municipal	$ 687	$ (1)	$ 21	$ (14)	$ (6)	$ 687	$ —
Corporate	9,504	48	495	(533)	(51)	9,463	34
Foreign government	—	—	—	10	—	10	—
RMBS	1,411	(35)	176	(80)	(415)	1,057	(37)
CMBS	887	(58)	418	(57)	136	1,326	(17)
ABS	1,257	(9)	371	3	(123)	1,499	(39)
Redeemable preferred stock	1	—	—	—	—	1	—
Total fixed income securities	13,747	(55)	1,481	(671)	(459)	14,043	(59)
Equity securities	26	—	1	—	—	27	—
Other investments:							
Free-standing derivatives, net	(99)	17	—	7	—	(75)(2)	24
Other assets	2	—	—	—	—	2	—
Total recurring Level 3 assets	$ 13,676	$ (38)	$ 1,482	$ (664)	$ (459)	$ 13,997	$ (35)
Liabilities							
Contractholder funds:							
Derivatives embedded in annuity contracts	$ (155)	$ 36	$ —	$ (1)	$ —	$ (120)	$ 36
Total recurring Level 3 liabilities	$ (155)	$ 36	$ —	$ (1)	$ —	$ (120)	$ 36

(1) The effect to net income totals $(2) million and is reported in the Condensed Consolidated Statements of Operations as follows: $(50) million in realized capital gains and losses, $11 million in net investment income, $(1) million in interest credited to contractholder funds and $(36) million in contract benefits.

(2) Comprises $25 million of assets and $100 million of liabilities.

(3) The amounts represent 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 $1 million and are reported in the Condensed Consolidated Statements of Operations as follows: $(47) million in realized capital gains and losses, $10 million in net investment income, $(2) million in interest credited to contractholder funds, and $(36) million in contract benefits.

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, 2009.

($ in millions)	Balance as of December 31, 2008	Total realized and unrealized gains (losses) included in: Net income (1)	Total realized and unrealized gains (losses) included in: OCI on Statement of Financial Position	Purchases, sales, issuances and settlements, net	Net transfers in and/or (out) of Level 3	Balance as of September 30, 2009	Total gains (losses) included in net income for financial instruments still held at September 30, 2009 (3)
Assets							
Fixed income securities:							
Municipal	$ 703	$ (1)	$ 28	$ (27)	$ (16)	$ 687	$ —
Corporate	9,867	(9)	1,119	(1,405)	(109)	9,463	(5)
Foreign government	—	—	—	10	—	10	—
RMBS	1,811	(69)	54	(162)	(577)	1,057	(67)
CMBS	410	(162)	591	(74)	561	1,326	(131)
ABS	1,341	(164)	617	(126)	(169)	1,499	(169)
Redeemable preferred stock	1	—	—	—	—	1	—
Total fixed income securities	14,133	(405)	2,409	(1,784)	(310)	14,043	(372)
Equity securities	27	—	—	—	—	27	—
Other investments:							
Free-standing derivatives, net	(93)	55	—	(37)	—	(75)(2)	68
Other assets	1	1	—	—	—	2	1
Total recurring Level 3 assets	$ 14,068	$ (349)	$ 2,409	$ (1,821)	$ (310)	$ 13,997	$ (303)
Liabilities							
Contractholder funds:							
Derivatives embedded in annuity contracts	$ (265)	$ 141	$ —	$ 4	$ —	$ (120)	$ 141
Total recurring Level 3 liabilities	$ (265)	$ 141	$ —	$ 4	$ —	$ (120)	$ 141

(1) The effect to net income totals $(208) million and is reported in the Condensed Consolidated Statements of Operations as follows: $(409) million in realized capital gains and losses, $60 million in net investment income, and $(141) million in contract benefits.
(2) Comprises $25 million of assets and $100 million of liabilities.
(3) The amounts represent 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 $(162) million and are reported in the Condensed Consolidated Statements of Operations as follows: $(357) million in realized capital gains and losses, $51 million in net investment income, $(3) million in interest credited to contractholder funds, and $(141) million in contract benefits.

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

Financial assets

($ in millions)	September 30, 2010 Carrying value	September 30, 2010 Fair value	December 31, 2009 Carrying value	December 31, 2009 Fair value
Mortgage loans	$ 6,833	$ 6,247	$ 7,780	$ 6,220
Limited partnership interests - cost basis	620	649	533	521
Bank loans	313	297	359	329
Notes due from related party	275	249	275	233

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 limited partnership interests accounted for on the cost basis is determined using reported net asset values of the underlying funds. The fair value of bank loans, which are reported in other investments on the Condensed Consolidated Statements of Financial Position, are valued based on broker quotes

from brokers familiar with the loans and current market conditions. The fair value of notes due from related party is based on discounted cash flow calculations using current interest rates for instruments with comparable terms.

Financial liabilities

($ in millions)	September 30, 2010 Carrying value	September 30, 2010 Fair value	December 31, 2009 Carrying value	December 31, 2009 Fair value
Contractholder funds on investment contracts	$ 35,792	$ 35,742	$ 39,824	$ 38,196
Notes due to related parties	677	653	675	611
Liability for collateral	469	469	617	617

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 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.

6. Derivative Financial Instruments

The Company primarily uses derivatives for risk management and asset replication. In addition, the Company 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 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 Company does not use derivatives for trading purposes. 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.

The Company uses derivatives to partially mitigate potential adverse impacts from increases in credit spreads. Credit default swaps are typically used to mitigate the credit risk within the Company's fixed income portfolio. 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.

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 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.

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.

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's primary embedded derivatives are 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; equity options in 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; and credit default swaps in synthetic collateralized debt obligations, which provide enhanced coupon rates as a result of selling credit protection.

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, 2010, the Company pledged $24 million of securities and cash 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. For non-hedge derivatives, net income includes changes in fair value and accrued periodic settlements, when 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 Statements of Financial Position at September 30, 2010.

($ in millions, except number of contracts)	Balance sheet location	Asset derivatives: Volume (1): Notional amount	Asset derivatives: Volume (1): Number of contracts	Fair value, net	Gross asset	Gross liability
Derivatives designated as accounting hedging instruments						
Interest rate swap agreements	Other investments	$ 35	n/a	$ (2)	$ —	$ (2)
Foreign currency swap agreements	Other investments	41	n/a	2	3	(1)
Total		$ 76	n/a	$ —	$ 3	$ (3)
Derivatives not designated as accounting hedging instruments						
Interest rate contracts						
Interest rate swap agreements	Other investments	$ 574	n/a	$ 58	$ 60	$ (2)
Interest rate cap and floor agreements	Other investments	61	n/a	—	—	—
Financial futures contracts and options	Other assets	n/a	1,040	—	—	—
Equity and index contracts						
Options, futures and warrants (2)	Other investments	66	23,750	243	243	—
Options, futures and warrants	Other assets	n/a	1,456	—	—	—
Foreign currency contracts						
Foreign currency swap agreements	Other investments	40	n/a	—	—	—
Embedded derivative financial instruments						
Conversion options	Fixed income securities	309	n/a	76	76	—
Equity-indexed call options	Fixed income securities	325	n/a	47	47	—
Credit default swaps	Fixed income securities	179	n/a	(101)	—	(101)
Credit default contracts						
Credit default swaps - buying protection	Other investments	31	n/a	—	—	—
Other contracts						
Other contracts	Other investments	13	n/a	—	—	—
Other contracts	Other assets	5	n/a	2	2	—
Total		$ 1,603	26,246	$ 325	$ 428	$ (103)
Total derivative assets		$ 1,679	26,246	$ 325	$ 431	$ (106)

(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.

	Balance sheet location	Liability derivatives: Volume (1): Notional amount	Liability derivatives: Volume (1): Number of contracts	Fair value, net	Gross asset	Gross liability
Derivatives designated as accounting hedging instruments						
Interest rate swap agreements	Other liabilities & accrued expenses	$ 3,621	n/a	$ (255)	$ 26	$ (281)
Interest rate swap agreements	Contractholder funds	n/a	n/a	7	7	—
Foreign currency swap agreements	Other liabilities & accrued expenses	161	n/a	(14)	1	(15)
Foreign currency and interest rate swap agreements	Other liabilities & accrued expenses	435	n/a	44	44	—
Foreign currency and interest rate swap agreements	Contractholder funds	n/a	n/a	20	20	—
Total		$ 4,217	n/a	$ (198)	$ 98	$ (296)
Derivatives not designated as accounting hedging instruments						
Interest rate contracts						
Interest rate swap agreements	Other liabilities & accrued expenses	$ 4,494	n/a	$ 18	$ 131	$ (113)
Interest rate swaption agreements	Other liabilities & accrued expenses	750	n/a	2	2	—
Interest rate cap and floor agreements	Other liabilities & accrued expenses	3,514	n/a	(32)	1	(33)
Financial futures contracts and options	Other liabilities & accrued expenses	n/a	1,130	—	—	—
Equity and index contracts						
Options and futures	Other liabilities & accrued expenses	57	24,118	(109)	1	(110)
Foreign currency contracts						
Foreign currency swap agreements	Other liabilities & accrued expenses	50	n/a	3	3	—
Embedded derivative financial instruments						
Guaranteed accumulation benefits	Contractholder funds	1,019	n/a	(87)	—	(87)
Guaranteed withdrawal benefits	Contractholder funds	720	n/a	(51)	—	(51)
Equity-indexed options in life and annuity product contracts	Contractholder funds	4,165	n/a	(145)	—	(145)
Other embedded derivative financial instruments	Contractholder funds	85	n/a	(4)	—	(4)
Credit default contracts						
Credit default swaps - buying protection	Other liabilities & accrued expenses	512	n/a	(3)	4	(7)
Credit default swaps - selling protection	Other liabilities & accrued expenses	344	n/a	(67)	2	(69)
Total		$ 15,710	25,248	$ (475)	$ 144	$ (619)
Total derivative liabilities		$ 19,927	25,248	$ (673)	$ 242	$ (915)
Total derivatives		$ 21,606	51,494	$ (348)		

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

The following table provides a summary of the volume and fair value positions of derivative instruments as well as their reporting location in the Consolidated Statements of Financial Position at December 31, 2009.

($ in millions, except number of contracts)	Balance sheet location	Asset derivatives Volume (1) Notional amount	Number of contracts	Fair value, net	Gross asset	Gross liability
Derivatives designated as accounting hedging instruments						
Interest rate swap agreements	Other investments	$ 45	n/a	$ (3)	$ —	$ (3)
Foreign currency swap agreements	Other investments	23	n/a	(2)	—	(2)
Total		$ 68	n/a	$ (5)	$ —	$ (5)
Derivatives not designated as accounting hedging instruments						
Interest rate contracts						
Interest rate swap agreements	Other investments	$ 1,106	n/a	$ 57	$ 61	$ (4)
Interest rate cap and floor agreements	Other investments	52	n/a	2	2	—
Financial futures contracts and options	Other assets	n/a	404	—	—	—
Equity and index contracts						
Options, futures and warrants (2)	Other investments	62	19,850	385	385	—
Options, futures and warrants	Other assets	n/a	102	—	—	—
Foreign currency contracts						
Foreign currency swap agreements	Other investments	53	n/a	1	1	—
Embedded derivative financial instruments						
Conversion options	Fixed income securities	315	n/a	117	117	—
Equity-indexed call options	Fixed income securities	475	n/a	89	89	—
Credit default contracts						
Credit default swaps - buying protection	Other investments	83	n/a	(3)	2	(5)
Credit default swaps - selling protection	Other investments	14	n/a	—	—	—
Other contracts						
Other contracts	Other investments	75	n/a	—	—	—
Other contracts	Other assets	6	n/a	2	2	—
Total		$ 2,241	20,356	$ 650	$ 659	$ (9)
Total derivative assets		$ 2,309	20,356	$ 645	$ 659	$ (14)

(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.

	Balance sheet location	Liability derivatives Volume (1) Notional amount	Number of contracts	Fair value, net	Gross asset	Gross liability
Derivatives designated as accounting hedging instruments						
Interest rate swap agreements	Other liabilities & accrued expenses	$ 2,443	n/a	$ (230)	$ —	$ (230)
Foreign currency swap agreements	Other liabilities & accrued expenses	179	n/a	(18)	3	(21)
Foreign currency and interest rate swap agreements	Other liabilities & accrued expenses	870	n/a	231	231	—
Foreign currency and interest rate swap agreements	Contractholder funds	—	n/a	44	44	—
Total		$ 3,492	n/a	$ 27	$ 278	$ (251)
Derivatives not designated as accounting hedging instruments						
Interest rate contracts						
Interest rate swap agreements	Other liabilities & accrued expenses	$ 6,087	n/a	$ 32	$ 69	$ (37)
Interest rate swaption agreements	Other liabilities & accrued expenses	1,000	n/a	15	15	—
Interest rate cap and floor agreements	Other liabilities & accrued expenses	3,896	n/a	(16)	9	(25)
Equity and index contracts						
Options and futures	Other liabilities & accrued expenses	45	19,946	(213)	3	(216)
Foreign currency contracts						
Foreign currency swap agreements	Other liabilities & accrued expenses	54	n/a	3	3	—
Foreign currency forwards and options	Other liabilities & accrued expenses	185	n/a	2	2	—
Embedded derivative financial Instruments						
Guaranteed accumulation benefits	Contractholder funds	1,113	n/a	(66)	—	(66)
Guaranteed withdrawal benefits	Contractholder funds	810	n/a	(41)	—	(41)
Equity-indexed options in life and annuity product contracts	Contractholder funds	4,321	n/a	(217)	—	(217)
Other embedded derivative financial instruments	Contractholder funds	85	n/a	(3)	—	(3)
Credit default contracts						
Credit default swaps - buying protection	Other liabilities & accrued expenses	550	n/a	(29)	4	(33)
Credit default swaps - selling protection	Other liabilities & accrued expenses	1,070	n/a	(60)	6	(66)
Total		$ 19,216	19,946	$ (593)	$ 111	$ (704)
Total derivative liabilities		$ 22,708	19,946	$ (566)	$ 389	$ (955)
Total derivatives		$ 25,017	40,302	$ 79		

(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 in the Condensed Consolidated Statements of Operations and the Condensed Consolidated Statements of Financial Position. Amortization of net gains from accumulated other comprehensive income related to cash flow hedges is expected to be $2 million during the next twelve months.

($ in millions)	Three months ended September 30, 2010	Three months ended September 30, 2009	Nine months ended September 30, 2010	Nine months ended September 30, 2009
Effective portion				
(Loss) gain recognized in OCI on derivatives during the period	$ (19)	$ (12)	$ 9	$ (36)
Loss recognized in OCI on derivatives during the term of the hedging relationship	(12)	(20)	(12)	(20)
Gain reclassified from AOCI into income (net investment income)	—	—	1	1
(Loss) gain reclassified from AOCI into income (realized capital gains and losses)	—	(2)	2	(1)
Ineffective portion and amount excluded from effectiveness				
Gain recognized in income on derivatives (realized capital gains and losses)	—	—	—	—

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

($ in millions)	Three months ended September 30, 2010				
	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	$ (57)	$ 2	$ —	$ 9	$ (46)
Foreign currency and interest rate contracts	—	—	—	25	25
Subtotal	(57)	2	—	34	(21)
Derivatives not designated as accounting hedging instruments					
Interest rate contracts	—	(65)	—	—	(65)
Equity and index contracts	—	—	—	70	70
Embedded derivative financial instruments	—	29	(22)	(39)	(32)
Credit default contracts	—	10	—	—	10
Other contracts	—	—	—	1	1
Subtotal	—	(26)	(22)	32	(16)
Total	$ (57)	$ (24)	$ (22)	$ 66	$ (37)

	Nine months ended September 30, 2010				
	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	$ (170)	$ 4	$ —	$ 21	$ (145)
Foreign currency and interest rate contracts	—	(1)	—	(15)	(16)
Subtotal	(170)	3	—	6	(161)
Derivatives not designated as accounting hedging instruments					
Interest rate contracts	—	(212)	—	—	(212)
Equity and index contracts	—	—	—	34	34
Embedded derivative financial instruments	—	(27)	(30)	71	14
Foreign currency contracts	—	4	—	—	4
Credit default contracts	—	(6)	—	—	(6)
Other contracts	—	—	—	3	3
Subtotal	—	(241)	(30)	108	(163)
Total	$ (170)	$ (238)	$ (30)	$ 114	$ (324)

	Three months ended September 30, 2009				
	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	$ (55)	$ —	$ —	$ —	$ (55)
Foreign currency and interest rate contracts	—	(3)	—	12	9
Subtotal	(55)	(3)	—	12	(46)
Derivatives not designated as accounting hedging instruments					
Interest rate contracts	—	(109)	—	—	(109)
Equity and index contracts	—	—	—	68	68
Embedded derivative financial instruments	—	54	36	(100)	(10)
Foreign currency contracts	—	1	—	—	1
Credit default contracts	—	3	—	—	3
Other contracts	—	—	—	2	2
Subtotal	—	(51)	36	(30)	(45)
Total	$ (55)	$ (54)	$ 36	$ (18)	$ (91)

	Nine months ended September 30, 2009				
	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	$ 23	$ 10	$ —	$ (13)	$ 20
Foreign currency and interest rate contracts	—	(6)	—	72	66
Subtotal	23	4	—	59	86
Derivatives not designated as accounting hedging instruments					
Interest rate contracts	—	165	—	—	165
Equity and index contracts	—	—	—	77	77
Embedded derivative financial instruments	—	56	146	(185)	17
Foreign currency contracts	—	1	—	—	1
Credit default contracts	—	9	—	—	9
Other contracts	—	—	—	1	1
Subtotal	—	231	146	(107)	270
Total	$ 23	$ 235	$ 146	$ (48)	$ 356

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

($ in millions)

	Three months ended September 30, 2010			
	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
Interest credited to contractholder funds	$ 6	$ 18	$ (24)	$ —
Net investment income	(32)	—	—	32
Realized capital gains and losses	2	—	—	—
Total	$ (24)	$ 18	$ (24)	$ 32

	Nine months ended September 30, 2010			
	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 &	Contractholder funds	Investments

		interest rate contracts		
Interest credited to contractholder funds	$ 14	$ (39)	$ 25	$ —
Net investment income	(88)	—	—	88
Realized capital gains and losses	4	(1)	—	—
Total	$ (70)	$ (40)	$ 25	$ 88

	Three months ended September 30, 2009			
	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**
Interest credited to contractholder funds	$ —	$ 1	$ (1)	$ —
Net investment income	(21)	—	—	21
Realized capital gains and losses	—	(3)	—	—
Total	$ (21)	$ (2)	$ (1)	$ 21

	Nine months ended September 30, 2009			
	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**
Interest credited to contractholder funds	$ (26)	$ 45	$ (19)	$ —
Net investment income	124	—	—	(124)
Realized capital gains and losses	10	(6)	—	—
Total	$ 108	$ 39	$ (19)	$ (124)

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, including interest rate swap, foreign currency swap, interest rate cap, interest rate floor, credit default swap, forward and certain option agreements (including swaptions). These agreements permit either party to net payments due for transactions covered by the agreements. Under the provisions of the agreements, collateral is either pledged or obtained when certain predetermined exposure limits are exceeded. As of September 30, 2010, counterparties pledged $4 million in cash and $13 million in securities to the Company, and the Company pledged $287 million in securities to counterparties which includes $200 million of collateral posted under MNAs for contracts containing credit-risk-contingent provisions that are in a liability position and $87 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 interest rate swap, foreign currency swap, interest rate cap, interest rate floor, free-standing credit default swap, forward and certain option agreements (including swaptions).

($ in millions)

	September 30, 2010				December 31, 2009			
Rating (1)	**Number of counter-parties**	**Notional amount**	**Credit exposure (2)**	**Exposure, net of collateral (2)**	**Number of counter-parties**	**Notional amount**	**Credit exposure (2)**	**Exposure, net of collateral (2)**
AA-	1	$ 672	$ 23	$ 11	—	$ —	$ —	$ —
A+	1	113	3	—	3	6,666	151	18
A	2	817	5	5	2	1,041	48	17
A-	1	89	34	34	1	145	23	23
Total	5	$ 1,691	$ 65	$ 50	6	$ 7,852	$ 222	$ 58

(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, 2010	December 31, 2009
Gross liability fair value of contracts containing credit-risk-contingent features	$ 445	$ 386
Gross asset fair value of contracts containing credit-risk-contingent features and subject to MNAs	(235)	(233)
Collateral posted under MNAs for contracts containing credit-risk-contingent features	(200)	(122)
Maximum amount of additional exposure for contracts with credit-risk-contingent features if all features were triggered concurrently	$ 10	$ 31

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 as of September 30, 2010:

($ in millions)	Notional amount					
	AA	A	BBB	BB and lower	Total	Fair value
Single name						
Investment grade corporate debt	$ 40	$ 65	$ 30	$ 15	$ 150	$ (3)
High yield debt	—	—	—	4	4	—
Municipal	25	—	—	—	25	(6)
Subtotal	65	65	30	19	179	(9)
Baskets						
Tranche						
Investment grade corporate debt	—	—	—	65	65	(22)
First-to-default						
Municipal	—	100	—	—	100	(36)
Subtotal	—	100	—	65	165	(58)
Total	$ 65	$ 165	$ 30	$ 84	$ 344	$ (67)

The following table shows the CDS notional amounts by credit rating and fair value of protection sold as of December 31, 2009:

($ in millions)	Notional amount					
	AA	A	BBB	BB and lower	Total	Fair value
Single name						
Investment grade corporate debt	$ 50	$ 65	$ 41	$ 15	$ 171	$ (5)
High yield debt	—	—	—	8	8	—
Municipal	25	—	—	—	25	(4)
Subtotal	75	65	41	23	204	(9)
Baskets						
Tranche						
Investment grade corporate debt	—	—	—	65	65	(27)
First-to-default						
Investment grade corporate debt	—	45	15	—	60	—
Municipal	20	135	—	—	155	(28)
Subtotal	20	180	15	65	280	(55)
Index						
Investment grade corporate debt	14	159	408	19	600	4
Total	$ 109	$ 404	$ 464	$ 107	$ 1,084	$ (60)

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

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

(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:

	Three months ended September 30,		Nine months ended September 30,	
($ in millions)	**2010**	**2009**	**2010**	**2009**
Direct	$ 554	$ 542	$ 1,671	$ 1,642
Assumed				
Affiliate	27	26	80	76
Non-affiliate	5	5	16	16
Ceded—non-affiliate	(186)	(198)	(566)	(588)
Premiums and contract charges, net of reinsurance	$ 400	$ 375	$ 1,201	$ 1,146

The effects of reinsurance on contract benefits are as follows:

	Three months ended September 30,		Nine months ended September 30,	
($ in millions)	**2010**	**2009**	**2010**	**2009**
Direct	$ 602	$ 296	$ 1,660	$ 1,535
Assumed				
Affiliate	18	16	53	49
Non-affiliate	6	4	18	18
Ceded—non-affiliate (1)	(261)	11	(596)	(584)
Contract benefits, net of reinsurance	$ 365	$ 327	$ 1,135	$ 1,018

(1) The three months ended September 30, 2009 include a $166 million decrease in the reinsurance recoverable related to the ceded variable annuity contract guarantees as a result of improved equity market conditions during 2009.

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

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

	Three months ended September 30,		Nine months ended September 30,	
($ in millions)	**2010**	**2009**	**2010**	**2009**
Direct	$ 438	$ 488	$ 1,333	$ 1,605
Assumed				
Affiliate	3	3	8	8
Non-affiliate	2	3	9	9
Ceded—non-affiliate	(8)	(9)	(24)	(24)

Interest credited to contractholder funds, net of reinsurance	$ 435	$ 485	$ 1,326	$ 1,598

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 a guaranty fund assessment 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.

The New York Liquidation Bureau (the "Bureau") has publicly reported that Executive Life Insurance Company of New York ("Executive Life") is currently under its jurisdiction as part of a 1992 court-ordered rehabilitation plan. However, Executive Life does not have a liquidity problem at this time, and an order of liquidation has not been sought by the Bureau. The current publicly available estimated shortfall from the Bureau is $1.27 billion. If Executive Life were to be declared insolvent in the future, the Company may have exposure to future guaranty fund assessments. The Company's exposure will ultimately depend on the level of guaranty fund system participation. New York law currently contains an aggregate limit on guaranty funds under the Life Insurance Corporation of New York of $500 million, of which approximately $40 million has been used. 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 premium taxes. The Company's average market share for New York, based on assessable premiums, was approximately 3.1% in 2009.

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 $111 million at September 30, 2010. The obligations associated with these fixed income securities expire at various dates on or before July 26, 2016.

Related to the disposal through reinsurance of substantially all of the Company's variable annuity business to The Prudential Insurance Company of America, a subsidiary of Prudential Financial, Inc. (collectively "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 adverse 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, 2010.

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.

Legal and regulatory proceedings and inquiries

Background

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

As background to the "Proceedings" subsection below, please note the following:

- These matters raise difficult and complicated factual and legal issues and are subject to many uncertainties and complexities, including the underlying facts of each matter; novel legal issues; variations between jurisdictions in which matters are being litigated, heard, or investigated; differences in

applicable laws and judicial interpretations; the length of time before many of these matters might be resolved by settlement, through litigation, or otherwise; the fact that some of the lawsuits are putative class actions in which a class has not been certified and in which the purported class may not be clearly defined; the fact that some of the lawsuits involve multi-state class actions in which the applicable law(s) for the claims at issue is in dispute and therefore unclear; and the current challenging legal environment faced by large corporations and insurance companies.

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

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

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

- For the reasons specified above, it is often not possible to make meaningful estimates of the amount or range of loss that could result from the matters described below in the “Proceedings” subsection. The Company reviews these matters on an ongoing basis and follows appropriate accounting guidance when making accrual and disclosure decisions. When assessing reasonably possible and probable outcomes, the Company bases its decisions on its assessment of the ultimate outcome following all appeals.

- Due to the complexity and scope of the matters disclosed in the “Proceedings” subsection below and the many uncertainties that exist, the ultimate outcome of these matters cannot be reasonably predicted. In the event of an unfavorable outcome in one or more of these matters, the ultimate liability may be in excess of amounts currently reserved, if any, and may be material to the Company’s operating results or cash flows for a particular quarterly or annual period. However, based on information currently known to it, management believes that the ultimate outcome of all matters described below, as they are resolved over time, is not likely to have a material adverse effect on the financial position of the Company.

Proceedings

Legal proceedings involving Allstate agencies and AIC may impact the Company, even when the Company is not directly involved, because the Company sells its products through a variety of distribution channels including Allstate agencies. Consequently, information about the more significant of these proceedings is provided in the following paragraph.

AIC is defending certain matters relating to its agency program reorganization announced in 1999. These matters are in various stages of development.

- These matters include a lawsuit filed in 2001 by the U.S. Equal Employment Opportunity Commission (“EEOC”) alleging retaliation under federal civil rights laws (the “EEOC I” suit) and a class action filed in 2001 by former employee agents alleging retaliation and age discrimination under the Age Discrimination in Employment Act (“ADEA”), breach of contract and ERISA violations (the “Romero I” suit). In 2004, in the consolidated EEOC I and Romero I litigation, the trial court issued a memorandum and order that, among other things, certified classes of agents, including a mandatory class of agents who had signed a release, for purposes of effecting the court’s declaratory judgment that the release is voidable at the option of the release signer. The court also ordered that an agent who voids the release must return to AIC “any and all benefits received by the [agent] in exchange for signing the release.” The court also stated that, “on the undisputed facts of record, there is no basis for claims of age discrimination.” The EEOC and plaintiffs asked the court to clarify and/or reconsider its memorandum and order and in January 2007, the judge denied their request. In June 2007, the court granted AIC’s motions for summary judgment. Following plaintiffs’ filing of a notice of appeal, the U.S. Court of Appeals for the Third Circuit (“Third Circuit”) issued an order in December 2007 stating that the notice of appeal was not taken from a final order within the meaning of the federal law and thus not appealable at this time. In March 2008, the Third Circuit decided that the appeal should not summarily be dismissed and that the question of whether the matter is appealable at this time will be addressed by the Third Circuit along with the merits of the appeal. In July 2009, the Third Circuit vacated the decision which granted AIC’s summary judgment motions, remanded the cases to the trial court for additional discovery, and directed that the cases be reassigned to another trial court judge. In January 2010, the cases were assigned to a new judge for further proceedings in the trial court.

- A putative nationwide class action has also been filed by former employee agents alleging various violations of ERISA, including a worker classification issue. These plaintiffs are challenging certain amendments to the Agents Pension Plan and are seeking to have exclusive agent independent contractors treated as employees for benefit purposes. This matter was dismissed with prejudice by the trial court, was the subject of further proceedings on appeal, and was reversed and remanded to the trial court in 2005. In June 2007, the court granted AIC’s motion to dismiss the case. Following plaintiffs’ filing of a notice of appeal, the Third Circuit issued an order in December 2007 stating that the notice of appeal was not taken from a final order within the meaning of the federal law and thus not appealable at this time. In March 2008, the Third Circuit decided that the appeal should not summarily be dismissed and that the question of whether the

matter is appealable at this time will be addressed by the Third Circuit along with the merits of the appeal. In July 2009, the Third Circuit vacated the decision which granted AIC's motion to dismiss the case, remanded the case to the trial court for additional discovery, and directed that the case be reassigned to another trial court judge. In January 2010, the case was assigned to a new judge for further proceedings in the trial court.

In these agency program reorganization matters, plaintiffs seek compensatory and punitive damages, and equitable relief. AIC has been vigorously defending these lawsuits and other matters related to its agency program reorganization.

Other Matters

Various other legal, governmental, and regulatory actions, including state market conduct exams, and other governmental and regulatory inquiries are pending from time to time that involve the Company and specific aspects of its conduct of business. Like other members of the insurance industry, the Company is the target of a number of class action lawsuits and other types of proceedings, some of which involve claims for substantial or indeterminate amounts. These actions are based on a variety of issues and target a range of the Company's practices. The outcome of these disputes is currently unpredictable.

One or more of these matters could have an adverse effect on the Company's operating results or cash flows for a particular quarterly or annual period. However, based on information currently known to it, management believes that the ultimate outcome of all matters described in this "Other Matters" subsection, in excess of amounts currently reserved, if any, as they are resolved over time, is not likely to have a material effect on the operating results, cash flows or financial position of the Company.

9. Income Taxes

A reconciliation of the statutory federal income tax rate to the effective income tax rate on income from operations for the nine months ended September 30 is as follows:

($ in millions)	2010		2009	
Statutory federal income tax rate - benefit	$ (52)	(35.0)%	$ (143)	(35.0)%
Dividends received deduction	(8)	(5.3)	(8)	(2.0)
Other	(4)	(2.7)	(2)	(0.5)
Valuation allowance	—	—	137	33.5
Effective income tax rate - benefit	$ (64)	(43.0)%	$ (16)	(4.0)%

Income tax expense for the nine months ended September 30, 2009 included expense of $142 million attributable to an increase in the valuation allowance relating to the deferred tax asset on capital losses.

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

10. Other Comprehensive Income

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

	Three months ended September 30,					
	2010			2009		
($ in millions)	Pre-tax	Tax	After-tax	Pre-tax	Tax	After-tax
Unrealized net holding gains and losses arising during the period, net of related offsets	$ 651	$ (227)	$ 424	$ 1,526	$ (534)	$ 992
Less: reclassification adjustment of realized capital gains and losses	(13)	5	(8)	(102)	36	(66)
Unrealized net capital gains and losses	664	(232)	432	1,628	(570)	1,058
Other comprehensive income	$ 664	$ (232)	432	$ 1,628	$ (570)	1,058
Net income (loss)			60			(57)
Comprehensive income			$ 492			$ 1,001

	Nine months ended September 30,					
	2010			2009		
	Pre-tax	Tax	After-tax	Pre-tax	Tax	After-tax
Unrealized net holding gains and losses arising during the period, net of related offsets	$ 1,866	$ (653)	$ 1,213	$ 3,794	$ (1,325)	$ 2,469
Less: reclassification adjustment of realized capital gains and losses	(290)	102	(188)	(249)	87	(162)
Unrealized net capital gains and losses	2,156	(755)	1,401	4,043	(1,412)	2,631
Other comprehensive income	$ 2,156	$ (755)	1,401	$ 4,043	$ (1,412)	2,631
Net loss			(85)			(393)
Comprehensive income			$ 1,316			$ 2,238

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, 2010, and the related condensed consolidated statements of operations for the three-month and nine-month periods ended September 30, 2010 and 2009, and the condensed consolidated statements of cash flows for the nine-month periods ended September 30, 2010 and 2009. 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, 2009, 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 12, 2010, 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, 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, 2009 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 3, 2010

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, 2010 AND 2009

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 2009. 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 of $60 million and net loss of $85 million in the third quarter and first nine months of 2010, respectively, compared to net losses of $57 million and $393 million in the third quarter and first nine months of 2009, respectively.
- Premiums and contract charges on underwritten products, including traditional life, interest-sensitive life and accident and health insurance, increased 4.9% or $17 million and 5.5% or $57 million in the third quarter and first nine months of 2010, respectively, compared to the same periods in 2009.
- Net realized capital losses totaled $37 million and $550 million in the third quarter and first nine months of 2010, respectively, compared to $232 million and $148 million in the third quarter and first nine months of 2009, respectively.
- Investments as of September 30, 2010 totaled $60.75 billion, reflecting an increase in carrying value of $530 million from $60.22 billion as of December 31, 2009. Net investment income decreased 5.4% to $683 million in the third quarter and 7.5% to $2.09 billion in the first nine months of 2010 from $722 million and $2.26 billion in the third quarter and first nine months of 2009, respectively.
- Contractholder funds as of September 30, 2010 totaled $47.18 billion, reflecting a decrease of $3.67 billion from $50.85 billion as of December 31, 2009.

OPERATIONS

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

($ in millions)	Three months ended September 30, 2010	Three months ended September 30, 2009	Nine months ended September 30, 2010	Nine months ended September 30, 2009
Revenues				
Premiums	$ 151	$ 134	$ 458	$ 440
Contract charges	249	241	743	706

	Three months 2010	Three months 2009	Nine months 2010	Nine months 2009
Net investment income	683	722	2,090	2,260
Realized capital gains and losses	(37)	(232)	(550)	(148)
Total revenues	1,046	865	2,741	3,258
Costs and expenses				
Contract benefits	(365)	(327)	(1,135)	(1,018)
Interest credited to contractholder funds	(435)	(485)	(1,326)	(1,598)
Amortization of DAC	(69)	(61)	(150)	(758)
Operating costs and expenses	(85)	(74)	(254)	(244)
Restructuring and related charges	—	(4)	1	(23)
Interest expense	(11)	(11)	(33)	(32)
Total costs and expenses	(965)	(962)	(2,897)	(3,673)
Gain on disposition of operations	4	2	7	6
Income tax (expense) benefit	(25)	38	64	16
Net income (loss)	$ 60	$ (57)	$ (85)	$ (393)
Investments at September 30			$ 60,747	$ 59,926

Net income in the third quarter of 2010 was $60 million compared to a net loss of $57 million in the same period of 2009. The favorable change of $117 million was primarily due to lower net realized capital losses, lower interest credited to contractholder funds and higher premiums and contract charges, partially offset by lower net investment income and higher contract benefits.

Net loss in the first nine months of 2010 was $85 million compared to $393 million in the first nine months of 2009. The improvement of $308 million was primarily due to lower amortization of deferred policy acquisition costs (“DAC”), decreased interest credited to contractholder funds and higher premiums and contract charges, partially offset by increased net realized capital losses, lower net investment income and higher contract benefits. Additionally, the first nine months of 2009 included expenses of $142 million attributable to an increase in the valuation allowance relating to the deferred tax asset on capital losses.

Analysis of revenues Total revenues increased 20.9% or $181 million in the third quarter of 2010 compared to the third quarter of 2009 due to lower net realized capital losses and higher premiums and contract charges, partially offset by lower net investment income. Total revenues decreased 15.9% or $517 million in the first nine months of 2010 compared to the same period in 2009 due to higher net realized capital losses and lower net investment income, partially offset by higher premiums and contract charges.

Premiums represent revenues generated from traditional life insurance, immediate annuities with life contingencies, and accident and health and 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. As a result, changes in contractholder funds are considered in the evaluation of growth and as indicators of future levels of revenues.

The following table summarizes premiums and contract charges by product.

($ in millions)	Three months ended September 30, 2010	Three months ended September 30, 2009	Nine months ended September 30, 2010	Nine months ended September 30, 2009
Premiums				
Traditional life insurance	$ 100	$ 96	$ 302	$ 289
Immediate annuities with life contingencies	26	15	84	83
Accident and health insurance	25	23	72	68
Total premiums	151	134	458	440
Contract charges				
Interest-sensitive life insurance	240	229	711	671
Fixed annuities	9	12	32	35
Total contract charges (1)	249	241	743	706
Total premiums and contract charges (2)	$ 400	$ 375	$ 1,201	$ 1,146

(1) Total contract charges include contract charges related to the cost of insurance totaling $159 million and $153 million in the third quarter of 2010 and 2009, respectively, and $469 million and $450 million in the first nine months of 2010 and 2009, respectively.

(2) Premiums and contract charges on underwritten products, including traditional life, interest-sensitive life and accident and health insurance, totaled $365 million and $348 million in the third quarter of 2010 and 2009, respectively, and $1.09 billion and $1.03 billion in the first nine months of 2010 and 2009, respectively.

Total premiums increased 12.7% and 4.1% in the third quarter and first nine months of 2010, respectively, compared to the same periods of 2009 primarily due to higher sales of immediate annuities with life contingencies and lower reinsurance premiums on traditional life insurance resulting from higher retention.

Total contract charges increased 3.3% and 5.2% in the third quarter and first nine months of 2010, respectively, compared to the same periods of 2009 primarily due to higher cost of insurance and maintenance contract charges on interest-sensitive life insurance products resulting from a shift in the mix of policies in force.

Contractholder funds represent interest-bearing liabilities arising from the sale of individual and institutional 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, 2010	Three months ended September 30, 2009	Nine months ended September 30, 2010	Nine months ended September 30, 2009
Contractholder funds, beginning balance	$ 47,697	$ 52,298	$ 50,850	$ 56,780
Deposits				
Fixed annuities	223	342	751	1,612
Interest-sensitive life insurance	345	337	1,087	996
Total deposits	568	679	1,838	2,608
Interest credited	433	486	1,322	1,506
Maturities, benefits, withdrawals and other adjustments				
Maturities and retirements of institutional products	(3)	(212)	(1,784)	(4,715)
Benefits	(393)	(377)	(1,174)	(1,202)
Surrenders and partial withdrawals	(1,035)	(973)	(3,138)	(2,812)
Contract charges	(231)	(218)	(685)	(637)
Net transfers from separate accounts	3	2	8	8
Fair value hedge adjustments for institutional products	24	1	(173)	31
Other adjustments (1)	114	(61)	113	58
Total maturities, benefits, withdrawals and other adjustments	(1,521)	(1,838)	(6,833)	9,269
Contractholder funds, ending balance	$ 47,177	$ 51,625	$ 47,177	$ 51,625

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

Contractholder funds decreased 1.1% and 7.2% in the third quarter and first nine months of 2010, respectively, compared to a decrease of 1.3% and 9.1% in the third quarter and first nine months of 2009, respectively. Average contractholder funds decreased 8.7% and 9.6% in the third quarter and first nine months of 2010, respectively, compared to the same periods of 2009.

Contractholder deposits decreased 16.3% and 29.5% in the third quarter and first nine months of 2010, respectively, compared to the same periods of 2009 primarily due to lower deposits on fixed annuities. Deposits on fixed annuities decreased 34.8% and 53.4% in the third quarter and first nine months of 2010, respectively, compared to the same periods of 2009 due to our strategic decision to discontinue distributing fixed annuities through banks and broker-dealers and our goal to reduce our concentration in spread based products and improve returns on new business.

Maturities and retirements of institutional products decreased 98.6% to $3 million in the third quarter of 2010 and 62.2% to $1.78 billion in the first nine months of 2010 from $212 million and $4.72 billion in the third quarter and first nine months of 2009, respectively. The third quarter and first nine months of 2009 included the retirement of $9 million and $1.45 billion, respectively, of extendible institutional market obligations, all of which were retired during 2009. In addition, the first nine months of 2009 included the redemption of $1.39 billion of institutional product liabilities in conjunction with cash tender offers.

Surrenders and partial withdrawals on deferred fixed annuities and interest-sensitive life insurance products increased 6.4% to $1.04 billion in the third quarter of 2010 and 11.6% to $3.14 billion in the first nine months of 2010 from $973 million and $2.81 billion in the third quarter and first nine months of 2009, respectively. The increases in both the third quarter and first nine months of 2010 were primarily due to higher surrenders and partial withdrawals on fixed annuities. The annualized surrender and partial withdrawal rate on deferred fixed annuities and interest-sensitive life insurance products, based on the beginning of period contractholder funds, was 10.2% in the first nine months of 2010 compared to 8.9% in the first nine months of 2009.

Analysis of costs and expenses Total costs and expenses increased 0.3% or $3 million in the third quarter of 2010 compared to the third quarter of 2009 primarily due to higher contract benefits and operating costs and expenses, partially offset by lower interest credited to contractholder funds. Total costs and expenses decreased 21.1% or $776 million in the first nine months of 2010 compared to the same period in 2009 primarily due to lower amortization of DAC and interest credited to contractholder funds, partially offset by higher contract benefits.

Contract benefits increased 11.6% or $38 million in the third quarter of 2010 and 11.5% or $117 million in the first nine months of 2010 compared to the same periods of 2009. In the third quarter of 2010, higher contract benefits were primarily due to favorable mortality experience on immediate annuities in the third quarter of 2009.

The increase in contract benefits in the first nine months of 2010 primarily reflects higher contract benefits on interest-sensitive life insurance due to the re-estimation of reserves for certain secondary guarantees on universal life insurance policies and unfavorable mortality experience, partially offset by lower contract benefits on immediate annuities with life contingencies due to the re-estimation of reserves for benefits payable to certain annuitants to reflect current contractholder information.

The reserve re-estimations utilized more refined policy level information and assumptions in the second quarter of 2010. The increase in reserves for certain secondary guarantees on universal life insurance policies resulted in a charge to contract benefits of $68 million and a related reduction in amortization of DAC of $50 million. The decrease in reserves for immediate annuities resulted in a credit to contract benefits of $26 million. The net impact was an increase to income of $8 million, pre-tax.

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 $134 million and $412 million in the third quarter and first nine months of 2010, respectively, compared to $138 million and $417 million in the third quarter and first nine months of 2009, respectively.

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

($ in millions)	Three months ended September 30, 2010	Three months ended September 30, 2009	Nine months ended September 30, 2010	Nine months ended September 30, 2009
Life insurance	$ 88	$ 92	$ 192	$ 286
Accident and health insurance	8	7	23	21
Annuities	(17)	(1)	(11)	(18)
Total benefit spread	$ 79	$ 98	$ 204	$ 289

Benefit spread decreased 19.4% or $19 million in the third quarter of 2010 and 29.4% or $85 million in the first nine months of 2010 compared to the same periods of 2009. The decrease in the third quarter of 2010 was primarily due to favorable mortality experience on annuities in the third quarter of 2009. The decrease in the first nine months of 2010 was primarily due to re-estimations of reserves that increased contract benefits for interest-sensitive life insurance and decreased contract benefits for immediate annuities and unfavorable mortality experience on interest-sensitive life insurance and immediate annuities with life contingencies.

Interest credited to contractholder funds decreased 10.3% or $50 million in the third quarter of 2010 and 17.0% or $272 million in the first nine months of 2010 compared to the same periods of 2009 primarily due to lower average contractholder funds and management actions to reduce interest crediting rates on deferred fixed annuities. In addition, the decline in the first nine months of 2010 also reflects lower amortization of deferred sales inducement costs ("DSI").

Amortization of DSI in the third quarter and first nine months of 2010 was $3 million and $14 million, respectively, compared to $4 million and $114 million in the third quarter and first nine months of 2009, respectively. The decline in amortization of DSI in the first nine months of 2010 was primarily due to a $44 million decrease in amortization relating to realized capital gains and losses and a $38 million reduction in amortization acceleration for changes in assumptions.

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 ("investment spread").

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

($ in millions)	Three months ended September 30, 2010	Three months ended September 30, 2009	Nine months ended September 30, 2010	Nine months ended September 30, 2009
Annuities and institutional products	$ 44	$ 44	$ 148	$ 81
Life insurance	12	(1)	26	1
Accident and health insurance	2	2	6	6
Net investment income on investments supporting capital	56	54	172	157
Total investment spread	$ 114	$ 99	$ 352	$ 245

Investment spread increased 15.2% or $15 million in the third quarter of 2010 and 43.7% or $107 million in the first nine months of 2010 compared to the same periods of 2009 as lower net investment income was more than offset by decreased interest credited to contractholder funds, which includes lower amortization of DSI. Excluding amortization of DSI, investment spread increased 13.6% or $14 million in the third quarter of 2010 and 1.9% or $7 million in the first nine months of 2010 compared to the same periods in 2009.

To further analyze investment spreads, the following tables summarize 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	
	2010	2009	2010	2009	2010	2009
Interest-sensitive life insurance	5.5%	5.4%	4.4%	4.7%	1.1%	0.7%
Deferred fixed annuities and institutional products	4.4	4.3	3.3	3.4	1.1	0.9
Immediate fixed annuities with and without life	6.3	6.4	6.3	6.4	—	—

contingencies						
Investments supporting capital, traditional life and other products	3.8	3.4	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	
	2010	2009	2010	2009	2010	2009
Interest-sensitive life insurance	5.5%	5.4%	4.5%	4.6%	1.0%	0.8%
Deferred fixed annuities and institutional products	4.4	4.5	3.3	3.4	1.1	1.1
Immediate fixed annuities with and without life contingencies	6.4	6.3	6.4	6.5	—	(0.2)
Investments supporting capital, traditional life and other products	3.8	3.3	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, 2010	2009
Immediate fixed annuities with life contingencies	$ 8,646	$ 8,414
Other life contingent contracts and other	4,596	3,795
Reserve for life-contingent contract benefits	$ 13,242	$ 12,209
Interest-sensitive life insurance	$ 9,953	$ 9,556
Deferred fixed annuities	30,042	32,946
Immediate fixed annuities without life contingencies	3,807	3,853
Institutional products	2,678	4,394
Market value adjustments related to fair value hedges and other	697	876
Contractholder funds	$ 47,177	$ 51,625

Amortization of DAC increased 13.1% or $8 million in the third quarter of 2010 and decreased 80.2% or $608 million in the first nine months of 2010 compared to the same periods of 2009. The components of amortization of DAC are summarized in the following table.

($ in millions)	Three months ended September 30, 2010	2009	Nine months ended September 30, 2010	2009
Amortization of DAC before amortization relating to realized capital gains and losses and changes in assumptions	$ (80)	$ (89)	$ (176)	$ (322)
Accretion (amortization) relating to realized capital gains and losses (1)	11	28	13	(158)
Amortization deceleration (acceleration) for changes in assumptions (“DAC unlocking”)	—	—	13	(278)
Total amortization of DAC	$ (69)	$ (61)	$ (150)	$ (758)

(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 increase of $8 million in the third quarter of 2010 was primarily due to a decline in accretion relating to realized capital gains and losses. The decrease of $608 million in the first nine months of 2010 was primarily due to a favorable change in amortization acceleration/deceleration for changes in assumptions, a favorable change in amortization/accretion relating to realized capital gains and losses, a decreased amortization rate on fixed annuities and lower amortization from decreased benefit spread on interest-sensitive life insurance due to the re-estimation of reserves.

During the first quarter of 2010, we completed 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, which covers assumptions for investment returns, including capital gains and losses, interest crediting rates to policyholders, the effect of any hedges, persistency, mortality and expenses in all product lines. In the first quarter of 2010, the review resulted in a deceleration of DAC amortization (credit to income) of $13 million. Amortization deceleration of $45 million related to variable life insurance and was primarily due to appreciation in the underlying separate account valuations. Amortization acceleration of $31 million related to interest-sensitive life insurance and was primarily due to an increase in projected realized capital losses and lower projected renewal premium (which is also expected to reduce persistency), partially offset by lower expenses.

In the first quarter of 2009, our annual comprehensive review resulted in the acceleration of DAC amortization (charge to income) of $278 million. $289 million related to fixed annuities, of which $210 million was attributable to market value adjusted annuities, and $18 million related to variable life insurance. Partially offsetting these amounts was amortization deceleration (credit to income) for interest-sensitive life insurance of $29 million. The principal assumption impacting fixed annuity amortization acceleration was an increase in the level of expected

realized capital losses in 2009 and 2010. For interest-sensitive life insurance, the amortization deceleration was due to a favorable change in our mortality assumptions, partially offset by increased expected capital losses.

Operating costs and expenses increased 14.9% and 4.1% in the third quarter and first nine months of 2010, respectively, compared to the same periods of 2009. The following table summarizes operating costs and expenses.

	Three months ended September 30,		Nine months ended September 30,	
($ in millions)	2010	2009	2010	2009
Non-deferrable acquisition costs	$ 22	$ 19	$ 64	$ 63
Other operating costs and expenses	63	55	190	181
Total operating costs and expenses	$ 85	$ 74	$ 254	$ 244
Restructuring and related charges	$ —	$ 4	$ (1)	$ 23

Non-deferrable acquisition costs increased 15.8% or $3 million and 1.6% or $1 million in the third quarter and first nine months of 2010, respectively, compared to the same periods of 2009 primarily due to higher premium taxes. Other operating costs and expenses increased 14.5% or $8 million and 5.0% or $9 million in the third quarter and first nine months of 2010, respectively, compared to the same periods of 2009 due primarily to higher product distribution and marketing costs, and lower reinsurance expense allowances resulting from higher retention. In the first nine months of 2010, these increased costs were partially offset by our expense reduction actions, which resulted in lower employee, professional services and sales support expenses. Through reductions in workforce positions combined with other actions completed as of September 30, 2010, we anticipate that we will exceed our targeted annual savings of $90 million beginning in 2011.

Income tax expense of $25 million and benefit of $64 million were recognized for the third quarter and first nine months of 2010, respectively, compared to an income tax benefit of $38 million and $16 million in the third quarter and first nine months of 2009, respectively. Income tax benefit for the first nine months of 2009 included expense of $142 million attributable to an increase in the valuation allowance relating to the deferred tax asset on capital losses.

INVESTMENTS HIGHLIGHTS

- Investments as of September 30, 2010 totaled $60.75 billion, an increase of 0.9% from $60.22 billion as of December 31, 2009.
- Unrealized net capital gains totaled $1.65 billion as of September 30, 2010, improving from unrealized net capital losses of $2.18 billion as of December 31, 2009.
- Net investment income was $683 million in the third quarter of 2010, a decrease of 5.4% from $722 million in the third quarter of 2009, and $2.09 billion in the first nine months of 2010, a decrease of 7.5% from $2.26 billion in the first nine months of 2009.
- Net realized capital losses were $37 million in the third quarter of 2010 compared to net realized capital losses of $232 million in the third quarter of 2009. Net realized capital losses were $550 million in the first nine months of 2010 compared to net realized capital losses of $148 million in the first nine months of 2009.
- During the first nine months of 2010, our fixed income and mortgage loan portfolio generated $4.70 billion of cash flows from interest and maturities.

INVESTMENTS

We continue to focus our strategic risk mitigation efforts towards managing interest rate, credit and real estate investment risks, while our return optimization efforts focus on investing in new opportunities to generate income and capital appreciation. As a result, during the first nine months of 2010 we took the following actions:

- Reduced our commercial real estate exposure by 17.2% or $2.01 billion of amortized cost primarily through targeted dispositions and principal repayments from borrowers.
- Reduced our municipal bond exposure by 12.9% or $720 million of amortized cost primarily through scheduled maturities, prepayments and targeted dispositions.

The composition of the investment portfolio at September 30, 2010 is presented in the table below.

($ in millions)	Investments	Percent to total
Fixed income securities (1)	$ 49,781	81.9%
Mortgage loans	6,833	11.2
Equity securities (2)	186	0.3
Limited partnership interests (3)	1,127	1.9
Short-term (4)	1,003	1.7
Policy loans	837	1.4
Other	980	1.6
Total	$ 60,747	100.0%

(1) Fixed income securities are carried at fair value. Amortized cost basis for these securities was $48.15 billion.
(2) Equity securities are carried at fair value. Cost basis for these securities was $160 million.
(3) We have commitments to invest in additional limited partnership interests totaling $668 million.
(4) Short-term investments are carried at fair value. Amortized cost basis for these investments was $1.00 billion.

Total investments increased to $60.75 billion at September 30, 2010, from $60.22 billion at December 31, 2009, primarily due to higher valuations for fixed income securities, partially offset by net reductions in contractholder obligations of $3.67 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 defined 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 for fixed income securities for the nine months ended September 30, 2010 was mainly due to declining risk-free interest rates, partially offset by widening credit spreads in certain sectors.

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

($ in millions)	Fair value at September 30, 2010	Percent to total investments	Fair value at December 31, 2009	Percent to total investments
U.S. government and agencies	$ 4,307	7.1%	$ 3,581	5.9%
Municipal	4,905	8.1	5,109	8.5
Corporate	28,924	47.6	27,539	45.7
Foreign government	2,471	4.1	2,153	3.6
Residential mortgage-backed securities (“RMBS”)	4,689	7.7	4,666	7.8
Commercial mortgage-backed securities (“CMBS”)	1,893	3.1	2,468	4.1
Asset-backed securities (“ABS”)	2,577	4.2	2,127	3.5
Redeemable preferred stock	15	—	15	—
Total fixed income securities	$ 49,781	81.9%	$ 47,658	79.1%

At September 30, 2010, 92.7% 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 and 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.

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, 2010.

	Aaa		Aa		A	
($ in millions)	Fair value	Unrealized gain/(loss)	Fair value	Unrealized gain/(loss)	Fair value	Unrealized gain/(loss)
U.S. government and agencies	$ 4,307	$ 359	$ —	$ —	$ —	$ —
Municipal						
Tax exempt	—	—	29	1	1	—
Taxable	186	12	2,476	158	1,150	22
Auction rate securities (“ARS”)	410	(25)	26	(5)	39	(5)
Corporate						
Public	705	37	1,656	131	5,354	506
Privately placed	865	64	1,395	93	3,235	249
Hybrid	35	5	44	5	393	(48)
Foreign government	1,619	327	128	10	408	49
RMBS						
U.S. government sponsored entities (“U.S. Agency”)	2,413	118	—	—	—	—
Prime residential mortgage-backed securities (“Prime”)	418	3	65	(2)	168	3
Alt-A residential mortgage-backed securities (“Alt-A”)	36	—	50	(6)	103	(6)
Subprime residential mortgage-backed securities (“Subprime”)	51	(2)	245	(88)	55	(16)
CMBS	1,120	31	219	(27)	217	(62)
ABS						
Collateralized debt obligations (“CDO”)	12	—	489	(22)	453	(65)
Consumer and other asset-backed securities (“Consumer and other ABS”)	390	11	179	1	198	(2)
Redeemable preferred stock	—	—	1	—	—	—
Total fixed income securities	$ 12,567	$ 940	$ 7,002	$ 249	$ 11,774	$ 625

	Baa		Ba or lower		Total	
	Fair value	Unrealized gain/(loss)	Fair value	Unrealized gain/(loss)	Fair value	Unrealized gain/(loss)

U.S. government and agencies	$ —	$ —	$ —	$ —	$ 4,307	$ 359
Municipal						
Tax exempt	32	3	—	—	62	4
Taxable	439	(49)	75	(55)	4,326	88
ARS	30	(7)	12	(3)	517	(45)
Corporate						
Public	6,949	579	838	17	15,502	1,270
Privately placed	5,861	291	1,022	40	12,378	737
Hybrid	449	(64)	123	10	1,044	(92)
Foreign government	316	29	—	—	2,471	415
RMBS						
U.S. Agency	—	—	—	—	2,413	118
Prime	7	—	256	(7)	914	(3)
Alt-A	23	(6)	213	(42)	425	(60)
Subprime	52	(16)	534	(352)	937	(474)
CMBS	217	(182)	120	(142)	1,893	(382)
ABS						
CDO	236	(92)	429	(123)	1,619	(302)
Consumer and other ABS	171	(3)	20	(4)	958	3
Redeemable preferred stock	14	—	—	—	15	—
Total fixed income securities	$ 14,796	$ 483	$ 3,642	$ (661)	$ 49,781	$ 1,636

Municipal Bonds, including tax exempt, taxable and ARS securities, totaled $4.91 billion as of September 30, 2010 with an unrealized net capital gain of $47 million.

As of September 30, 2010, 35.1% or $1.72 billion of our municipal bond portfolio is insured by six bond insurers and 40.5% of these securities have a credit rating of Aaa or Aa. 59.8% of our insured municipal bond portfolio was insured by National Public Finance Guarantee Corporation, Inc., 20.8% by Assured Guaranty Municipal Corporation, 15.2% by Ambac Assurance Corporation and 1.9% by Syncora Holdings. Given the effects of the economic crisis on bond insurers, the value inherent in this insurance has declined. We believe the fair value of our insured municipal bond portfolio substantially reflects the decline in the value of the insurance, and further related valuation declines, if any, are not expected to be material. We expect to receive all of the contractual cash flows because our practice for acquiring and monitoring municipal bonds are predominantly based on the underlying credit quality of the primary obligor.

Corporate bonds, including publicly traded, privately placed and hybrid securities, totaled $28.92 billion as of September 30, 2010 with an unrealized net capital gain of $1.92 billion. Privately placed securities primarily consist of corporate issued senior debt securities that are in unregistered form or are directly negotiated with the borrower. 49.9% of the privately placed corporate securities in our portfolio are rated by an independent rating agency and substantially all are rated by the National Association of Insurance Commissioners.

The following table shows details of our hybrid securities as of September 30, 2010.

	Public		Privately placed		Total	
($ in millions)	**Fair value**	**Unrealized gain/(loss)**	**Fair value**	**Unrealized gain/(loss)**	**Fair value**	**Unrealized gain/(loss)**
United Kingdom ("UK")	$ 80	$ (1)	$ 36	$ 1	$ 116	$ —
Europe (non-UK)	126	6	246	(18)	372	(12)
Asia/Australia	11	(1)	51	(3)	62	(4)
North America	301	(42)	193	(34)	494	(76)
Total	$ 518	$ (38)	$ 526	$ (54)	$ 1,044	$ (92)

Hybrid securities have attributes most similar to those of fixed income securities such as stated interest rates and mandatory redemption dates. Additionally, some hybrids may have an interest rate step-up feature which is intended to incent the issuer to redeem the security at a specified call date. While hybrid securities are generally issued by investment grade-rated financial institutions, they have structural features, such as the ability to defer principal and interest payments, which make them more sensitive to credit market deterioration. $881 million of our hybrid securities with $90 million of unrealized net capital losses are Tier 1 securities, and $163 million with $2 million of unrealized net capital losses are Tier 2 securities. Tier 1 securities are lower in the capital structure than Tier 2 securities.

RMBS, *CMBS* and *ABS* are structured securities that are primarily collateralized by residential and commercial real estate related loans and other consumer related 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 ("ARM")) or may contain features of both fixed and variable rate mortgages.

RMBS, including U.S. Agency, Prime, Alt-A and Subprime, totaled $4.69 billion, with 78.6% rated investment grade, at September 30, 2010. 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 our RMBS portfolio is mitigated due to the fact that 51.5% of the portfolio consists of

securities that were issued by or have underlying collateral guaranteed by U.S. government agencies. The unrealized net capital loss of $419 million at September 30, 2010 was the result of wider credit spreads than at initial purchase on the non-U.S. Agency portion of our RMBS portfolio, largely due to increased risk premiums caused by macroeconomic conditions and credit market deterioration, including the impact of real estate valuations, which continue to persist. The following table shows our RMBS portfolio at September 30, 2010, based upon vintage year of the issuance of the securities.

	U.S. Agency		Prime		Alt-A		Subprime		Total RMBS	
($ in millions)	**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	$ —	$ —	$ 202	$ 6	$ 58	$ 1	$ —	$ —	$ 260	$ 7
2009	485	11	55	—	9	—	—	—	549	11
2008	327	11	—	—	—	—	—	—	327	11
2007	94	3	147	2	35	(15)	255	(198)	531	(208)
2006	121	6	109	(4)	102	(14)	214	(114)	546	(126)
2005	347	16	138	(9)	96	(9)	271	(103)	852	(105)
Pre-2005	1,039	71	263	2	125	(23)	197	(59)	1,624	(9)
Total	$ 2,413	$ 118	$ 914	$ (3)	$ 425	$ (60)	$ 937	$ (474)	$ 4,689	$ (419)

Prime are collateralized by residential mortgage loans issued to prime borrowers. As of September 30, 2010, $756 million of the Prime were fixed rate and $158 million were variable rate.

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. As of September 30, 2010, $348 million of the Alt-A were fixed rate and $77 million were variable rate.

Subprime includes securities that are 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 $746 million and $190 million of first lien and second lien securities, respectively. Subprime included $460 million of fixed rate and $477 million of variable rate securities.

CMBS totaled $1.89 billion, with 93.7% rated investment grade, at September 30, 2010. 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 at September 30, 2010 based upon vintage year.

($ in millions)	Fair value	Unrealized gain/(loss)
2007	$ 277	$ (43)
2006	557	(280)
2005	294	(60)
Pre-2005	765	1
Total CMBS	$ 1,893	$ (382)

The unrealized net capital loss of $382 million at September 30, 2010 on our CMBS portfolio was the result of wider credit spreads than at initial purchase, largely due to the macroeconomic conditions and credit market deterioration, including the impact of declining real estate valuations, which continue to persist. While CMBS spreads tightened during 2009 and 2010, credit spreads in most rating classes remain wider than at initial purchase, which is particularly evident in our 2005-2007 vintage year CMBS.

ABS, including CDO and Consumer and other ABS, totaled $2.58 billion, with 82.6% rated investment grade, at September 30, 2010. Credit risk is managed by monitoring the performance of the underlying collateral. In addition, 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 $299 million at September 30, 2010 on our ABS portfolio was the result of wider credit spreads than at initial purchase.

CDO totaled $1.62 billion, with 73.5% rated investment grade, at September 30, 2010. CDO consist primarily of obligations collateralized by high yield and investment grade corporate credits including $1.28 billion of cash flow collateralized loan obligations ("CLO") with unrealized losses of $151 million. The remaining $337 million of securities consisted of synthetic CDO, trust preferred CDO, market value CDO, project finance CDO, collateralized bond obligations and other CLO with unrealized losses of $151 million.

Cash flow CLO are structures collateralized primarily by below investment grade senior secured corporate loans. The underlying collateral is actively managed by external managers that monitor the collateral's performance and is well diversified across industries and among issuers. A transaction will typically issue notes with various capital structure classes (i.e. Aaa, Aa, A, etc.) as well as equity-like tranches. In general, these securities are structured with

overcollateralization ratios and performance is impacted primarily by defaults and recoveries of the underlying collateral within the structures, which reduce overcollateralization ratios over time. A violation of the senior overcollateralization test could result in an event of default of the structure.

Consumer and other ABS totaled $958 million, with 97.9% rated investment grade, at September 30, 2010. Consumer and other ABS consists of $552 million of auto and $406 million of other ABS securities with unrealized gains of $6 million and unrealized losses of $3 million, respectively.

Mortgage loans Our mortgage loan portfolio totaled $6.83 billion at September 30, 2010, compared to $7.78 billion at December 31, 2009, and primarily comprise loans secured by first mortgages on developed commercial real estate. Key considerations used to manage our exposure include property type and geographic diversification. Our exposure to any metropolitan area is highly diversified, with the largest exposure not exceeding 10.2% of the portfolio. The portfolio is also diversified across several property types, with the largest concentrations of 33.5% in office buildings and 26.4% in retail property. Debt service coverage ratios represent the amount of cash flows from the property available to the borrower to meet principal and interest payment obligations. For fixed rate mortgage loans, which comprise 90.7% and 89.9% of the total portfolio at September 30, 2010 and December 31, 2009, respectively, the average debt service coverage ratios as of September 30, 2010 and December 31, 2009 were 1.6 and 1.7, respectively. Mortgage loans with debt service coverage ratios below 1.0 generally have a higher level of risk. 5.7% and 5.8% of the mortgage loan portfolio had a debt service coverage ratio under 1.0 as of September 30, 2010 and December 31, 2009, respectively. As of September 30, 2010, 28.8% or $112 million of these mortgage loans are impaired and have valuation allowances totaling $50 million compared to 18.7% or $85 million which had valuation allowances totaling $26 million as of December 31, 2009. Mortgage loans with debt service coverage below 1.0 which are not 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 occupancy is considered temporary, or there are other risk mitigating circumstances such as additional collateral, escrow balances or borrower guarantees.

In the first nine months of 2010, $793 million of mortgage loans were contractually due. Of these, 40% were paid as due, 14% were extended, 43% were refinanced for an average of six years at market rates using our standard underwriting criteria and 3% were real estate acquired through foreclosure or deed in lieu of mortgage loans. In addition, $387 million of mortgage loans that were not contractually due in the first nine months of 2010 were paid in full.

The net carrying value of impaired mortgage loans at September 30, 2010 and December 31, 2009 was $229 million and $377 million, respectively. Total valuation allowances of $75 million were held on impaired mortgage loans at September 30, 2010, compared to $94 million at December 31, 2009. We recognized $3 million and $44 million of realized capital losses related to net increases in the valuation allowances on impaired mortgage loans for the three months and nine months ended September 30, 2010, respectively. The net increases in both periods were primarily due to deteriorating debt service coverage resulting from a decrease in occupancy and the risk associated with refinancing near-term maturities due to declining underlying collateral valuations. Realized capital losses recognized on mortgage loans held for sale totaled $6 million for the nine months ended September 30, 2010. There were no realized capital losses recognized on mortgage loans held for sale for the three months ended September 30, 2010.

In total, we have seven mortgage loans totaling $64 million in the process of foreclosure, reflecting an increase from five mortgage loans totaling $49 million as of December 31, 2009. Real estate acquired through foreclosure or deed in lieu of mortgage loans during the first nine months of 2010 totaled $82 million and is included in other investments on the Condensed Consolidated Statement of Financial Position. We recognized $2 million of realized capital losses for both the three months and nine months ended September 30, 2010 related to sales of real estate

assets with an active plan to sell. There were no impairment write-downs recognized on real estate for either the three or nine month periods ended September 30, 2010.

Limited partnership interests consist of investments in private equity/debt funds, real estate funds and hedge funds. The limited partnership interests portfolio is well diversified across a number of characteristics including fund sponsors, vintage years, strategies, geography (including international), and company/property types. The following table presents information about our limited partnership interests as of September 30, 2010.

($ in millions)	Private equity/debt funds	Real estate funds	Hedge funds	Total
Cost method of accounting (“Cost”)	$ 496	$ 124	$ —	$ 620
Equity method of accounting (“EMA”)	342	157	8	507
Total	$ 838	$ 281	$ 8	$ 1,127
Number of sponsors	74	32	1	
Number of individual funds	111	59	2	
Largest exposure to single fund	$ 23	$ 17	$ 7	

Our aggregate limited partnership exposure represented 1.9% and 1.7% of total invested assets as of September 30, 2010 and December 31, 2009, respectively.

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

	Three months ended September 30,							
	2010				2009			
($ in millions)	Cost	EMA	Total income	Impairment write-downs (1)	Cost	EMA	Total income	Impairment write-downs (1)
Private equity/debt funds	$ 3	$ 1	$ 4	$ —	$ 2	$ 5	$ 7	$ (2)
Real estate funds	—	(4)	(4)	(4)	—	(12)	(12)	(25)
Hedge funds	—	—	—	—	—	1	1	—
Total	$ 3	$ (3)	$ —	$ (4)	$ 2	$ (6)	$ (4)	$ (27)

	Nine months ended September 30,							
	2010				2009			
	Cost	EMA	Total income	Impairment write-downs (1)	Cost	EMA	Total income	Impairment write-downs (1)

Private equity/debt funds	$ 10	$ 20	$ 30	$ (2)	$ 6	$ (40)	$ (34)	$ (43)
Real estate funds	—	(25)	(25)	(18)	—	(78)	(78)	(99)
Hedge funds	—	6	6	—	—	2	2	—
Total	$ 10	$ 1	$ 11	$ (20)	$ 6	$ (116)	$ (110)	$ (142)

(1) Impairment write-downs related to Cost limited partnerships were $4 million and $19 million in the three months and nine months ended September 30, 2010, respectively, compared to $27 million and $137 million in the three months and nine months ended September 30, 2009, respectively. There were no impairment write-downs related to EMA limited partnerships in both the three months ended September 30, 2010 and 2009. Impairment write-downs related to EMA limited partnerships were $1 million in the nine months ended September 30, 2010 compared to $5 million in the nine months ended September 30, 2009.

Limited partnership interests, excluding impairment write-downs, produced no income or loss in the third quarter of 2010 and income of $11 million in the nine months ended September 30, 2010 compared to losses of $4 million and $110 million in the three months and nine months ended September 30, 2009, 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 and real estate funds are generally on a three-month delay. Income on Cost limited partnerships is recognized only upon cash distributions by the partnership.

Unrealized net capital gains totaled $1.65 billion as of September 30, 2010 compared to unrealized net capital losses of $2.18 billion as of December 31, 2009. The improvement since December 31, 2009 for fixed income securities was primarily a result of declining risk-free interest rates, partially offset by widening credit spreads in certain sectors. The following table presents unrealized net capital gains and losses, pre-tax and after-tax.

($ in millions)	September 30, 2010	June 30, 2010	March 31, 2010	December 31, 2009
U.S. government and agencies	$ 359	$ 334	$ 157	$ 155
Municipal	47	(126)	(347)	(469)
Corporate	1,915	1,184	728	225
Foreign government	415	320	263	247
RMBS	(419)	(580)	(770)	(930)
CMBS	(382)	(553)	(766)	(922)
ABS	(299)	(408)	(398)	(489)
Redeemable preferred stock	—	—	—	(1)
Fixed income securities (1)	1,636	171	(1,133)	(2,184)
Equity securities	26	11	44	24
Short-term investments	—	—	—	—
Derivatives	(12)	7	(13)	(18)
Unrealized net capital gains and losses, pre-tax	1,650	189	(1,102)	(2,178)
Amounts recognized for:				
Insurance reserves (2)	(608)	(292)	—	—
DAC and DSI (3)	(45)	406	727	990
Amounts recognized	(653)	114	727	990
Deferred income taxes	(354)	(111)	126	411
Unrealized net capital gains and losses, after-tax	$ 643	$ 192	$ (249)	$ (777)

(1) Unrealized net capital gains and losses for fixed income securities as of September 30, 2010, June 30, 2010, March 31, 2010 and December 31, 2009 comprise $(163) million, $(319) million, $(376) million and $(422) million, respectively, related to unrealized net capital losses on fixed income securities with other-than-temporary impairment and $1.80 billion, $490 million, $(757) million and $(1.76) billion, respectively, related to other unrealized net capital gains and losses.

(2) 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 we evaluate premium deficiencies on the combined performance of our 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.

(3) 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. Only the unrealized net capital gains and losses on the fixed annuity and interest-sensitive life product portfolios are used in this calculation. The reduction in unrealized net capital losses in the first, second and third quarter of 2010 for these product portfolios was less than the reduction in unrealized net capital losses for the total portfolio. The DAC and DSI adjustment balance, subject to limitations, is determined by applying the DAC and DSI amortization rate to unrealized net capital gains or losses. Recapitalization of the DAC and DSI balances is limited to the originally deferred costs plus interest.

The unrealized net capital gains for the fixed income portfolio totaled $1.64 billion and comprised $3.50 billion of gross unrealized gains and $1.86 billion of gross unrealized losses at September 30, 2010. This is compared to unrealized net capital losses for the fixed income portfolio totaling $2.18 billion, comprised of $1.65 billion of gross unrealized gains and $3.83 billion of gross unrealized losses at December 31, 2009.

Gross unrealized gains and losses as of September 30, 2010 on fixed income securities by type and sector 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	$ 3,178	$ 3,073	$ 143	$ (122)	$ 3,094	96.7%	97.4%
Consumer goods (cyclical and non-cyclical)	4,511	4,555	369	(28)	4,896	101.0	108.5
Financial services	2,512	2,494	152	(27)	2,619	99.3	104.3
Utilities	5,447	5,460	570	(24)	6,006	100.2	110.3
Transportation	1,485	1,501	131	(21)	1,611	101.1	108.5
Capital goods	2,954	2,953	286	(18)	3,221	100.0	109.0
Technology	993	1,008	73	(6)	1,075	101.5	108.3
Basic industry	1,301	1,316	101	(6)	1,411	101.2	108.5
Energy	1,767	1,786	156	(4)	1,938	101.1	109.7
Communications	1,618	1,618	124	(4)	1,738	100.0	107.4
FDIC guaranteed	115	115	1	—	116	100.0	100.9
Other	1,252	1,130	80	(11)	1,199	90.3	95.8
Total corporate fixed income portfolio	27,133	27,009	2,186	(271)	28,924	99.5	106.6
U.S. government and agencies	4,562	3,948	359	—	4,307	86.5	94.4
Municipal	7,920	4,858	259	(212)	4,905	61.3	61.9
Foreign government	2,529	2,056	415	—	2,471	81.3	97.7
RMBS	5,520	5,108	151	(570)	4,689	92.5	84.9
CMBS	2,325	2,275	56	(438)	1,893	97.8	81.4
ABS	3,280	2,876	72	(371)	2,577	87.7	78.6
Redeemable preferred stock	14	15	—	—	15	107.1	107.1
Total fixed income securities	$ 53,283	$ 48,145	$ 3,498	$ (1,862)	$ 49,781	90.4	93.4

(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, municipal, foreign government and U.S. government and agencies zero-coupon securities with par value of $712 million, $4.07 billion, $1.33 billion and $1.67 billion, respectively.

(2) Excluding the impact of zero-coupon securities, the percentage of amortized cost to par value would be 100.2% for corporates, 99.0% for municipals, 104.4% for foreign governments and 103.8% for U.S. government and agencies. Similarly, excluding the impact of zero-coupon securities, the percentage of fair value to par value would be 107.2% for corporates, 102.3% for municipals, 116.1% for foreign governments and 107.3% for U.S. government and agencies.

The banking, consumer goods, financial services, utilities and transportation sectors had the highest concentration of gross unrealized losses in our corporate fixed income securities portfolio at September 30, 2010. 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 $26 million and comprised $30 million of gross unrealized gains and $4 million of gross unrealized losses at September 30, 2010. This is compared to an unrealized net capital gain for the equity portfolio totaling $24 million, comprised of $31 million of gross unrealized gains and $7 million of gross unrealized losses at December 31, 2009. Within the equity portfolio, the losses were primarily concentrated in the banking sector. The unrealized losses in this sector were company and sector specific. As of September 30, 2010, we have the intent and ability to hold our equity securities with unrealized losses until recovery.

We have a comprehensive portfolio monitoring process to identify and evaluate each fixed income and equity security whose carrying value 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) and 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 at September 30, 2010 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 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 values and gross unrealized losses of fixed income securities by type and investment grade classification as of September 30, 2010.

($ in millions)	Investment grade Fair value	Investment grade Unrealized losses	Below investment grade Fair value	Below investment grade Unrealized losses	Total Fair value	Total Unrealized losses
U.S. government and agencies	$ 32	$ —	$ —	$ —	$ 32	$ —
Municipal	1,220	(154)	78	(58)	1,298	(212)

Corporate	2,606	(223)	612	(48)	3,218	(271)
Foreign government	11	—	—	—	11	—
RMBS	729	(150)	732	(420)	1,461	(570)
CMBS	920	(295)	111	(143)	1,031	(438)
ABS	1,135	(207)	370	(164)	1,505	(371)
Total	$ 6,653	$ (1,029)	$ 1,903	$ (833)	$ 8,556	$ (1,862)

We have experienced declines in the fair values of fixed income securities primarily due to wider credit spreads resulting from larger risk premiums since the time of initial purchase, largely due to macroeconomic conditions and credit market deterioration, including the impact of declining residential and commercial real estate valuations, which continue to persist. Consistent with their ratings, our portfolio monitoring process indicates that investment grade securities have a relatively 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, 2010, our below investment grade gross unrealized losses were primarily concentrated in RMBS, specifically Alt-A and Subprime, CMBS and ABS, specifically cash flow CLO. The fair value of these securities totaled $957 million, an increase of 19.8%, compared to $799 million as of December 31, 2009. Gross unrealized losses on these securities totaled $625 million as of September 30, 2010, a decrease of 23.7%, compared to $819 million as of December 31, 2009.

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 ("OCI").

The non-credit-related unrealized losses for our structured securities, including our below investment grade Alt-A, Subprime, CMBS and cash flow CLO, 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 larger risk premium is included in the valuation of these securities than existed at initial issue or 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 commercial and residential real estate 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 Alt-A and Subprime RMBS

Gross unrealized losses for our below investment grade Alt-A and Subprime portfolios totaled $47 million and $356 million, respectively, while gross unrealized gains for these portfolios totaled $6 million and $4 million, respectively, as of September 30, 2010. For our below investment grade Alt-A and Subprime securities with gross unrealized gains, we have recognized cumulative write-downs in earnings totaling $7 million and $89 million, respectively, as of September 30, 2010. Gross unrealized losses for our below investment grade Alt-A and Subprime portfolios as of December 31, 2009 totaled $84 million and $514 million, respectively.

The credit loss evaluation for Alt-A and 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 a trust-level projected additional collateral loss estimate.

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 beneficial to 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.

98.5% and 1.5% of the fair value of our below investment grade Alt-A securities with gross unrealized losses were issued with Aaa and Aa original ratings and capital structure classifications, respectively. 83.7%, 13.9% and 1.7% 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, Alt-A and 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 Alt-A and 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 Alt-A securities with gross unrealized losses, by credit rating.

	September 30, 2010								
	With other-than-temporary impairments recorded in earnings				Without other-than-temporary impairments recorded in earnings				
($ in millions)	Ba	B	Caa or lower	Total	Ba	B	Caa or lower	Total	Total
Trust-level									
Actual cumulative collateral losses incurred to date (1)	0.4%	0.7%	5.7%	5.4%	0.1%	1.1%	2.4%	1.9%	n/a
Projected additional collateral losses to be incurred (2)	9.9%	22.3%	22.7%	22.4%	4.6%	7.4%	10.3%	9.0%	n/a
Class-level									
Average remaining credit enhancement (3)	11.2%	19.0%	5.5%	5.9%	5.3%	24.7%	8.3%	7.8%	n/a
Security-specific									
Number of positions	1	1	10	12	2	1	3	6	18
Par value	$ 4	$ 3	$ 165	$ 172	$ 16	$ 1	$ 52	$ 69	$ 241
Amortized cost	$ 4	$ 2	$ 129	$ 135	$ 16	$ 1	$ 51	$ 68	$ 203
Fair value	$ 1	$ 1	$ 97	$ 99	$ 13	$ 1	$ 43	$ 57	$ 156
Gross unrealized losses									
Total	$ (3)	$ (1)	$ (32)	$ (36)	$ (3)	$ —	$ (8)	$ (11)	$ (47)
12-24 months (4)	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Over 24 months (5)	$ (3)	$ (1)	$ (32)	$ (36)	$ (3)	$ —	$ (8)	$ (11)	$ (47)
Cumulative write-downs recognized (6)	$ —	$ (1)	$ (29)	$ (30)	$ —	$ —	$ —	$ —	$ (30)
Principal payments received during the period (7)	$ —	$ —	$ 4	$ 4	$ 1	$ —	$ 2	$ 3	$ 7

	December 31, 2009								
	With other-than-temporary impairments recorded in earnings				Without other-than-temporary impairments recorded in earnings				
	Ba	B	Caa or lower	Total	Ba	B	Caa or lower	Total	Total
Trust-level									
Actual cumulative collateral losses incurred to date (1)	0.2%	1.6%	3.7%	3.4%	0.5%	0.5%	1.2%	0.6%	n/a
Projected additional collateral losses to be incurred (2)	12.1%	11.7%	20.3%	19.2%	3.8%	17.5%	10.9%	5.6%	n/a
Class-level									
Average remaining credit enhancement (3)	11.3%	8.9%	7.7%	7.9%	7.4%	19.2%	4.1%	7.1%	n/a
Security-specific									
Number of positions	1	2	8	11	4	1	1	6	17
Par value	$ 4	$ 19	$ 151	$ 174	$ 71	$ 3	$ 18	$ 92	$ 266
Amortized cost	$ 4	$ 19	$ 126	$ 149	$ 70	$ 4	$ 16	$ 90	$ 239
Fair value	$ 1	$ 13	$ 82	$ 96	$ 45	$ 1	$ 13	$ 59	$ 155
Gross unrealized losses									
Total	$ (3)	$ (6)	$ (44)	$ (53)	$ (25)	$ (3)	$ (3)	$ (31)	$ (84)
12-24 months (4)	$ (3)	$ (2)	$ (16)	$ (21)	$ (18)	$ —	$ (3)	$ (21)	$ (42)
Over 24 months (5)	$ —	$ (4)	$ (28)	$ (32)	$ (6)	$ (3)	$ —	$ (9)	$ (41)
Cumulative write-downs recognized (6)	$ —	$ (1)	$ (19)	$ (20)	$ —	$ —	$ —	$ —	$ (20)
Principal payments received during the period (7)	$ —	$ 3	$ 6	$ 9	$ 3	$ —	$ 2	$ 5	$ 14

(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. There were no actual cumulative realized principal losses on the below investment grade Alt-A securities we own, as reported by the trust servicers as of September 30, 2010.

(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) Includes total gross unrealized losses on securities in an unrealized loss position for a period of 12 to 24 consecutive months.
(5) Includes total gross unrealized losses on securities in an unrealized loss position for a period more than 24 consecutive months. As of September 30, 2010, $14 million of unrealized losses on securities with other-than-temporary impairments recognized in earnings and $2 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, 2009, there were no Alt-A securities with gross unrealized losses greater than or equal to 20% for a period of more than 24 consecutive months.
(6) Includes cumulative write-downs recorded in accordance with GAAP.
(7) Reflects principal payments for the nine months ended September 30, 2010 or the year ended December 31, 2009, respectively.

The above tables include information about below investment grade Alt-A securities with gross unrealized losses as of each period presented. The par value and composition of securities included can vary significantly from period to period due to changes in variables such as credit ratings, purchases, principal payments, sales and realized principal losses.

As of September 30, 2010, our below investment grade Alt-A securities with gross unrealized losses and without other-than-temporary impairments recorded in earnings had incurred actual cumulative collateral losses of 1.9%. Our impairment evaluation forecasts more severe assumptions than the trusts are actually experiencing, including a projected weighted average underlying default rate of 25.5% and a projected weighted average loss severity of 39.9%, which resulted in projected additional collateral losses of 9.0%. As the average remaining credit enhancement for our Ba and B rated Alt-A securities of 5.3% and 24.7%, respectively, exceeds the projected additional collateral losses of 4.6% and 7.4%, respectively, these securities have not been impaired.

For our three Alt-A securities rated Caa or lower, the projected additional collateral losses of 10.3% exceed the average remaining credit enhancement of 8.3%. This is due to one security with unrealized losses of $2 million which has projected additional collateral losses that exceed its total remaining credit enhancement. The amortized cost of this security is $15 million, lower than its par value of $16 million. Despite the excess of the projected additional collateral losses over remaining credit enhancement, our best estimate of future cash flows indicates that trust-level collateral losses impacting the class of security we own will not effect this particular security, given its lower amortized cost. Our best estimate of future cash flows results in a recovery value of $16 million which exceeds the security's amortized cost of $15 million. Accordingly, this security has not been impaired. For the remaining two securities, the average remaining credit enhancement of 11.0% exceeds the projected additional collateral losses of 10.3%. Accordingly, these securities have not been impaired.

As of September 30, 2010, our below investment grade Alt-A securities with gross unrealized losses and with other-than-temporary impairments recorded in earnings had incurred actual cumulative collateral losses of 5.4%. Our impairment evaluation forecasts more severe assumptions than the trusts are actually experiencing, including a projected weighted average underlying default rate of 41.9% and a projected weighted average loss severity of 51.3%, which resulted in projected additional collateral losses of 22.4%. As the average remaining credit enhancement for these securities of 5.9% is insufficient to withstand the projected additional collateral losses, we have recognized cumulative write-downs in earnings on these 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 79.1% and exceeded these securities' current average amortized cost as a percentage of par of 78.6%, 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.

The following table shows actual trust-level key metrics specific to the trusts from which our below investment grade Alt-A securities with gross unrealized losses were issued, as reported by the trust servicers.

	September 30, 2010	June 30, 2010	March 31, 2010	December 31, 2009	September 30, 2009
Trust-level statistics					
Delinquency rates	20.7%	19.6%	19.7%	19.1%	18.9%
Actual cumulative collateral losses incurred to date	4.4%	3.5%	3.1%	2.4%	2.1%

We believe the unrealized losses on our Alt-A securities, including those over 24 months, result from the current risk premium on these securities, which should 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, 2010, 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 in nature.

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

	September 30, 2010								
	With other-than-temporary impairments recorded in earnings				Without other-than-temporary impairments recorded in earnings				
($ in millions)	Ba	B	Caa or lower	Total	Ba	B	Caa or lower	Total	Total
Trust-level									
Actual cumulative collateral losses	—%	10.3%	15.7%	15.5%	12.5%	11.3%	8.4%	9.4%	n/a

incurred to date (1)									
Projected additional collateral losses to be incurred (2)	—%	32.9%	39.3%	39.0%	43.3%	39.4%	33.6%	35.8%	n/a
Class-level									
Average remaining credit enhancement (3)	—%	26.2%	24.0%	24.1%	56.5%	57.6%	41.2%	45.6%	n/a
Security-specific									
Number of positions	—	3	49	52	11	7	39	57	109
Par value	$ —	$ 27	$ 562	$ 589	$ 55	$ 42	$ 247	$ 344	$ 933
Amortized cost	$ —	$ 24	$ 364	$ 388	$ 55	$ 42	$ 246	$ 343	$ 731
Fair value	$ —	$ 16	$ 203	$ 219	$ 41	$ 28	$ 146	$ 215	$ 434
Gross unrealized losses									
Total	$ —	$ (8)	$ (161)	$ (169)	$ (14)	$ (14)	$ (100)	$ (128)	$ (297)
12-24 months (4)	$ —	$ —	$ (7)	$ (7)	$ —	$ —	$ —	$ —	$ (7)
Over 24 months (5)	$ —	$ (8)	$ (153)	$ (161)	$ (14)	$ (14)	$ (100)	$ (128)	$ (289)
Cumulative write-downs recognized (6)	$ —	$ (3)	$ (191)	$ (194)	$ —	$ —	$ —	$ —	$ (194)
Principal payments received during the period (7)	$ —	$ 2	$ 13	$ 15	$ 12	$ 1	$ 4	$ 17	$ 32

	December 31, 2009								
	With other-than-temporary impairments recorded in earnings				Without other-than-temporary impairments recorded in earnings				
	Ba	B	Caa or lower	Total	Ba	B	Caa or lower	Total	Total
Trust-level									
Actual cumulative collateral losses incurred to date(1)	15.0%	15.8%	16.2%	16.1%	6.8%	7.4%	8.5%	7.8%	n/a
Projected additional collateral losses to be incurred (2)	41.2%	35.1%	45.2%	44.3%	35.2%	38.1%	35.7%	35.7%	n/a
Class-level									
Average remaining credit enhancement (3)	38.1%	31.5%	36.9%	36.6%	45.1%	46.0%	38.0%	41.1%	n/a
Security-specific									
Number of positions	1	3	38	42	12	7	24	43	85
Par value	$ 30	$ 35	$ 464	$ 529	$ 103	$ 21	$ 169	$ 293	$ 822
Amortized cost	$ 24	$ 32	$ 315	$ 371	$ 103	$ 21	$ 168	$ 292	$ 663
Fair value	$ 10	$ 15	$ 109	$ 134	$ 62	$ 10	$ 74	$ 146	$ 280
Gross unrealized losses									
Total	$ (14)	$ (17)	$ (206)	$ (237)	$ (41)	$ (11)	$ (94)	$ (146)	$ (383)
12-24 months (4)	$ —	$ (3)	$ (19)	$ (22)	$ —	$ (1)	$ —	$ (1)	$ (23)
Over 24 months (5)	$ (14)	$ (12)	$ (184)	$ (210)	$ (41)	$ (10)	$ (94)	$ (145)	$ (355)
Cumulative write-downs recognized (6)	$ (6)	$ (4)	$ (146)	$ (156)	$ —	$ —	$ —	$ —	$ (156)
Principal payments received during the period (7)	$ —	$ 2	$ 16	$ 18	$ 9	$ 2	$ 11	$ 22	$ 40

(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 $10 million as of September 30, 2010.

(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) Includes total gross unrealized losses on securities in an unrealized loss position for a period of 12 to 24 consecutive months.

(5) Includes total gross unrealized losses on securities in an unrealized loss position for a period more than 24 consecutive months. As of September 30, 2010, $137 million of unrealized losses on securities with other-than-temporary impairments recognized in earnings and $99 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, and as of December 31, 2009, $63 million of unrealized losses on securities with other-than-temporary impairments recognized in earnings and $26 million of unrealized losses on securities without other-than-temporary impairments recognized in earnings had been greater than or equal to 20% of those securities' amortized cost for a period of more than 24 consecutive months.

(6) Includes cumulative write-downs recorded in accordance with GAAP.

(7) Reflects principal payments for the nine months ended September 30, 2010 or the year ended December 31, 2009, respectively.

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, purchases, principal payments, sales and realized principal losses.

As of September 30, 2010, our Subprime securities that are reliably insured include nine below investment grade Subprime securities with a total fair value of $68 million and aggregate gross unrealized losses of $59 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 September 30, 2010, 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 9.4%. Our impairment evaluation forecasts more severe assumptions than the trusts are actually experiencing, including a projected weighted average underlying default rate of 53.7% and a projected weighted average loss severity of 66.1%, which resulted in projected additional collateral losses of 35.8%. As the average remaining credit enhancement for these securities of 45.6% exceeds the projected additional collateral losses of 35.8%, these securities have not been impaired.

As of September 30, 2010, 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 15.5%. Our impairment evaluation forecasts more severe assumptions than the trusts are actually experiencing, including a projected weighted average underlying default rate of 51.9% and a projected weighted average loss severity of 77.6%, which resulted in projected additional collateral losses of 39.0%. As the average remaining credit enhancement for these securities of 24.1% 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 68.7% and exceeded these securities' current average amortized cost as a percentage of par of 65.9%, 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.

The following table shows actual trust-level key metrics specific to the trusts from which our below investment grade Subprime securities with gross unrealized losses were issued, as reported by the trust servicers.

	September 30, 2010	June 30, 2010	March 31, 2010	December 31, 2009	September 30, 2009
Trust-level statistics					
Delinquency rates	25.9%	25.8%	28.5%	27.5%	26.6%
Actual cumulative collateral losses incurred to date	15.1%	14.4%	14.4%	13.3%	11.4%

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 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, 2010, 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 in nature.

Other-than-temporary impairment assessment for below investment grade CMBS

Gross unrealized losses for our below investment grade CMBS portfolio totaled $143 million, while gross unrealized gains for this portfolio were $1 million as of September 30, 2010. Gross unrealized losses for our below investment grade CMBS portfolio totaled $122 million as of December 31, 2009. For our below investment grade CMBS with gross unrealized gains, we have recognized cumulative write-downs in earnings totaling $18 million as of September 30, 2010.

The credit loss evaluation for CMBS 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 the collateral losses of the commercial mortgage loans that collateralize the securitization trust. Factors affecting these estimates include, but are not limited to, estimates of current and future property prices, current and projected rental incomes, the propensity of the commercial mortgage loans to default under these assumptions and loss severities in cases of default. Estimates of future property prices and rental incomes consider specific property-type and geographic economic trends such as employment, property vacancy and rental rates, and forecasts of new supply in the commercial real estate markets. Estimates of default rates and loss severities consider factors such as borrower payment history, the origination practices of the transaction sponsor, overall collateral quality and diversification, transaction vintage year, maturity date, overall transaction structure and other factors that may influence performance. Realized losses in the CMBS market have historically been low and, we believe, are not predictive of future losses. Therefore, our projections of collateral performance rely on probability-weighted scenarios informed by credit opinions obtained from third parties, such as nationally recognized credit rating agencies, industry analysts and CMBS loss modeling advisory services.

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 subordination from other classes of securities in the trust being contractually obligated to absorb losses before the class of security we own.

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. In instances where the recovery value of the security is less than its amortized cost, a credit loss is recorded in earnings.

40.6%, 51.4% and 5.8% of the fair value of our below investment grade CMBS with gross unrealized losses were issued with Aaa, Aa and A original ratings and capital structure classifications, respectively. As described previously, CMBS with higher original ratings typically have priority in receiving the principal repayments on the underlying collateral compared to those with lower original ratings. Commercial property prices have deteriorated

substantially during the last 24 months and property rental incomes are declining as the commercial real estate sector adjusts to lower macroeconomic activity. In addition, tight credit markets and conservative underwriting standards continue to stress commercial mortgage borrowers' ability to refinance obligations. While the projected cash flow assumptions for our below investment grade CMBS 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 CMBS securities with gross unrealized losses, by credit rating.

	September 30, 2010								
	With other-than-temporary impairments recorded in earnings				Without other-than-temporary impairments recorded in earnings				
($ in millions)	Ba	B	Caa or lower	Total	Ba	B	Caa or lower	Total	Total
Trust-level									
Actual cumulative collateral losses incurred to date (1)	—%	—%	5.7%	5.4%	0.7%	1.7%	—%	0.8%	n/a
Projected additional collateral losses to be incurred (2)	4.3%	—%	23.9%	22.9%	5.6%	5.4%	5.9%	5.6%	n/a
Class-level									
Average remaining credit enhancement (3)	8.4%	—%	17.0%	16.6%	8.6%	7.8%	6.6%	8.4%	n/a
Security-specific									
Number of positions	1	—	6	7	14	3	1	18	25
Par value	$ 7	$ —	$ 139	$ 146	$ 139	$ 32	$ 6	$ 177	$ 323
Amortized cost	$ 7	$ —	$ 64	$ 71	$ 143	$ 35	$ 5	$ 183	$ 254
Fair value	$ 3	$ —	$ 28	$ 31	$ 66	$ 13	$ 1	$ 80	$ 111
Gross unrealized losses									
Total	$ (4)	$ —	$ (36)	$ (40)	$ (77)	$ (22)	$ (4)	$ (103)	$ (143)
12-24 months (4)	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Over 24 months (5)	$ (4)	$ —	$ (36)	$ (40)	$ (77)	$ (22)	$ (4)	$ (103)	$ (143)
Cumulative write-downs recognized (6)	$ (1)	$ —	$ (80)	$ (81)	$ —	$ —	$ —	$ —	$ (81)
Principal payments received during the period (7)	$ —	$ —	$ 3	$ 3	$ 1	$ —	$ —	$ 1	$ 4

	December 31, 2009								
	With other-than-temporary impairments recorded in earnings				Without other-than-temporary impairments recorded in earnings				
	Ba	B	Caa or lower	Total	Ba	B	Caa or lower	Total	Total
Trust-level									
Actual cumulative collateral losses incurred to date (1)	1.4%	0.6%	—%	0.8%	—%	—%	—%	—%	n/a
Projected additional collateral losses to be incurred (2)	20.1%	13.5%	—%	15.0%	6.1%	7.7%	—%	6.7%	n/a
Class-level									
Average remaining credit enhancement (3)	17.4%	9.8%	—%	11.5%	9.1%	8.5%	—%	8.9%	n/a
Security-specific									
Number of positions	1	5	—	6	6	6	—	12	18
Par value	$ 20	$ 69	$ —	$ 89	$ 87	$ 49	$ —	$ 136	$ 225
Amortized cost	$ 14	$ 41	$ —	$ 55	$ 84	$ 50	$ —	$ 134	$ 189
Fair value	$ 9	$ 16	$ —	$ 25	$ 29	$ 13	$ —	$ 42	$ 67
Gross unrealized losses									
Total	$ (5)	$ (25)	$ —	$ (30)	$ (55)	$ (37)	$ —	$ (92)	$ (122)
12-24 months (4)	$ —	$ —	$ —	$ —	$ (13)	$ —	$ —	$ (13)	$ (13)
Over 24 months (5)	$ (5)	$ (25)	$ —	$ (30)	$ (42)	$ (37)	$ —	$ (79)	$ (109)
Cumulative write-downs recognized (6)	$ (7)	$ (34)	$ —	$ (41)	$ —	$ —	$ —	$ —	$ (41)
Principal payments received during the period (7)	$ 1	$ —	$ —	$ 1	$ 1	$ —	$ —	$ 1	$ 2

(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 CMBS securities we own, as reported by the trust servicers, were $1 million as of September 30, 2010.

(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 CMBS loss modeling advisory services. 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 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) Includes total gross unrealized losses on securities in an unrealized loss position for a period of 12 to 24 consecutive months.

(5) Includes total gross unrealized losses on securities in an unrealized loss position for a period more than 24 consecutive months. As of September 30, 2010, $21 million of unrealized losses on securities with other-than-temporary impairments recognized in earnings and $90 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, 2009, there were no CMBS securities with gross unrealized losses greater than or equal to 20% for a period of more than 24 consecutive months.

(6) Includes cumulative write-downs recorded in accordance with GAAP.

(7) Reflects principal payments for the nine months ended September 30, 2010 or the year ended December 31, 2009, respectively.

The above tables include information about below investment grade CMBS with gross unrealized losses as of each period presented. The par value and composition of securities included can vary significantly from period to period due to changes in variables such as credit ratings, purchases, principal payments and sales.

Our impairment evaluation for CMBS forecasts more severe assumptions than the trusts are actually experiencing. We assume that all loans delinquent 60 days or more default and project default rates on otherwise performing loans. Projected loss severities are then applied against the resulting default rates, arriving at our projected additional collateral loss rates. The projected additional collateral loss rates by vintage year of our CMBS portfolio range from a low of 2.0% for holdings with a vintage year of 2003 to a high of 10.6% for holdings with a vintage year of 2007.

As of September 30, 2010, our below investment grade CMBS securities with gross unrealized losses and without other-than-temporary impairments recorded in earnings had incurred actual cumulative collateral losses of 0.8%, and the projected additional collateral loss rate for these securities at September 30, 2010 was 5.6%. As the average remaining credit enhancement for these securities of 8.4% exceeds the projected additional collateral losses of 5.6%, these securities have not been impaired.

As of September 30, 2010, our below investment grade CMBS securities with gross unrealized losses and with other-than-temporary impairments recorded in earnings had incurred actual cumulative collateral losses of 5.4%. The projected additional collateral loss rate for these securities at September 30, 2010 was 22.9%. As the average remaining credit enhancement for these securities of 16.6% is insufficient to withstand the projected additional collateral losses, we have recognized cumulative write-downs in earnings on these 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 48.5% and equaled these securities' current average amortized cost as a percentage of par, 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 is in line with amortized cost as impairment write-downs were recorded in the reporting period and based on a comprehensive evaluation of financial, economic and capital markets assumptions developed for this reporting period.

The following table shows actual trust-level key metrics specific to the trusts from which our below investment grade CMBS with gross unrealized losses were issued, as reported by the trust servicers.

	September 30, 2010	June 30, 2010	March 31, 2010	December 31, 2009	September 30, 2009
Trust-level statistics					
Delinquency rates	8.3%	8.5%	8.6%	5.2%	4.9%
Actual cumulative collateral losses incurred to date	2.9%	1.6%	0.8%	0.3%	0.1%

We believe the unrealized losses on our CMBS securities, including those over 24 months, result from the current risk premium on these securities, which should 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, 2010, 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 in nature.

Other-than-temporary impairment assessment for below investment grade cash flow CLO ABS

As of September 30, 2010, the fair value for our below investment grade cash flow CLO portfolio with gross unrealized losses totaled $189 million compared to $188 million as of December 31, 2009. The gross unrealized losses for these securities totaled $79 million as of September 30, 2010, a decrease of 20.2%, compared to $99 million as of December 31, 2009. Gross unrealized gains for these securities were $36 million as of September 30, 2010. For below investment grade cash flow CLO with gross unrealized gains, we have recognized cumulative write-downs in earnings totaling $84 million.

As of September 30, 2010, our below investment grade cash flow CLO portfolio with gross unrealized losses and without other-than-temporary impairments recorded in earnings have a fair value of $186 million and gross unrealized losses of $79 million, all of which is aged over 24 months. As of September 30, 2010, our below investment grade cash flow CLO portfolio with gross unrealized losses and with other-than-temporary impairments recorded in earnings have a fair value of $3 million, gross unrealized losses of less than $1 million, all of which is aged over 24 months, and cumulative write downs recorded in earnings of $1 million.

Cash flow CLO are collateralized primarily by below investment grade senior secured corporate loans and are structured with overcollateralization which serves as credit enhancement for the class of securities we own. Overcollateralization ratios are based on the par value of the collateral in the underlying portfolio as a percentage of the notes issued as cash flow CLO securities. The performance of these securities is impacted primarily by defaults and recoveries of the underlying collateral within the structures, which reduce overcollateralization ratios over time. A violation of the senior overcollateralization test could result in an event of default of the structure which would give the controlling class, generally defined as the majority of the senior lenders, certain rights, including the ability to divert cash flows or liquidate the underlying portfolio to pay off the senior liabilities.

The credit loss evaluation for cash flow CLO is performed in two phases. The first phase evaluates the overcollateralization that exists for the class of securities we own. A critical part of this estimate involves projections of future losses formulated through our assessment of the corporate loan markets, and considers opinions from third parties, such as industry analysts and strategists, credit rating agencies, our own participation in these markets, as well as our overall economic outlook for indicators such as unemployment and GDP. The expected performance of each security considers anticipated collateral losses and credit enhancement levels, as well as factors including default rates, anticipated recoveries, prepayment rates, changes in interest rates and other characteristics. In addition, the performance of collateral underlying certain of our securities is actively monitored by external managers, allowing for enhanced collateral management actions which help mitigate the risk of loss. If the overcollateralization that exists for our class exceeds 100%, our class has remaining credit enhancement sufficient to withstand the projected future losses, and we expect to collect all contractual principal and interest of the security we own.

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 future losses expected to be incurred. If we do not expect to receive cash flows sufficient to recover the entire amortized cost basis of the security, a credit loss is recorded to the extent amortized cost exceeds recovery value.

The overcollateralization ratios as reported by the trust servicers for our below investment grade cash flow CLO securities with gross unrealized losses have improved over the past several periods and averaged 116.0% at September 30, 2010, compared to 117.1% at original issuance. At December 31, 2009, the average overcollateralization ratio for our below investment grade cash flow CLO securities was 113.6%. As the average overcollateralization ratios exceed 100%, this indicates that projected future collateral losses will be absorbed by lower classes and we expect the structures to have adequate cash flows to make all contractual payments due to the class of securities we own. Our comprehensive evaluation of financial, economic and capital markets assumptions developed for this reporting period, supported by the applicable overcollateralization ratios, indicates that the nature of the unrealized loss on these securities is temporary.

We believe the unrealized losses on our cash flow CLO securities, including those over 24 months result from the current risk premium on these securities, which should 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, 2010, 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 in nature.

Problem, restructured, or potential problem securities

We also monitor the quality of our fixed income and bank loan portfolios by categorizing certain investments as "problem", "restructured" or "potential problem." Problem fixed income securities and bank loans are in default with respect to principal or interest and/or are investments issued by companies that have gone into bankruptcy subsequent to our acquisition or loan. Fixed income and bank loan investments are categorized as restructured when the debtor is experiencing financial difficulty and we grant a concession. Potential problem fixed income or bank loan investments are current with respect to contractual principal and/or interest, but because of other facts and circumstances, we have concerns regarding the borrower's ability to pay future principal and interest according to the original terms, which causes us to believe these investments may be classified as problem or restructured in the future.

The following table summarizes problem, restructured and potential problem fixed income securities and bank loans, which are reported in other investments.

($ in millions)	September 30, 2010					
	Par value (1)	Amortized cost (1)	Amortized cost as a percent of par value	Fair value (2)	Fair value as a percent of par value	Percent of total fixed income and bank loan portfolios
Restructured	$ 68	$ 52	76.5%	$ 58	85.3%	0.1%
Problem	508	121	23.8	97	19.1	0.2
Potential problem	1,398	815	58.3	603	43.1	1.2
Total	$ 1,974	$ 988	50.1	$ 758	38.4	1.5%

Cumulative write-downs recognized (3)		$ 745				

	December 31, 2009					
	Par value (1)	Amortized cost (1)	Amortized cost as a percent of par value	Fair value (2)	Fair value as a percent of par value	Percent of total fixed income and bank loan portfolios
Restructured	$ 75	$ 53	70.7%	$ 51	68.0%	0.1%
Problem	480	165	34.4	100	20.8	0.2
Potential problem	1,735	1,080	62.2	645	37.2	1.3
Total	$ 2,290	$ 1,298	56.7	$ 796	34.8	1.6%
Cumulative write-downs recognized (3)		$ 805				

(1) The difference between par value and amortized cost of $986 million at September 30, 2010 and $992 million at December 31, 2009 is primarily attributable to write-downs. Par value has been reduced by principal payments.

(2) Bank loans are reflected at amortized cost.

(3) Cumulative write-downs recognized only reflect impairment write-downs related to investments within the problem, potential problem and restructured categories.

At September 30, 2010, amortized cost for the problem category was $121 million and comprised $49 million of Subprime, $17 million of Alt-A, $9 million of CMBS, $4 million of other CDO, and $4 million of Consumer and other ABS. Also included were $30 million of corporates (primarily privately placed), $7 million of municipal bonds and $1 million of bank loans. The amortized cost of problem investments with a fair value less than 80% of amortized cost totaled $61 million with unrealized losses of $31 million and fair value of $30 million.

At September 30, 2010, amortized cost for the potential problem category was $815 million and comprised $358 million of Subprime, $175 million of Alt-A, $83 million of CMBS, $75 million of other CDO and $9 million of Consumer and other ABS. Also included were $69 million of Prime, $37 million of corporates (primarily privately placed) and $9 million of bank loans. The amortized cost of potential problem investments with a fair value less than 80% of amortized cost totaled $519 million with unrealized losses of $250 million and fair value of $269 million.

Net investment income The following table presents net investment income.

($ in millions)	Three months ended September 30, 2010	Three months ended September 30, 2009	Nine months ended September 30, 2010	Nine months ended September 30, 2009
Fixed income securities	$ 615	$ 635	$ 1,879	$ 1,955
Mortgage loans	90	118	289	381
Equity securities	1	2	3	4
Limited partnership interests	3	2	10	6
Short-term	1	2	3	12
Other	(3)	(12)	(16)	(28)
Investment income, before expense	707	747	2,168	2,330
Investment expense	(24)	(25)	(78)	(70)
Net investment income	$ 683	$ 722	$ 2,090	$ 2,260

Net investment income decreased 5.4% or $39 million to $683 million in the third quarter of 2010 and 7.5% or $170 million to $2.09 billion in the first nine months of 2010 from $722 million and $2.26 billion in the third quarter and first nine months of 2009, respectively, primarily due to reduced average asset balances, lower yields and actions to reduce the portfolio’s exposure to commercial real estate. Net investment income was $707 million and $700 million in the first quarter of 2010 and second quarter of 2010, respectively.

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, 2010	Three months ended September 30, 2009	Nine months ended September 30, 2010	Nine months ended September 30, 2009
Impairment write-downs	$ (78)	$ (278)	$ (361)	$ (833)
Change in intent write-downs	(20)	(1)	(100)	(58)
Net other-than-temporary impairment losses recognized in earnings	(98)	(279)	(461)	(891)
Sales	88	106	148	627
Valuation of derivative instruments	10	(60)	(193)	202
Settlements of derivative instruments	(34)	7	(45)	30
EMA limited partnership income	(3)	(6)	1	(116)
Realized capital gains and losses, pre-tax	(37)	(232)	(550)	(148)
Income tax benefit (expense)	14	82	193	(86)
Realized capital gains and losses, after-tax	$ (23)	$ (150)	$ (357)	$ (234)

Impairment write-downs are presented in the following table.

($ in millions)	Three months ended September 30, 2010		Three months ended September 30, 2009		Nine months ended September 30, 2010		Nine months ended September 30, 2009	
Fixed income securities	$	(71)	$	(221)	$	(297)	$	(568)
Mortgage loans		(3)		(30)		(44)		(73)
Equity securities		—		—		—		(20)
Limited partnership interests		(4)		(27)		(20)		(142)
Other investments		—		—		—		(30)
Impairment write-downs	$	(78)	$	(278)	$	(361)	$	(833)

Impairment write-downs for the three months and nine months ended September 30, 2010 were primarily driven by RMBS, which experienced deterioration in expected cash flows; investments with commercial real estate exposure, including CMBS, limited partnership interests, and mortgage loans, which were impacted by declines in real estate valuations or experienced deterioration in expected cash flows; and privately placed corporate bonds impacted by issuer specific circumstances. Impairment write-downs for the nine months ended September 30, 2010 also included municipal bonds. Impairment write-downs on below investment grade RMBS and CMBS for the three months ended September 30, 2010 were $35 million and $26 million, respectively. There were no impairment write-downs related to below investment grade ABS for the three months ended September 30, 2010. Impairment write-downs on below investment grade RMBS, CMBS and ABS for the nine months ended September 30, 2010 were $139 million, $79 million and $24 million, respectively.

$54 million or 76.1% and $194 million or 78.2% of the fixed income security write-downs for the three months and nine months ended September 30, 2010, respectively, related to impaired securities that were performing in line with anticipated or contractual cash flows but were written down primarily because of expected deterioration in the performance of the underlying collateral or our assessment of the probability of future default. For these securities, as of September 30, 2010, there were either no defaults or defaults only impacted classes lower than our position in the capital structure. $17 million and $52 million of the fixed income security write-downs for the three months and nine months ended September 30, 2010, respectively, related to securities experiencing a significant departure from anticipated cash flows; however, we believe they retain economic value. $2 million for the nine months ended September 30, 2010 related to fixed income securities for which future cash flows are not anticipated. $49 million of the fixed income security write-downs for the nine months ended September 30, 2010 related to securities that were subsequently disposed and synthetic collateralized debt obligations that were no longer considered impaired upon the bifurcation of their embedded credit derivatives required by the Company's adoption of new accounting guidance.

Limited partnership impairment write-downs related to Cost limited partnerships, which experienced declines in portfolio valuations and we could not assert the recovery period would be temporary. To determine if an other-than-temporary impairment has occurred related to a Cost limited partnership, we evaluate 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 recent adverse events since the last financial statements received that might affect the fair value of the investee's capital.

Change in intent write-downs are presented in the following table.

($ in millions)	Three months ended September 30, 2010		Three months ended September 30, 2009		Nine months ended September 30, 2010		Nine months ended September 30, 2009	
Fixed income securities	$	(20)	$	—	$	(94)	$	(40)
Mortgage loans		—		—		(6)		(6)
Equity securities		—		—		—		(6)
Other investments		—		(1)		—		(6)
Change in intent write-downs	$	(20)	$	(1)	$	(100)	$	(58)

The change in intent write-downs in the three months ended September 30, 2010 related primarily to below investment grade Subprime RMBS for which we have the intent to sell. The change in intent write-downs in the nine months ended September 30, 2010 related primarily to below investment grade Subprime RMBS.

Sales generated $88 million and $148 million of net realized gains for the three months and nine months ended September 30, 2010, respectively. Net realized gains for the three months ended September 30, 2010 primarily related to $159 million of net gains on sales of corporate and U.S. and foreign government fixed income securities and $15 million of net gains on sales of equity securities, partially offset by $77 million of net losses on sales of CMBS and municipal bonds. Net realized gains for the nine months ended September 30, 2010 primarily related to $267 million of net gains on sales of corporate and U.S. and foreign government fixed income securities and $35 million of net gains on sales of equity securities, partially offset by $151 million of net losses on sales of CMBS and municipal bonds.

Valuation and settlement of derivative instruments recorded as net realized capital losses totaling $24 million for the three months ended September 30, 2010 included $10 million of gains on the valuation of derivative instruments and $34 million of losses on the settlement of derivative instruments. Valuation and settlement of derivative instruments recorded as net realized capital losses totaling $238 million for the nine months ended September 30, 2010 included $193 million of losses on the valuation of derivative instruments and $45 million of losses on the settlement of derivative instruments.

Net realized capital gains and losses from our risk management derivative programs are primarily driven by changes in risk-free interest rates, equity market valuations, volatility and credit spreads during a given period. Net realized capital gains and losses from our income generation derivative programs are primarily driven by changes in the fair value of the reference entities or indices underlying the derivative instruments.

A changing interest rate environment will drive changes in our portfolio duration targets at a tactical level. A duration target and range is established with an economic view of liabilities relative to a long-term investment portfolio view. Tactical duration management is accomplished through both cash

market transactions, sales and new purchases, and derivative activities that generate realized gains and losses. As a component of our approach to managing portfolio duration, 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.

At September 30, 2010, our securities with embedded derivatives totaled $691 million, a decrease in fair value of $76 million from December 31, 2009, comprising realized capital losses on valuation of $27 million, net sales activity of $157 million, unrealized net capital gains reported in OCI of $61 million for the host securities and an increase of $47 million due to the adoption of new accounting guidance. Unrealized net capital gains were further decreased by $17 million due to amortization of the host securities. The change in fair value of embedded derivatives is bifurcated from the host securities, separately valued and reported in realized capital gains and losses, while the change in the difference between the fair value and the amortized cost of the host securities is reported in OCI. Total fair value exceeded total amortized cost by $13 million at September 30, 2010. Valuation gains and losses for securities with embedded derivatives are converted into cash upon our election to sell these securities. In the event the economic value of the embedded options is not realized, we will recover the par value if held to maturity unless the issuer of the security defaults. In the event there are defaults by the referenced credit entities of the embedded credit default swap, our loss is limited to the par value of the combined fixed income security, net of applicable recoveries. Total par value exceeded fair value by $122 million at September 30, 2010.

The table below presents the realized capital gains and losses (pre-tax) on the valuation and settlement of derivative instruments shown by underlying exposure and derivative strategy.

	Nine months ended September 30,				
	2010			2009	2010 Explanations
($ in millions)	Valuation	Settlements	Total	Total	
Risk reduction					
Duration gap management	$ (171)	$ (55)	$ (226)	$ 175	Interest rate caps, floors, swaptions and swaps are used to balance interest-rate sensitivities of assets and liabilities. The contracts settle based on differences between current market rates and a contractually specified fixed rate through expiration. The contracts can be terminated and settled at any time with minimal additional cost. The maximum loss on caps, floors and swaptions is limited to the amount of premiums paid. The change in valuation reflects the changing value of expected future settlements from changing interest rates, which may vary over the period of the contracts. The 2010 losses, resulting from decreasing interest rates, are offset in unrealized capital gains and losses of our fixed income securities in OCI to the extent it relates to changes in risk-free rates.
Anticipatory hedging	26	6	32	(16)	Futures and interest rate swaps are used to protect investment spread from interest rate changes during mismatches in the timing of cash flows between product sales and the related investment activity. The futures contracts are exchange traded, daily cash settled and can be exited at any time for minimal additional cost. If the cash flow mismatches are such that a positive net investment position is being hedged, there is an offset for the related investment's unrealized loss in OCI. The 2010 gains were caused by a decrease in risk-free interest rates over the life of the net short position as liability issuances exceeded asset acquisitions.
Hedging of interest rate exposure in annuity contracts	(18)	—	(18)	6	Value of expected future settlements on interest rate caps and the associated value of future credited interest, which is reportable in future periods when incurred, decreased due to a decrease in interest rates.
Hedge ineffectiveness	3	—	3	1	The hedge ineffectiveness of $3 million includes $110 million in realized capital losses on swaps that were offset by $113 million in realized capital gains on the hedged risk.
Foreign currency contracts	(2)	6	4	1	Currency forwards are used to protect our foreign bond portfolio from changes in currency rates.
Credit risk reduction	8	(10)	(2)	(41)	Valuation gain is the result of widening credit spreads on referenced credit entities.
Total Risk reduction	(154)	(53)	(207)	126	
Income generation					
Asset replication - credit exposure	(12)	8	(4)	50	The 2010 changes in valuation are due to the widening credit spreads on referenced credit entities. The losses are primarily on first-to-default credit default swaps ("CDS") and credit derivative index CDS. The changes in valuation would only be converted to cash upon disposition, which can be done at any time, or if the credit event specified in the contract occurs. For further discussion on CDS, see Note 6 of the condensed consolidated financial statements.
Accounting					
Equity indexed	(20)	—	(20)	19	Equity-indexed notes are fixed income securities that contain embedded options.

notes

The changes in valuation of the embedded equity indexed call options are reported in realized capital gains and losses. The results generally track the performance of underlying equity indices. Valuation gains and losses are converted into cash upon sale or maturity. In the event the economic value of the options is not realized, we will recover the par value of the host fixed income security if held to maturity unless the issuer of the note defaults. Par value exceeded fair value by $20 million at September 30, 2010. Equity-indexed notes are subject to our comprehensive portfolio monitoring and watchlist processes to identify and evaluate when the carrying value may be other-than-temporarily impaired. The following table compares the September 30, 2010 and December 31, 2009 holdings, respectively.

($ in millions)	September 30, 2010	Change in fair value	Change due to net sale activity	December 31, 2009
Par value	$ 325	$ —	$ (150)	$ 475
Amortized cost of host contract	$ 240	$ 12	$ (116)	$ 344
Fair value of equity-indexed call option	47	(20)	(22)	89
Total amortized cost	$ 287	$ (8)	$ (138)	$ 433
Total fair value	$ 305	$ 24	$ (149)	$ 430
Unrealized gain/loss	$ 18	$ 32	$ (11)	$ (3)

($ in millions)	Nine months ended September 30, 2010 Valuation	Settlements	Total	2009 Total	2010 Explanations
Conversion options in fixed income securities	(29)	—	(29)	37	Convertible bonds are fixed income securities that contain embedded options. Changes in valuation of the embedded option are reported in realized capital gains and losses. The results generally track the performance of underlying equities. Valuation gains and losses are converted into cash upon our election to sell these securities. In the event the economic value of the options is not realized, we will recover the par value of the host fixed income security if held to maturity unless the issuer of the note defaults. Fair value exceeded par value by $23 million at September 30, 2010. Convertible bonds are subject to our comprehensive portfolio monitoring and watchlist processes to identify and evaluate when the carrying value may be other-than-temporarily impaired. The following table compares the September 30, 2010 and December 31, 2009 holdings, respectively.

($ in millions)	September 30, 2010	Change in fair value	Change due to net sale activity	December 31, 2009
Par value	$ 309	$ —	$ (6)	$ 315
Amortized cost of host contract	$ 237	$ 5	$ 8	$ 224
Fair value of conversion option	76	(29)	(12)	117
Total amortized cost	$ 313	$ (24)	$ (4)	$ 341
Total fair value	$ 332	$ 3	$ (8)	$ 337
Unrealized gain/loss	$ 19	$ 27	$ (4)	$ (4)

($ in millions)	Valuation	Settlements	Total	2009 Total	2010 Explanations
CDS in fixed income securities	22	—	22	—	Synthetic CDO's are fixed income securities that contain embedded credit default swaps. Effective July 1, 2010, when new accounting guidance requiring bifurcation of these derivatives was adopted, changes in valuation of the embedded credit default swap are reported in realized capital gains and losses. The embedded credit default swap increases or decreases in value as referenced credit entities' credit spreads tighten or widen, respectively. Credit events, changes in interest rates, correlations of the referenced entities and assumed recovery rates are among some of the other factors affecting the value of the embedded credit default swap. In the event a referenced credit entity experiences a credit event, our loss is limited to the par value of the fixed income security. Losses on credit events are net of recovery. Par value exceeded fair value by

$125 million at September 30, 2010. Synthetic CDO's are subject to our comprehensive portfolio monitoring and watchlist processes to identify and evaluate when the carrying value may be other-than-temporarily impaired. The following table compares the September 30, 2010 and July 1, 2010 holdings, respectively.

($ in millions)	September 30, 2010	Change in fair value	Change due to net sale activity	July 1, 2010
Par value	$ 179	$ —	$ —	$ 179
Amortized cost of host contract	$ 179	$ —	$ —	$ 179
Fair value of credit default swap	(101)	22	—	(123)
Total amortized cost	$ 78	$ 22	$ —	$ 56
Total fair value	$ 54	$ 7	$ —	$ 47
Unrealized gain/loss	$ (24)	$ (15)	$ —	$ (9)

Total Accounting	(27)	—	(27)	56
Total	$ (193)	$ (45)	$ (238)(1)	$ 232

(1) Does not include $1 million of derivative gains related to the termination of fair value and cash flow hedges which are included in sales and reported with the hedged risk.

CAPITAL RESOURCES AND LIQUIDITY HIGHLIGHTS

- Shareholder's equity as of September 30, 2010 was $5.69 billion, an increase of 29.8% from $4.39 billion as of December 31, 2009.
- The Allstate Corporation (the "Corporation") has at the parent holding company level $3.53 billion of deployable invested assets at September 30, 2010 compared to $3.07 billion at December 31, 2009.
- At September 30, 2010, we held 26.2% of our total cash and investment portfolio, or $15.94 billion, in cash and liquid investments that are saleable within one quarter without significant additional net realized capital losses.

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, 2010	December 31, 2009
Common stock, additional capital paid-in and retained income	$ 5,050	$ 5,163
Accumulated other comprehensive income (loss)	643	(777)
Total shareholder's equity	5,693	4,386
Notes due to related parties	677	675
Total capital resources	$ 6,370	$ 5,061

Shareholder's equity increased in the first nine months of 2010, due primarily to unrealized net capital gains on investments, partially offset by a net loss.

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. There have been no changes to our insurance financial strength ratings from Moody's, S&P and A.M. Best since December 31, 2009.

The Company, AIC and the Corporation are party to the Amended and Restated Intercompany Liquidity Agreement ("Liquidity Agreement") which allows for short-term advances of funds to be made between parties for liquidity and other general corporate purposes. The Liquidity Agreement does not establish a commitment to advance funds on the part of any party. The Company and AIC each serve as a lender and borrower and the Corporation serves only as a lender. The Company also has a capital support agreement with AIC. Under the capital support agreement, AIC is committed to provide capital to the Company to maintain an adequate capital level. The maximum amount of potential funding under each of these agreements is $1.00 billion.

In addition to the Liquidity Agreement, the Company also has an intercompany loan agreement with the Corporation. The amount of intercompany loans available to the Company is at the discretion of the Corporation. The maximum amount of loans the Corporation will have outstanding to all its eligible subsidiaries at any given point in time is limited to $1.00 billion. The Corporation may use commercial paper borrowings, bank lines of credit and repurchase agreements 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, with $15.94 billion of cash and liquid investments saleable within 90 days without generating significant additional capital losses (26.2% of the total cash and investment portfolio). We expect $6.91 billion of investment portfolio cash flows from maturities, calls, and interest receipts over the next 12 months. 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 $3.53 billion of deployable invested assets as of September 30, 2010. These assets include investments that are generally saleable within one quarter totaling $3.21 billion. This provides funds for the parent company's relatively low fixed charges.

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, 2010, there were no balances outstanding and therefore the remaining borrowing capacity was $1.00 billion; however, the outstanding balance can fluctuate daily.

- A primary 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 2012 with two optional one-year extensions that can be exercised at the end of any of the remaining anniversary years of the facility upon approval of existing or replacement lenders providing more than two-thirds of the commitments to lend. The program is fully subscribed among 11 lenders with the largest commitment being

$185 million. The commitments of the lenders are several and no lender is responsible for any other lender's commitment if such lender fails to make a loan under the facility. This facility contains an increase provision that would allow up to an additional $500 million of borrowing provided the increased portion could be fully syndicated at a later date among existing or new lenders. This facility has a financial covenant requiring that the Corporation not exceed a 37.5% debt to capital resources ratio as defined in the agreement. This ratio at September 30, 2010 was 19.6%. 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, nonguaranteed long-term debt. There were no borrowings under the credit facility during the third quarter and first nine months of 2010. 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 May 8, 2009. The Corporation can use the current shelf registration to issue an unspecified amount of debt securities, common stock (including 362 million shares of treasury stock as of September 30, 2010), 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 as of September 30, 2010 were $47.18 billion. The following table summarizes contractholder funds by their contractual withdrawal provisions at September 30, 2010.

($ in millions)		Percent to total
Not subject to discretionary withdrawal	$ 6,838	14.5%
Subject to discretionary withdrawal with adjustments:		
Specified surrender charges (1)	19,923	42.2
Market value adjustments (2)	8,068	17.1
Subject to discretionary withdrawal without adjustments (3)	12,348	26.2
Total contractholder funds (4)	$ 47,177	100.0%

(1) Includes $9.40 billion of liabilities with a contractual surrender charge of less than 5% of the account balance.

(2) $6.71 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) 67% of these contracts have a minimum interest crediting rate guarantee of 3% or higher.

(4) Includes $1.31 billion of contractholder funds on variable annuities reinsured to The Prudential Insurance Company of America, a subsidiary of Prudential Financial, Inc. effective September 1, 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 increased 5.1% and 13.0% in the third quarter and first nine months of 2010, respectively, compared to the same periods of 2009. The annualized surrender and partial withdrawal rate on deferred annuities and interest-sensitive life insurance, based on the beginning of year contractholder funds, was 10.2% and 8.9% for the first nine months of 2010 and 2009, 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, 2010, total institutional products outstanding were $2.64 billion. The following table presents the remaining scheduled maturities for our institutional products outstanding as of September 30, 2010.

($ in millions)	
2010	$ —
2011	760
2012	40
2013	1,750
2016	85
	$ 2,635

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, operating cash flows in the first nine months of 2010 were consistent with the same period in 2009 as higher premiums and tax refunds received were offset by higher contract benefits paid and lower investment income.

Lower cash flows provided by investing activities in the first nine months of 2010 compared to the first nine months of 2009 were primarily related to lower net reductions in short-term investments to fund reductions in contractholder funds.

Lower cash flows used in financing activities in the first nine months of 2010 compared to the first nine months of 2009 were primarily due to decreased maturities and retirements of institutional products, partially offset by lower deposits on fixed annuities and higher surrenders and partial withdrawals on fixed annuities.

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, 2010, there have been no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Information required for Part II, Item 1 is incorporated by reference to the discussion under the heading “Regulation and Compliance” and under the heading “Legal and regulatory proceedings and inquiries” in Note 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 2009.

Item 5. Other Information

On October 28, 2010, Allstate Finance Company, LLC (“Allstate Finance”), a subsidiary of the Registrant, entered into a Marketing and Administration Agreement dated as of October 1, 2010 with Allstate Bank. Allstate Finance was formed by the Registrant to originate, fund and retain certain business-purpose loans. Pursuant to this agreement attached hereto as Exhibit 10.1, Allstate Bank will provide certain administrative functions for these loans but will not originate, fund, or retain any investment in these loans. The Registrant is an indirect, wholly owned subsidiary of The Allstate Corporation. Allstate Bank is a wholly owned subsidiary of The Allstate Corporation.

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 3, 2010

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

Exhibit No.	Description
10.1	Marketing and Administration Agreement between Allstate Finance Company, LLC and Allstate Bank
15	Acknowledgment of awareness from Deloitte & Touche LLP, dated November 3, 2010, 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

MARKETING AND ADMINISTRATION AGREEMENT

THIS MARKETING AND ADMINISTRATION AGREEMENT ("**Agreement**") is dated as of October 1, 2010 and is by and between Allstate Finance Company, LLC ("**Allstate Finance**") and **Allstate Bank**.

BACKGROUND

For several years, Allstate Bank has been making business-purpose loans (the "**Loans**") to agents ("**Agents**") of Allstate Insurance Company ("**AIC**") and its insurance subsidiaries (collectively, "**Allstate Insurance**"). Allstate Finance has been formed by Allstate Life Insurance Company ("**ALIC**") to originate, fund and retain Loans (any such Loans, "**Allstate Finance Loans**") to the extent Allstate Bank is unable to do so. Pursuant to this Agreement, Allstate Bank will provide certain administrative functions for Allstate Finance Loans but will not originate, fund or retain any investment in Allstate Finance Loans. The marketing, origination and administration of Allstate Finance Loans is sometimes hereinafter referred to as the "**Program**."

NOW, THEREFORE, intending to be legally bound, and in consideration of the premises, mutual covenants, promises, agreements and undertakings, and the representations and warranties contained herein, the receipt and sufficiency of which are hereby acknowledged, the parties hereby agree as follows:

AGREEMENT

ARTICLE I

MARKETING, ORIGINATION AND ADMINISTRATION OBLIGATIONS

Section 1.1 Loan Marketing by Allstate Bank. Periodically, Allstate Finance will provide Allstate Bank with specifications (the "**Specifications**") for each state concerning the Allstate Finance Loans it is prepared to make (including specifications concerning minimum and maximum dollar amounts and permitted borrowers) and strategic direction regarding the marketing of Allstate Finance Loans. Pursuant to the Specifications and such direction, on a quarterly or other periodic basis, Allstate Bank will submit to Allstate Finance for its approval a marketing proposal and budget for Allstate Finance Loans (a "**Plan**") showing, among other things: (a) the proposed marketing activities that are anticipated to be conducted over the period covered by the Plan (the "**Plan Period**"); and (b) the anticipated cost of such marketing. Subject to Allstate Finance's approval, Allstate Bank may modify any Plan at any time or from time to time.

Section 1.2 Loan Funding. Allstate Bank shall give Allstate Finance written or electronic notice (a "**Funding Notice**") from time to time of the dollar amount of Allstate Finance Loans for which Allstate Bank anticipates facilitating origination on behalf of Allstate Finance during the subsequent three business days (the "**Funding Requirement**"). Within five (5) business days after receipt of any Funding Notice consistent with the latest Plan, Allstate Finance shall ensure that it has on deposit with Allstate Bank and maintains on deposit with Allstate Bank at all times up through and including the third business day following the anticipated origination date of each loan, in a noninterest-bearing checking account established for such purpose (the "**AF Loan Funding Account**"), an amount equal to the Funding Requirement less the dollar amount of Allstate Finance Loans originated since the date of the such Funding Notice. The proceeds of Allstate Finance Loans shall be disbursed only through checks drawn from the AF Loan Funding Account or wire or ACH transfers from the AF Loan Funding Account.

Section 1.3 Loan Origination.

(a) Allstate Bank will continue to originate and fund Loans on its own behalf ("**Allstate Bank Loans**") that do not meet the Specifications and/or the latest Plan and, pursuant to the Specifications and the latest Plan, will facilitate the origination and funding by Allstate Finance of Allstate Finance Loans.

(b) Allstate Bank shall at no time have any direct or indirect variable interest in any Allstate Finance Loan. All Allstate Finance Loans shall be executed and funded solely and exclusively in the name of Allstate Finance and solely with the funds from the AF Loan funding Account and all Allstate Bank Loans shall be executed and funded solely and exclusively in the name of Allstate Bank. Allstate Finance hereby appoints Allstate Bank as its true and lawful attorney-in-fact, with full power of substitution, to execute and deliver all Allstate Finance Loan agreements and documents in Allstate Finance's name and stead pursuant to this Agreement. So long as this Agreement is in force, this power of attorney is irrevocable.

(c) Allstate Finance shall provide to Allstate Bank the Allstate Finance Agent Loan Underwriting Policy (the "**Underwriting Policy**"). Allstate Finance may modify the Underwriting Policy from time to time. Should the modifications to the Underwriting Policy cause a material increase in the time and expense for Allstate Bank to underwrite Allstate Finance Loans, Allstate Finance, the parties shall negotiate in good faith to revise the fee schedule. All Allstate Finance Loans shall satisfy the standards set forth in the Underwriting Policy under the caption "Loan Underwriting" and all loan files for Allstate Finance Loans ("**Allstate Finance Loan Files**") shall include the documents and materials set forth in the Underwriting Policy under the caption "Loan Files" (the "**Required Loan Documents**"), subject to such exceptions as any officer of Allstate Finance not affiliated with Allstate Bank shall approve. Allstate Bank shall maintain the Allstate Finance Loan Files and shall make the Allstate Finance Loan Files available to Allstate Finance and its accountants, auditors and representatives from time to time during normal business hours, in the format (hard copy or electronic) in which such Allstate Finance Loan Files are maintained. In the event that Allstate Finance identifies within ninety (90) days after the origination date of an Allstate Finance Loan a material departure from the requirements of this Section 1.3(c), Allstate Finance, in its sole discretion, may within such period 1) give Allstate Bank a demand to cure the problem or 2) require Allstate Bank to purchase such non-conforming Allstate Finance Loan within sixty (60) days, 3) waive its rights to demand a cure or repurchase of non-conforming Allstate Finance Loan by Allstate Bank. The purchase price for any such non-conforming Allstate Finance Loan(s) shall be the par value of the Loan, together with accrued interest, and may be paid in cash and/or by delivery to Allstate Finance of one or more Allstate Bank Loans of comparable dollar amount (with appropriate cash adjustments). To the extent Allstate Bank purchases Allstate Finance Loans pursuant to this Section 1.3(c) for cash, appropriate adjustment shall be made for any compensation paid by Allstate Finance to Allstate Bank with respect to the origination of the Allstate Finance Loan. In the event that Allstate Finance does not demand purchase of a non-conforming Allstate Finance Loan within ninety (90) days after Loan origination, any defects in the underwriting or documentation with respect to such Allstate Finance Loan shall be deemed to be waived, notwithstanding any language in this Agreement (including Article IV) to the contrary.

Section 1.4 New Loan Report. Allstate Bank shall electronically make available to Allstate Finance a report (a "**New Loan Report**") showing the new Allstate Finance Loans originated and such other reports as are available to Allstate Bank on its administration system ("**New Allstate Finance Loans**"). Among other information, the New Loan Report shall show for each New Allstate Finance Loan: (a) the name of the agent borrower ("**Agent**"); (b) the principal amount of the New Loan; (c) the interest rate on the New Loan; (d) the term in months of the New Allstate Finance Loan; (e) the monthly payment on the New Allstate Finance Loan.

Section 1.5 Administration of Loans; Administration Standards. Allstate Bank shall administer Allstate Finance Loans as set forth by Allstate Finance ("**Administration Standards**") those

Administration Standards require Allstate Bank to administer the Allstate Finance Loans in accordance with applicable statutes, codes, ordinances, laws, regulations, orders, judgments, decrees and agreements, memoranda of understanding, directives, formal and informal guidance and policies of all federal, state and local agencies (collectively, "**Governmental Requirements**"), the terms of this Agreement, customary and usual standards of practice of prudent loan administrators and the standards of performance Allstate Bank applies to Allstate Bank Loans. In connection with such administration and within the terms of this Agreement, Allstate Bank shall have full power and authority, acting alone, to do or cause to be done any and all things that it may deem necessary or desirable in connection with such administration and that are in the best interest and for the benefit of Allstate Finance, except that without the express written consent of Allstate Finance, Allstate Bank shall not forgive any interest or principal amount of any Loan, release any guarantor or any collateral or extend the term of any Loan. Without limiting the generality of the foregoing, Allstate Bank, in the name of Allstate Finance or any assignee of Allstate Finance, when Allstate Bank believes it appropriate in its reasonable judgment, may execute and deliver any and all instruments of satisfaction or cancellation, or of partial or full release or discharge and all other instruments, with respect to Allstate Finance Loans. Allstate Finance hereby irrevocably designates and appoints Allstate Bank as its attorney-in-fact, with full power of substitution, during the term hereof for purposes of signing the name of Allstate Finance or any assignee to any and all such instruments. Notwithstanding such appointment, Allstate Bank may prepare and deliver to Allstate Finance or any assignee such documents requiring execution and delivery by Allstate Finance or any assignee as are necessary or appropriate to enable Allstate Bank to administer Allstate Finance Loans. Upon receipt of such documents, Allstate Finance or its assignee shall execute such documents and deliver them to Allstate Bank. Notwithstanding the foregoing, Allstate Bank shall notify Allstate Finance whenever there is a material default under any Allstate Finance Loan and obtain Allstate Finance's prior express consent before initiating any formal legal proceedings to enforce Allstate Finance's remedies. As part of its Allstate Finance Loan administration, Allstate Bank shall provide certain bookkeeping services and financial reports and information, including the information necessary for Allstate Finance financial reporting purposes.

Section 1.6 Remitting Payments.

(a) Within three business days after receiving or collecting any payment on an Allstate Finance Loan, Allstate Bank shall deposit the amount received or collected, net of any related compensation or expense reimbursement to which Allstate Bank is entitled (as described in Article II), in a noninterest-bearing checking account established in Allstate Finance's name for such purpose (the "AFC **Loan Remittance Account**"). In the event that any payment received on an Allstate Finance Loan is returned or dishonored, or in the event that any such payment must be returned, Allstate Bank shall be entitled to a refund of the related amount remitted to Allstate Finance and may withhold from future payments to Allstate Finance the amount of the refund to which it is entitled. Allstate Bank shall not advance or be obligated to advance its own funds for principal and interest owing under the Loans.

(b) If Allstate Finance receives directly any payment on any Allstate Finance Loan, Allstate Finance shall promptly forward such payment to Allstate Bank for application in accordance with the terms of this Agreement.

Section 1.7 Customer Service. Allstate Bank will directly and/or through third parties provide the staffing necessary to assist Agents seeking and obtaining Allstate Finance Loans. Such functions will include, but may not be limited to:

(a) Staffing a "help desk" with representatives with the knowledge necessary to assist Agents in completing applications, overcoming any computer or website problems and answering associated questions;

(b) After an Allstate Finance Loan is originated and funded by Allstate Finance, providing the Agent with routine account information concerning loan terms, outstanding

balance, payments, payment due date and address for sending payments. Such information may be provided via live operators, through an automated telephone system or over the Internet.

Section 1.8 Collection of Loan Payments. Allstate Bank shall make commercially reasonable efforts in accordance with the Administration Standards set forth by Allstate Finance to collect all payments called for under the terms and provisions of Allstate Finance Loans. However, consistent with the Fee Schedule attached hereto as Exhibit A (the "**Fee Schedule**"), Allstate Bank may waive late payment charges or prepayment charges. Unless directed by Allstate Finance, Allstate Bank shall not institute or continue any litigation or arbitration proceeding with respect to collection of any payment if it believes in good faith that enforcing the provision of the instrument pursuant to which such payment is required is not cost-justified. If Allstate Bank is directed by Allstate Finance to institute or continue such litigation or arbitration proceeding, Allstate Finance agrees to reimburse Allstate Bank all related fees and costs.

Section 1.9 Access to Certain Documentation and Information Regarding Loans; Allstate Bank Regulator Authority.

(a) Allstate Bank shall afford Allstate Finance and any court or governmental agency or body with supervisory authority or jurisdiction over Allstate Finance (an "**Allstate Finance Regulator**") reasonable access to all records and documentation regarding Allstate Finance Loans and all accounts and other matters relating to this Agreement, such access being afforded without charge, but only upon reasonable request and during normal business hours (or as requested by an Allstate Finance Regulator) at the office designated by Allstate Bank. At the request of any

court or governmental agency or body with supervisory authority or jurisdiction over Allstate Bank (an "**Allstate Bank Regulator**"), Allstate Finance shall provide like access to such Allstate Bank Regulator. Allstate Finance agrees to submit to any examination which may be required by any Allstate Bank Regulator, to the fullest extent such regulator may require.

(b) Allstate Finance (either directly or by the use of accountants or other agents or representatives) may audit, inspect and review Allstate Bank and its files, records and books insofar as they relate to Allstate Finance Loans. Allstate Bank agrees to submit to Allstate Finance such information as Allstate Finance may from time to time reasonably request in order to ascertain Allstate Bank's compliance with the requirements of this Agreement and compliance of the Program with Governmental Requirements.

Section 1.10 Non-Exclusivity. Allstate Bank is neither obligated nor expected to service loans exclusively for Allstate Finance. No terms or conditions contained herein shall prevent, restrict or preclude Allstate Bank from administering loans (or engaging in other services) for other entities, whether or not affiliated with Allstate Finance, in any jurisdiction with respect to any program. Allstate Bank agrees that it shall maintain appropriate controls to segregate funds, information and records relating to the Allstate Finance Loans from those of other entities.

Section 1.11 Status of Parties. Allstate Bank shall perform its services hereunder as an independent contractor for Allstate Finance.

Section 1.12 Additional Covenants of Allstate Bank.

(a) Allstate Bank shall, while this Agreement is in effect, prepare and maintain disaster recovery, business resumption, and contingency plans appropriate for the nature and scope of the Program, the activities of Allstate Bank, and the obligations to be performed by Allstate Bank hereunder and also sufficient to enable Allstate Bank to promptly resume the performance of its obligations hereunder in the event of a natural disaster, destruction of Allstate Bank's facilities or operations, utility or communication failures, or similar interruption in the operations of Allstate Bank or the operations of a third party which in turn materially affect the operations of Allstate Bank. Allstate Bank shall make available to Allstate Finance copies of all

such disaster recovery, business resumption and contingency plans and shall make available to Allstate Finance copies of any changes thereto. Allstate Bank shall periodically test such disaster recovery, business resumption and contingency plans as may be appropriate and prudent in light of the nature and scope of the activities and operations of Allstate Bank and its obligations hereunder and shall promptly provide Allstate Finance with results of any such tests.

(b) Allstate Bank shall promptly provide written notice to Allstate Finance of the occurrence of any of the following: (i) any changes or disruptions in the equipment, facilities, systems, staffing or other arrangements or contracts with third parties which may in any material respect have the effect of impairing, disrupting or preventing the timely and full performance by Allstate Bank of its obligations under this Agreement; and (ii) any material written claim asserted by an Agent or other party alleging that Allstate Bank, any third party service provider retained by Allstate Bank or Allstate Finance has violated any applicable laws or regulations with respect to the Program.

(c) Allstate Bank shall promptly disclose to Allstate Finance any breaches in security with respect to the services it provides to Allstate Finance hereunder or databases or information maintained by Allstate Bank with respect to Allstate Finance Loans that result in unauthorized intrusions that may have a material adverse effect on either Allstate Finance or Agents. Allstate Bank shall report to Allstate Finance when any such material intrusion has occurred, the estimated effect of the intrusion on Allstate Finance or Agents receiving Allstate Finance Loans and the specific corrective actions taken or planned to be taken. In addition, Allstate Bank agrees that it will not make material changes to its security procedures and the requirements affecting the performance of its obligations hereunder which would materially lessen the security of its operations or materially reduce the confidentiality of data bases and information maintained with respect to Allstate Finance, Agents, and Loans without the prior written consent of Allstate Finance.

ARTICLE II

FEES

Section 2.1 Fees and Expense Reimbursements. As full compensation for its marketing, origination and administration activities hereunder, Allstate Bank shall be entitled to the fees and expense reimbursements set forth on the Fee Schedule.

ARTICLE III

REPRESENTATIONS AND WARRANTIES

Section 3.1 Representations and Warranties of Allstate Bank. Allstate Bank hereby represents and warrants to Allstate Finance that, during the term of this Agreement:

(a) Allstate Bank is or will be a federal savings bank or other federally chartered depository institution, validly existing and presently subsisting under the laws of the United States. Allstate Bank is duly qualified to do business in each state where required.

(b) Allstate Bank has full power and authority to administer the Allstate Finance Loans and to execute, deliver and perform its obligations under this Agreement. The execution, delivery and performance of this Agreement have been duly authorized by all necessary action on behalf of Allstate Bank. Allstate Bank has duly executed and delivered this Agreement, and this Agreement constitutes a legal, valid and binding obligation of Allstate Bank, enforceable against Allstate Bank in accordance with its terms. Allstate Bank will administer the

Allstate Finance Loans in full compliance with, and will otherwise comply with, all Governmental Requirements.

(c) The execution and delivery of this Agreement and the fulfillment of its terms do not conflict with any of the terms, conditions or provisions of Allstate Bank's organizational documents or materially conflict with or result in a material breach of any of the terms, conditions or provisions of any legal restriction or any agreement or instrument to which Allstate Bank is now a party or by which it is bound, or constitute a default or result in an acceleration under any of the foregoing, or result in the material violation of any law, rule, regulation, order, judgment or decree to which Allstate Bank or its property is subject.

(d) As of the date of this Agreement, no litigation is pending or, to the best of Allstate Bank's knowledge, threatened, against Allstate Bank that would materially and adversely affect the execution, delivery or enforceability of this Agreement or the ability of Allstate Bank to administer Allstate Finance Loans or to perform any of its obligations under this Agreement in accordance with the terms hereof.

(e) No consent, approval, authorization or order of any court or governmental agency or body is required for the execution, delivery and performance by Allstate Bank of, or compliance by Allstate Bank with, this Agreement or the consummation of the transactions contemplated hereby, or if any such consent, approval, authorization or order is required, Allstate Bank has obtained the same.

(f) Allstate Bank is not insolvent or in danger of insolvency.

Section 3.2 Representations and Warranties of Allstate Finance. Allstate Finance hereby represents and warrants to Allstate Bank that, during the term of this Agreement:

(a) Allstate Finance is a limited liability company, duly organized, validly existing and presently subsisting under the laws of the State of Delaware. Allstate Finance is duly qualified to do business in each state where required.

(b) Allstate Finance has the full power and authority to engage in its business and to enter into each Allstate Finance Loan.

(c) Allstate Finance has full power and authority to execute, deliver and perform its obligations under this Agreement. The execution, delivery and performance of this Agreement have been duly authorized by all necessary action on behalf of Allstate Finance. Allstate Finance has duly executed and delivered this Agreement, and this Agreement constitutes a legal, valid and binding obligation of Allstate Finance, enforceable against Allstate Finance in accordance with its terms.

(d) The execution and delivery of this Agreement and the fulfillment of its terms do not conflict with any of the terms, conditions or provisions of Allstate Finance's organizational documents, or materially conflict with or result in a material breach of any of the terms, conditions or provisions of any legal restriction or any agreement or instrument to which Allstate Finance is a party or by which it is bound, or constitute a default or result in an acceleration under any of the foregoing, or result in the material violation of any law, rule, regulation, order, memorandum of understanding, directive, judgment or decree to which Allstate Finance or its property is subject.

(e) Allstate Finance is not subject to any order, memorandum of understanding or other regulatory directive that might impair its ability to participate in the Program or materially and adversely affect its financial condition.

(f) As of the date of this Agreement, no litigation is pending or, to the best of Allstate Finance's knowledge, threatened, against Allstate Finance that would materially and adversely affect the execution, delivery or enforceability of this Agreement or its ability to perform any of its other obligations under this Agreement in accordance with the terms hereof.

(g) No consent, approval, authorization or order of any court or governmental agency or body is required by law for the execution, delivery and performance by Allstate Finance of, or compliance by Allstate Finance with, this Agreement or the consummation of the transactions contemplated hereby, or if any such consent, approval, authorization or order is required, Allstate Finance has obtained the same.

(h) Allstate Finance is not insolvent or in danger of insolvency.

ARTICLE IV

INDEMNIFICATION

Section 4.1 Indemnification by Allstate Bank. Subject to Section 1.3(c), which shall be Allstate Finance's sole recourse with respect to any failure of Allstate Bank to comply with its obligations regarding the origination of Allstate Finance Loans, Allstate Bank hereby indemnifies and agrees to defend and hold harmless Allstate Finance, its agents, servants, directors, officers, employees, successors, assigns and affiliates from and against all claims, damages, losses, liabilities, costs and expenses (excluding loss of profits or other consequential damages (other than any consequential damages recovered in a third-party claim)) and including, without limitation, settlement costs and any reasonable legal, accounting or other expenses for investigating or defending any actions or threatened actions, including any formal or informal regulatory enforcement action) (collectively, the "**Losses**") in connection with any breach of any representation, warranty, covenant, agreement or obligation of Allstate Bank contained in this Agreement.

Section 4.2 Indemnification by Allstate Finance. Allstate Finance hereby indemnifies and agrees to defend and hold harmless Allstate Bank, its agents, servants, directors, officers, employees, successors, assigns and affiliates from and against all Losses in connection with any breach of any representation, warranty, covenant, agreement or obligation of Allstate Finance contained in this Agreement.

Section 4.3 Claims for Indemnification. Whenever any claim shall arise for indemnification under this Article IV, the party seeking indemnification (the "**Indemnified Party**") shall notify the party from whom indemnification is sought (the "**Indemnifying Party**") of the claim and, when known, the facts constituting the basis for such claim (an "**Indemnification Claim Notice**"). In the event of any such claim for indemnification hereunder resulting from or in connection with any claim or legal proceedings by a third party, the Indemnification Claim Notice shall specify, if known, the amount or an estimate of the amount of the liability arising therefrom. The Indemnified Party shall not settle or compromise any claim by a third party for which it is entitled to indemnification hereunder without the prior written consent of the Indemnifying Party, which consent shall not be unreasonably withheld, conditioned or delayed; provided, however, that if a legal proceeding shall have been instituted against the Indemnified Party and the Indemnifying Party shall

not have taken control of such suit after notification thereof as provided in Section 4.4 of this Agreement, the Indemnified Party shall have the right to settle or compromise such claim upon giving notice to the Indemnifying Party, as provided in Section 4.4.

Section 4.4 Defense by the Indemnifying Party. In connection with any claim which may give rise to indemnity hereunder resulting from or arising out of any third party claim or legal proceeding, the Indemnifying Party, at its sole cost and expense may, upon written notice to the Indemnified Party, assume the defense of any such claim or legal proceeding if the Indemnifying Party acknowledges to the Indemnified Party in writing the obligation of the Indemnifying Party to indemnify the Indemnified Party with respect to all elements of such claim. If the Indemnifying Party assumes the

defense of any such claim or legal proceeding, the Indemnifying Party shall select counsel acceptable to the Indemnified Party in the Indemnified Party's sole determination to conduct the defense of such claims or legal proceeding and at the sole cost and expense of the Indemnifying Party shall take all steps necessary in the defense or settlement thereof. The Indemnifying Party shall not consent to a settlement of, or the entry of any judgment arising from, any such claim or legal proceeding, without the prior written consent of the Indemnified Party, which consent shall not be unreasonably withheld, conditioned or delayed. The Indemnified Party shall be entitled to participate in (but not control) the defense of any such action, with its own counsel and at its own expense. If the Indemnifying Party does not assume the defense of any such claim or litigation resulting therefrom within thirty (30) days after the date of the Indemnification Claim Notice, then until the Indemnifying Party assumes the defense of such claim: the Indemnified Party may defend against such claim or litigation in such manner as it may deem appropriate, including, but not limited to, settling such claim or litigation, after giving notice of the same to the Indemnifying Party, on such terms as the Indemnified Party may reasonably deem appropriate, and all costs of litigation incurred by the Indemnified Party shall be included in the calculation of the Indemnified Party's Loss; and the Indemnifying Party shall be entitled to participate in (but not control) the defense of such action, with its counsel and at its own expense. If the Indemnifying Party thereafter seeks to question the manner in which the Indemnified Party defended such third party claim or the amount or nature of any such settlement, the Indemnifying Party shall have the burden to prove by a preponderance of the evidence that the Indemnified Party did not defend or settle such third party claim in a reasonably prudent manner.

Section 4.5 Payment of Indemnification Obligation. All indemnification by the Indemnifying Party hereunder shall be effected by a payment in the amount of the indemnification liability promptly upon the determination thereof.

Section 4.6 Survival of Indemnification. The rights of indemnification set forth in this Article IV shall survive the termination of this Agreement.

ARTICLE V

SCOPE; TERM AND TERMINATION

Section 5.1 Scope. This Agreement shall cover each Allstate Finance Loan originated during the term of this Agreement and, subject to Section 5.3, shall continue to cover each such Allstate Finance Loan after termination of this Agreement.

Section 5.2 Term. This Agreement shall commence on the date first above written and, unless sooner terminated in accordance with Section 5.3, shall continue for a period of thirty-six (36) months, provided that, at the end of the initial term of this Agreement or any renewal term, the term of this Agreement shall be automatically renewed for an additional term of twelve (12) months if written notice of non-renewal is not given by either party at least one hundred eighty (180) days prior to the end of the then-existing term.

Section 5.3 Early Termination. Either party may terminate this Agreement before the then-scheduled expiration date by giving written or electronic notice (a "**Termination Notice**") at least one hundred eighty (180) days in advance of the desired termination date. In the event that Allstate Bank is directed by any Allstate Bank Regulator to terminate its participation in the Program, the parties will attempt to comply with such direction as soon as reasonably practicable. Either party may terminate the right and obligation of Allstate Bank to facilitate the origination of Allstate Finance Loans immediately upon delivery of written or electronic notice to the other party, provided that no such notice shall affect Allstate Finance Loans contemplated by the latest pre-termination Funding Notice provided to Allstate Finance.

Section 5.4 Consequences of Termination. In the event of non-renewal of this Agreement or delivery by either party of a Termination Notice, the parties will use commercially

reasonable efforts to effect the transfer of the administration of Allstate Finance Loans to Allstate Finance or its designee by the expiration or termination date. Until such date, Allstate Bank shall continue to originate and service Allstate Finance Loans and shall be entitled to the compensation therefor provided hereunder.

ARTICLE VI

CONFIDENTIALITY

Section 6.1 In connection with this Agreement, each party will have access to information concerning the other party. Each party acknowledges and agrees that all tangible and intangible proprietary information revealed, obtained from the other party (the "**Protected Party**") in the course of or in connection with this Agreement ("**Confidential Information**") shall be considered as confidential and proprietary information of the Protected Party and shall not be disclosed to any third party without the prior written consent of the Protected Party.

Section 6.2 The Protected Party's Confidential Information shall be used by the other party (the "**Obligated Party**") only for the purpose of participating in the Program and exercising its rights, duties and remedies under this Agreement or exercising its rights, duties and remedies in connection with an Allstate Finance Loan. The Obligated Party shall not accumulate in any way or make use of Confidential Information for any other purpose. The Obligated Party shall ensure that only its employees, officers, directors, authorized agents or contractors who need to know Confidential

Information to perform services or offer or monitor the Program, or parties performing due diligence in connection with a potential transaction involving the Obligated Party, will receive Confidential Information and that such persons agree to be bound by the provisions of this Article VI.

Section 6.3 The obligations set forth herein with respect to Confidential Information shall not apply to Confidential Information that: (a) an Obligated Party or its personnel already know at the time it is disclosed; (b) is publicly known without breach of this Agreement; (c) the Obligated Party received from a third party authorized to disclose it without restriction; or (d) the Obligated Party, its agents or contractors developed independently without use of the Confidential Information of the Protected Party. In addition, an Obligated Party may disclose Confidential Information if and to the extent required by law, regulation or valid court or governmental agency order, provided that the Obligated Party gives notice to the Protected Party as soon as may be practicable in order to give the Protected Party the opportunity to seek a protective order. Finally, an Obligated Party may disclose Confidential Information as reasonably necessary in connection with any lawsuit or arbitration proceeding between the Obligated Party and the Protected Party.

Section 6.4 The parties agree that any unauthorized use or disclosure of Confidential Information may cause immediate and irreparable harm to the Protected Party for which money damages may not constitute an adequate remedy. Accordingly, the Obligated Party agrees that injunctive relief may be warranted in addition to any other remedies the Protected Party may have. In addition, each Obligated Party agrees promptly to advise the Protected Party in writing of any unauthorized misappropriation, disclosure or use by any person of Confidential Information which may come to its attention and to take all steps at its own expense reasonably requested by the Protected Party to limit, stop or otherwise remedy such misappropriation, disclosure or use.

Section 6.5 Each party further agrees that, notwithstanding Section 6.3, the existence and terms of this Agreement shall constitute "Confidential Information" of the other party.

Section 6.6 The obligations of this Article VI shall survive the termination of this Agreement.

ARTICLE VII

GENERAL

Section 7.1 Notices. All notices, requests and other communications hereunder ("**Notices**") shall be given in writing or by email and will be deemed to have been given three days after being sent by registered or certified mail, postage prepaid, return receipt requested, one day after being sent by an overnight courier service guaranteeing next day delivery, in each instance, addressed as follows or addressed in the manner set forth in a subsequent notice given by the recipient in accordance with this Section 7.1:

(a) if to Allstate Bank:

Allstate Bank
3100 Sanders Road
Northbrook, IL 60062
Attention: President

(b) if to Allstate Finance:

Allstate Finance Company, LLC
3100 Sanders Road
Northbrook, IL 60062
Attention: Managing Officer

Section 7.2 Regulatory Concerns; Litigation Threats. Except to the extent prohibited by Governmental Requirements (after reasonable efforts to obtain a waiver thereof if practicable), Allstate Finance and Allstate Bank shall each provide prompt notice to the other party upon receipt of: (a) any verbal or written contact from any regulatory authority regarding the Program; or (b) any legal process or verbal or written communication from any attorney or individual concerning a threatened legal proceeding regarding the Program.

Section 7.3 Governing Law. This Agreement shall be governed by federal law and, to the extent state law applies, by the substantive law of the State of Illinois, without giving effect to the conflict of law principles thereof.

Section 7.4 No Waiver. No failure or delay on the part of either party to exercise any right, power or remedy shall operate as a waiver thereof; nor shall any single or partial exercise of any right, power or remedy preclude any other or further exercise thereof or of any other right, power, or remedy.

Section 7.5 Entire Agreement; Amendment; Assignment. This Agreement, including its exhibits, sets forth the entire understanding of the parties relating to the subject matter hereof and supersedes all prior oral or written understandings relating hereto. This Agreement, including its exhibits, shall only be modified or supplemented by a written amendment signed by both parties. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and permitted assigns, including without limitation any successor to a party hereto by merger, consolidation or otherwise by operation of law.

Section 7.6 Assignment and Participation of Loans; Third Party Beneficiaries. Allstate Finance may sell, assign or transfer participation interests in any Allstate Finance Loan, without prior written or electronic approval and in its absolute discretion, provided that such sale, assignment or transfer shall not affect Allstate Bank's administration hereunder or require Allstate Bank to deal with the purchaser, assignee or transferee of the participation interests regarding such Allstate Finance Loan.

Section 7.7 Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed to be an original hereof, and all of which, when taken together, shall constitute one and the same instrument.

Section 7.8 Headings. The headings of the several articles and sections of this Agreement are inserted for convenience of reference only and shall not constitute a part of this Agreement.

Section 7.9 Severability. If any portion of this Agreement is construed to be invalid or unenforceable, the remaining portions hereof shall not be affected thereby and shall be enforceable without regard to the invalid or unenforceable portions.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed and delivered as of the date first above written.

ALLSTATE FINANCE COMPANY, LLC

By: /s/ John C. Pintozzi
John C. Pintozzi
Title: President

Date: 10/28/2010

ALLSTATE BANK

By: /s/ Nick Georgakopoulos
Nick Georgakopoulos
Title: President

Date: 10/27/2010

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, 2010 and 2009, as indicated in our report dated November 3, 2010; 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, 2010, 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
333-156064	333-114562
333-157311	333-121687
333-157314	333-121691
333-157318	333-121692
333-157319	333-121693
333-157320	333-121695
333-157331	333-121697
333-157332	
333-157334	
333-158182	
333-159317	
333-169382	

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 3, 2010

CERTIFICATIONS

I, Matthew E. Winter, 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 3, 2010

/s/ Matthew E. Winter

Matthew E. Winter
President and Chief Executive Officer

CERTIFICATIONS

I, John C. Pintozzi, 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 3, 2010

/s/ John C. Pintozzi

John C. Pintozzi
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, 2010 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 3, 2010

/s/ Matthew E. Winter
Matthew E. Winter
President and Chief Executive Officer

/s/ John C. Pintozzi
John C. Pintozzi
Senior Vice President and Chief Financial Officer