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 March 31, 2011

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 May 4, 2011, the registrant had 23,800 common shares, $227 par value, outstanding, all of which are held by Allstate Insurance Company.

ALLSTATE LIFE INSURANCE COMPANY
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March 31, 2011

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ALLSTATE LIFE INSURANCE COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

($ in millions)	Three months ended March 31, 2011	Three months ended March 31, 2010
	(unaudited)	
Revenues		
Premiums	$ 171	$ 153
Contract charges	247	246
Net investment income	662	707
Realized capital gains and losses:		
Total other-than-temporary impairment losses	(82)	(179)
Portion of loss recognized in other comprehensive income	(7)	14
Net other-than-temporary impairment losses recognized in earnings	(89)	(165)
Sales and other realized capital gains and losses	134	4
Total realized capital gains and losses	45	(161)
	1,125	945
Costs and expenses		
Contract benefits	382	364
Interest credited to contractholder funds	408	452
Amortization of deferred policy acquisition costs	124	67
Operating costs and expenses	77	86
Restructuring and related charges	(2)	—
Interest expense	11	11
	1,000	980
Gain on disposition of operations	2	1
Income (loss) from operations before income tax expense (benefit)	127	(34)
Income tax expense (benefit)	40	(16)
Net income (loss)	$ 87	$ (18)

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)	March 31, 2011 (unaudited)	December 31, 2010
Assets		
Investments		
Fixed income securities, at fair value (amortized cost $46,753 and $47,486)	$ 47,629	$ 48,214
Mortgage loans	6,461	6,553
Equity securities, at fair value (cost $154 and $164)	213	211
Limited partnership interests	1,357	1,272
Short-term, at fair value (amortized cost $822 and $1,257)	822	1,257
Policy loans	839	841
Other	1,186	1,094
Total investments	58,507	59,442
Cash	138	118
Deferred policy acquisition costs	2,931	2,982
Reinsurance recoverables	4,253	4,277
Accrued investment income	566	522
Other assets	633	420
Separate Accounts	8,603	8,676
Total assets	$ 75,631	$ 76,437
Liabilities		
Contractholder funds	$ 45,148	$ 46,458
Reserve for life-contingent contract benefits	12,815	12,752
Unearned premiums	25	27
Payable to affiliates, net	106	118
Other liabilities and accrued expenses	1,635	1,454
Deferred income taxes	769	643
Notes due to related parties	686	677
Separate Accounts	8,603	8,676
Total liabilities	69,787	70,805
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	2,000	1,913
Accumulated other comprehensive income:		
Unrealized net capital gains and losses:		
Unrealized net capital losses on fixed income securities with OTTI	(103)	(100)
Other unrealized net capital gains and losses	691	587
Unrealized adjustment to DAC, DSI and insurance reserves	62	38
Total unrealized net capital gains and losses	650	525
Total accumulated other comprehensive income	650	525
Total shareholder's equity	5,844	5,632
Total liabilities and shareholder's equity	$ 75,631	$ 76,437

See notes to condensed consolidated financial statements.

ALLSTATE LIFE INSURANCE COMPANY AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

($ in millions)	Three months ended March 31, 2011 (unaudited)	2010
Cash flows from operating activities		
Net income (loss)	$ 87	$ (18)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Amortization and other non-cash items	(31)	(41)
Realized capital gains and losses	(45)	161
Gain on disposition of operations	(2)	(1)

Interest credited to contractholder funds	408	452
Changes in:		
Policy benefits and other insurance reserves	(133)	(98)
Unearned premiums	(2)	(1)
Deferred policy acquisition costs	48	(21)
Reinsurance recoverables, net	(59)	(81)
Income taxes	42	490
Other operating assets and liabilities	(56)	(37)
Net cash provided by operating activities	257	805
Cash flows from investing activities		
Proceeds from sales		
Fixed income securities	2,959	2,666
Equity securities	9	3
Limited partnership interests	39	34
Mortgage loans	26	3
Other investments	60	33
Investment collections		
Fixed income securities	681	616
Mortgage loans	86	260
Other investments	55	13
Investment purchases		
Fixed income securities	(2,961)	(3,152)
Equity securities	(8)	—
Limited partnership interests	(115)	(43)
Mortgage loans	(26)	(1)
Other investments	(57)	(41)
Change in short-term investments, net	577	487
Change in other investments, net	(165)	7
Net cash provided by investing activities	1,160	885
Cash flows from financing activities		
Contractholder fund deposits	472	672
Contractholder fund withdrawals	(1,869)	(2,337)
Net cash used in financing activities	(1,397)	(1,665)
Net increase in cash	20	25
Cash at beginning of period	118	145
Cash at end of period	$ 138	$ 170

See notes to condensed consolidated financial statements.

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

1. General

Basis of presentation

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

The condensed consolidated financial statements and notes as of March 31, 2011, and for the three-month periods ended March 31, 2011 and 2010 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, 2010. The results of operations for the interim periods should not be considered indicative of results to be expected for the full year.

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

Premiums and contract charges

The following table summarizes premiums and contract charges by product for the three months ended March 31.

($ in millions)	2011	2010
Premiums		
Traditional life insurance	$ 104	$ 102
Immediate annuities with life contingencies	43	27
Accident and health insurance	24	24

Total premiums	171	153
Contract charges		
Interest-sensitive life insurance	238	233
Fixed annuities	9	13
Total contract charges	247	246
Total premiums and contract charges	$ 418	$ 399

Adopted accounting standards

Consolidation Analysis Considering Investments Held through Separate Accounts

In April 2010, the Financial Accounting Standards Board ("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 adoption of this guidance as of January 1, 2011 had no impact on the Company's results of operations or financial position.

Disclosure of Supplementary Pro Forma Information for Business Combinations

In December 2010, the FASB issued disclosure guidance for entities that enter into business combinations that are material. The guidance specifies that if an entity presents comparative financial statements, the entity should disclose proforma revenue and earnings of the combined entity as though the business combination that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. The guidance expands the supplemental pro forma disclosures to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination. The Company will apply the guidance to any business combinations entered into on or after January 1, 2011.

Pending accounting standards

Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts

In October 2010, the FASB issued guidance modifying the definition of the types of costs incurred by insurance entities that can be capitalized in the acquisition of new and renewal contracts. The guidance specifies that the costs must be based on successful efforts. The guidance also specifies that advertising costs should be included as deferred acquisition costs only when the direct-response advertising accounting criteria are met. If application of the guidance would result in the capitalization of acquisition costs that had not been capitalized prior to adoption, the entity may elect not to capitalize those additional costs. The new guidance is effective for reporting periods beginning after December 15, 2011 and should be applied prospectively, with retrospective application permitted. The Company is in the process of evaluating the impact of adoption on the Company's results of operations and financial position.

Criteria for Classification as a Troubled Debt Restructuring ("TDR")

In April 2011, the FASB issued clarifying guidance related to determining whether a loan modification or restructuring should be classified as a TDR. The additional guidance provided pertains to the two criteria used to determine whether a TDR exists, specifically whether the creditor has granted a concession and whether the debtor is experiencing financial difficulties. The new guidance is effective for reporting periods beginning on or after June 15, 2011 with early adoption permitted. The guidance related to the identification of a TDR is to be applied retrospectively to the beginning of the annual period of adoption. The measurement of impairment on a TDR identified under this guidance is effective prospectively. Disclosures about the credit quality of financing receivables and the allowance for credit losses previously deferred for TDRs, is also effective for reporting periods beginning on or after June 15, 2011. The Company is in the process of evaluating the impact of adoption, which is not expected to be material to the Company's results of operations and financial position.

2. Related Party Transactions

In March 2011, Road Bay Investments, LLC ("RBI"), a consolidated subsidiary of ALIC, entered into an asset purchase agreement with AIC, which allows RBI to purchase from AIC mortgage loans, participations in mortgage loans, bonds, or real estate acquired in connection with such loans, with an aggregate fair value of up to $25 million. As consideration for the purchase of the assets, RBI issues notes to AIC. In March 2011, RBI purchased from AIC real estate with a fair value of $10 million on the date of sale and issued a 5.75% note due March 24, 2018 to AIC for the same amount. Since the transaction was between affiliates under common control, the real estate was recorded by RBI at AIC's carrying value on the date of sale. The real estate that was purchased was impaired; therefore, the carrying value on the date of sale equaled fair value.

3. Supplemental Cash Flow Information

Non-cash investment exchanges, including modifications of certain mortgage loans (primarily refinances at maturity with no concessions granted to the borrower), fixed income securities, limited partnerships and other investments, as well as mergers completed with equity securities, totaled $49 million and $37 million for the three months ended March 31, 2011 and 2010, respectively.

Liabilities for collateral received in conjunction with the Company's securities lending program and over-the-counter ("OTC") derivatives are reported in other liabilities and accrued expenses or other investments. The accompanying cash flows are included in cash flows from operating activities in the Condensed Consolidated Statements of Cash Flows along with the activities resulting from management of the proceeds, which for the three months ended March 31 are as follows:

($ in millions)	2011	2010
Net change in proceeds managed		
Net change in short-term investments	$ (137)	$ 149
Operating cash flow (used) provided	$ (137)	$ 149
Net change in liabilities		
Liabilities for collateral, beginning of year	$ (465)	$ (617)
Liabilities for collateral, end of period	(602)	(468)
Operating cash flow provided (used)	$ 137	$ (149)

4. Investments

Fair values

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

($ in millions)	Amortized cost	Gross unrealized Gains	Gross unrealized Losses	Fair value
March 31, 2011				
U.S. government and agencies	$ 2,310	$ 213	$ (6)	$ 2,517
Municipal	4,888	95	(265)	4,718
Corporate	28,755	1,418	(316)	29,857
Foreign government	1,920	275	(9)	2,186
Residential mortgage-backed securities ("RMBS")	4,166	122	(360)	3,928
Commercial mortgage-backed securities ("CMBS")	2,060	60	(165)	1,955
Asset-backed securities ("ABS")	2,639	59	(245)	2,453
Redeemable preferred stock	15	—	—	15
Total fixed income securities	$ 46,753	$ 2,242	$ (1,366)	$ 47,629
December 31, 2010				
U.S. government and agencies	$ 3,258	$ 245	$ (9)	$ 3,494
Municipal	5,179	88	(294)	4,973
Corporate	27,509	1,510	(369)	28,650
Foreign government	1,962	303	(8)	2,257
RMBS	4,674	132	(451)	4,355
CMBS	2,121	56	(274)	1,903
ABS	2,768	88	(289)	2,567
Redeemable preferred stock	15	—	—	15
Total fixed income securities	$ 47,486	$ 2,422	$ (1,694)	$ 48,214

Scheduled maturities

The scheduled maturities for fixed income securities are as follows as of March 31, 2011:

($ in millions)	Amortized cost	Fair value
Due in one year or less	$ 1,716	$ 1,748
Due after one year through five years	12,629	13,189
Due after five years through ten years	12,223	12,948
Due after ten years	13,380	13,363
	39,948	41,248
RMBS and ABS	6,805	6,381
Total	$ 46,753	$ 47,629

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 for the three months ended March 31 is as follows:

($ in millions)	2011	2010
Fixed income securities	$ 591	$ 635
Mortgage loans	88	101
Equity securities	1	1
Limited partnership interests	5	3
Short-term investments	1	1
Other	3	(8)
Investment income, before expense	689	733
Investment expense	(27)	(26)
Net investment income	$ 662	$ 707

Realized capital gains and losses

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

($ in millions)	2011	2010
Fixed income securities	$ 17	$ (91)
Mortgage loans	(2)	(25)
Equity securities	(2)	—
Limited partnership interests	22	(15)
Derivatives	4	(35)
Other	6	5
Realized capital gains and losses	$ 45	$ (161)

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

($ in millions)	2011	2010
Impairment write-downs	$ (47)	$ (142)
Change in intent write-downs	(42)	(23)
Net other-than-temporary impairment losses recognized in earnings	(89)	(165)
Sales	112	43
Valuation of derivative instruments	(2)	(54)
Settlements of derivative instruments	6	19
Equity method of accounting (“EMA”) limited partnership income	18	(4)
Realized capital gains and losses	$ 45	$ (161)

Gross gains of $126 million and $95 million and gross losses of $31 million and $49 million were realized on sales of fixed income securities during the three months ended March 31, 2011 and 2010, respectively.

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

	2011			2010		
($ in millions)	Gross	Included in OCI	Net	Gross	Included in OCI	Net
Fixed income securities:						
Municipal	$ (12)	$ (1)	$ (13)	$ (20)	$ —	$ (20)
Corporate	(4)	1	(3)	(40)	2	(38)
RMBS	(36)	(5)	(41)	(60)	13	(47)
CMBS	(16)	(4)	(20)	(26)	—	(26)
ABS	(6)	2	(4)	(3)	(1)	(4)
Total fixed income securities	(74)	(7)	(81)	(149)	14	(135)
Equity securities	(5)	—	(5)	—	—	—
Mortgage loans	(2)	—	(2)	(19)	—	(19)
Limited partnership interests	—	—	—	(11)	—	(11)
Other	(1)	—	(1)	—	—	—
Other-than-temporary impairment losses	$ (82)	$ (7)	$ (89)	$ (179)	$ 14	$ (165)

The total amount of other-than-temporary impairment losses included in accumulated other comprehensive income at the time of impairment for fixed income securities, which were not included in earnings, are presented in the following table. The amount excludes $161 million and $213 million as of March 31, 2011 and December 31, 2010, respectively, of net unrealized gains related to changes in valuation of the fixed income securities subsequent to the impairment measurement date.

($ in millions)	March 31, 2011	December 31, 2010
Municipal	$ (7)	$ (17)

Corporate	(2)	(1)
RMBS	(243)	(258)
CMBS	(42)	(49)
ABS	(26)	(41)
Total	$ (320)	$ (366)

Rollforwards of the cumulative credit losses recognized in earnings for fixed income securities held as of March 31 are as follows:

($ in millions)	Three months ended March 31	
	2011	2010
Beginning balance	$ (701)	$ (808)
Additional credit loss for securities previously other-than-temporarily impaired	(19)	(67)
Additional credit loss for securities not previously other-than-temporarily impaired	(19)	(51)
Reduction in credit loss for securities disposed or collected	132	93
Reduction in credit loss for securities the Company has made the decision to sell or more likely than not will be required to sell	13	—
Change in credit loss due to accretion of increase in cash flows	1	—
Ending balance	$ (593)	$ (833)

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		Unrealized net gains (losses)
		Gains	Losses	
March 31, 2011				
Fixed income securities	$ 47,629	$ 2,242	$ (1,366)	$ 876
Equity securities	213	60	(1)	59
Short-term investments	822	—	—	—
Derivative instruments [1]	(26)	—	(26)	(26)
EMA limited partnership interests [2]				4
Unrealized net capital gains and losses, pre-tax				913
Amounts recognized for:				
Insurance reserves [3]				(2)
DAC and DSI [4]				97
Amounts recognized				95
Deferred income taxes				(358)
Unrealized net capital gains and losses, after-tax				$ 650

(1) Included in the fair value of derivative instruments are $(4) million classified as assets and $22 million classified as liabilities.

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

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

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

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

	Fair value	Gross unrealized		Unrealized net gains (losses)
		Gains	Losses	
December 31, 2010				
Fixed income securities	$ 48,214	$ 2,422	$ (1,694)	$ 728
Equity securities	211	48	(1)	47
Short-term investments	1,257	—	—	—
Derivative instruments [1]	(17)	2	(19)	(17)
Unrealized net capital gains and losses, pre-tax				758
Amounts recognized for:				
Insurance reserves				(41)
DAC and DSI				98
Amounts recognized				57
Deferred income taxes				(290)
Unrealized net capital gains and losses, after-tax				$ 525

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

Change in unrealized net capital gains and losses

The change in unrealized net capital gains and losses for the three months ended March 31, 2011 is as follows:

($ in millions)	
Fixed income securities	$ 148
Equity securities	12
Derivative instruments	(9)
EMA limited partnership interests	4
Total	155
Amounts recognized for:	
Insurance reserves	39
DAC and DSI	(1)
Increase in amounts recognized	38
Deferred income taxes	(68)
Increase in unrealized net capital gains and losses	$ 125

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

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

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.

($ in millions)	Less than 12 months			12 months or more			Total
	Number of issues	Fair value	Unrealized losses	Number of issues	Fair value	Unrealized losses	Total unrealized losses
March 31, 2011							
Fixed income securities							
U.S. government and agencies	11	$ 177	$ (6)	—	$ —	$ —	$ (6)
Municipal	125	1,415	(49)	162	1,071	(216)	(265)
Corporate	423	4,881	(135)	139	1,929	(181)	(316)
Foreign government	14	196	(9)	1	10	—	(9)
RMBS	144	171	(3)	195	981	(357)	(360)
CMBS	11	120	(3)	94	710	(162)	(165)
ABS	22	143	(3)	121	1,256	(242)	(245)
Total fixed income securities	750	7,103	(208)	712	5,957	(1,158)	(1,366)
Equity securities	3	17	(1)	—	—	—	(1)
Total fixed income and equity securities	753	$ 7,120	$ (209)	712	$ 5,957	$ (1,158)	$ (1,367)
Investment grade fixed income securities	653	$ 6,485	$ (191)	475	$ 4,321	$ (588)	$ (779)
Below investment grade fixed income securities	97	618	(17)	237	1,636	(570)	(587)
Total fixed income securities	750	$ 7,103	$ (208)	712	$ 5,957	$ (1,158)	$ (1,366)
December 31, 2010							
Fixed income securities							
U.S. government and agencies	13	$ 348	$ (9)	—	$ —	$ —	$ (9)
Municipal	142	1,718	(55)	170	1,145	(239)	(294)
Corporate	340	3,805	(144)	143	1,951	(225)	(369)
Foreign government	16	191	(8)	1	10	—	(8)
RMBS	108	143	(3)	246	1,266	(448)	(451)
CMBS	11	123	(2)	114	836	(272)	(274)
ABS	33	262	(4)	130	1,288	(285)	(289)
Total fixed income securities	663	6,590	(225)	804	6,496	(1,469)	(1,694)
Equity securities	3	17	(1)	—	—	—	(1)
Total fixed income and equity securities	666	$ 6,607	$ (226)	804	$ 6,496	$ (1,469)	$ (1,695)
Investment grade fixed income securities	600	$ 6,222	$ (209)	559	$ 4,853	$ (782)	$ (991)
Below investment grade fixed income securities	63	368	(16)	245	1,643	(687)	(703)
Total fixed income securities	663	$ 6,590	$ (225)	804	$ 6,496	$ (1,469)	$ (1,694)

As of March 31, 2011, $643 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 $643 million, $528 million are related to unrealized losses on

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

As of March 31, 2011, the remaining $724 million of unrealized losses are related to securities in unrealized loss positions greater than or equal to 20% of amortized cost or cost. Investment grade fixed income securities comprising $251 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 $724 billion, $473 million are related to below investment grade fixed income securities. Of these amounts, $424 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 March 31, 2011. Unrealized losses on below investment grade securities are principally related to RMBS, CMBS and ABS and were the result of wider credit spreads resulting from higher risk premiums since the time of initial purchase, largely due to macroeconomic conditions and credit market deterioration, including the impact of lower real estate valuations.

RMBS, CMBS and ABS in an unrealized loss position were evaluated based on actual and projected collateral losses relative to the securities' positions in the respective securitization trusts, security specific expectations of cash flows, and credit ratings. This evaluation also takes into consideration credit enhancement, measured in terms of (i) subordination from other classes of securities in the trust that are contractually obligated to absorb losses before the class of security the Company owns, (ii) the expected impact of other structural features embedded in the securitization trust beneficial to the class of securities the Company owns, such as overcollateralization and excess spread, and (iii) for RMBS and ABS in an unrealized loss position, credit enhancements from reliable bond insurers, where applicable. Municipal bonds in an unrealized loss position were evaluated based on the quality of the underlying securities, 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 March 31, 2011, the Company has not made the decision to sell and it is not more likely than not the Company will be required to sell fixed income securities with unrealized losses before recovery of the amortized cost basis. As of March 31, 2011, the Company had the intent and ability to hold equity securities with unrealized losses for a period of time sufficient for them to recover.

Limited partnerships

As of March 31, 2011 and December 31, 2010, the carrying value of equity method limited partnership interests totaled $660 million and $610 million, respectively. The Company recognizes an impairment loss for equity method investments when evidence demonstrates that the loss is other than temporary. Evidence of a loss in value that is other than temporary may include the absence of an ability to recover the carrying amount of the investment or the inability of the investee to sustain a level of earnings that would justify the carrying amount of the investment. The Company had no write-downs related to equity method limited partnership interests for the three months ended March 31, 2011 and 2010.

As of March 31, 2011 and December 31, 2010, the carrying value for cost method limited partnership interests was $697 million and $662 million, respectively. To determine if an other-than-temporary impairment has occurred, the Company evaluates whether an impairment indicator has occurred in the period that may have a significant adverse effect on the carrying value of the investment. Impairment indicators may include: significantly reduced valuations of the investments held by the limited partnerships; actual recent cash flows received being significantly less than expected cash flows; reduced valuations based on financing completed at a lower value; completed sale of a material underlying investment at a price significantly lower than expected; or any other adverse events since the last financial statements received that might affect the fair value of the investee's capital. Additionally, the Company's portfolio monitoring process includes a quarterly review of all cost method limited partnerships to identify instances where the net asset value is below established thresholds for certain periods of time, as well as investments that are performing below expectations, for further impairment consideration. If a cost method limited partnership is other-than-temporarily impaired, the carrying value is written down to fair value, generally estimated to be equivalent to the reported net asset value of the underlying funds. The Company had no write-downs related to

cost method investments for the three months ended March 31, 2011 and write-downs of $11 million for the three months ended March 31, 2010.

Mortgage loans

Mortgage loans are evaluated for impairment on a specific loan basis through a quarterly credit monitoring process and review of key credit quality indicators. Mortgage loans are considered impaired when it is probable that the Company will not collect the contractual principal and interest. Valuation allowances are established for impaired loans to reduce the carrying value to the fair value of the collateral less costs to sell or the present value of the loan's expected future repayment cash flows discounted at the loan's original effective interest rate. Impaired mortgage loans may not have a valuation allowance when the fair value of the collateral less costs to sell is higher than the carrying value. Mortgage loan valuation allowances are charged off when there is no reasonable expectation of recovery. The impairment evaluation is non-statistical in respect to the aggregate portfolio but considers facts and circumstances attributable to each loan. It is not considered probable that additional impairment losses, beyond those identified on a specific loan basis, have been incurred as of March 31, 2011.

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

Debt service coverage ratio is considered a key credit quality indicator when mortgage loans are evaluated for impairment. Debt service coverage ratio represents the amount of estimated cash flows from the property available to the borrower to meet principal and interest payment obligations. Debt service coverage ratio estimates are updated annually or more frequently if conditions are warranted based on the Company's credit monitoring process. The following table reflects the carrying value of non-impaired fixed rate and variable rate mortgage loans summarized by debt service coverage ratio distribution:

	March 31, 2011			December 31, 2010		
($ in millions)	Fixed rate mortgage loans	Variable rate mortgage loans	Total	Fixed rate mortgage loans	Variable rate mortgage loans	Total
Debt service coverage ratio distribution						
Below 1.0	$ 257	$ —	$ 257	$ 275	$ —	$ 275
1.0 - 1.25	1,518	15	1,533	1,571	16	1,587
1.26 - 1.50	1,469	—	1,469	1,478	—	1,478
Above 1.50	2,521	518	3,039	2,484	546	3,030
Total non-impaired mortgage loans	$ 5,765	$ 533	$ 6,298	$ 5,808	$ 562	$ 6,370

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

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

($ in millions)	March 31, 2011	December 31, 2010
Impaired mortgage loans with a valuation allowance	$ 141	$ 168
Impaired mortgage loans without a valuation allowance	22	15
Total impaired mortgage loans	$ 163	$ 183
Valuation allowance on impaired mortgage loans	$ 73	$ 84

The average balance of impaired loans was $173 million during the three months ended March 31, 2011.

The rollforward of the valuation allowance on impaired mortgage loans for the three months ended March 31, 2011 is as follows:

($ in millions)	
Beginning balance	$ 84
Net increase in valuation allowance	2
Charge offs	(13)
Ending balance	$ 73

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

($ in millions)	March 31, 2011	December 31, 2010
Less than 90 days past due	$ 1	$ 12
90 days or greater past due	65	78
Total past due	66	90
Current loans	6,395	6,463
Total mortgage loans	$ 6,461	$ 6,553

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.

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

<u>Level 1 measurements</u>

- <u>Fixed income securities:</u> Comprise U.S. Treasuries. Valuation is based on unadjusted quoted prices for identical assets in active markets that the Company can access.

- <u>Equity securities:</u> 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.

- <u>Short-term:</u> Comprise actively traded money market funds that have daily quoted net asset values for identical assets that the Company can access.

- <u>Separate account assets:</u> 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.

<u>Level 2 measurements</u>

- <u>Fixed income securities:</u>

  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 - 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.

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

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

- <u>Equity securities</u>: 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.

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, the anticipated date liquidity will return to the market 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"), Prime 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, Prime 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.

  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

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

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

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

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

The following table summarizes the Company's assets and liabilities measured at fair value on a recurring and non-recurring basis as of March 31, 2011:

($ in millions)	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Counterparty and cash collateral netting	Balance as of March 31, 2011
Assets					
Fixed income securities:					
U.S. government and agencies	$ 757	$ 1,760	$ —		$ 2,517
Municipal	—	4,174	544		4,718
Corporate	—	28,009	1,848		29,857
Foreign government	—	2,186	—		2,186
RMBS	—	2,944	984		3,928
CMBS	—	989	966		1,955
ABS	—	635	1,818		2,453
Redeemable preferred stock	—	14	1		15
Total fixed income securities	757	40,711	6,161		47,629
Equity securities	144	55	14		213
Short-term investments	95	727	—		822
Other investments:					
Free-standing derivatives	—	589	9	$ (87)	511
Separate account assets	8,603	—	—		8,603
Other assets	—	—	1		1
Total recurring basis assets	9,599	42,082	6,185	(87)	57,779
Non-recurring basis [(1)]	—	—	37		37
Total assets at fair value	$ 9,599	$ 42,082	$ 6,222	$ (87)	$ 57,816
% of total assets at fair value	16.6%	72.8%	10.8%	(0.2)%	100.0%
Liabilities					
Contractholder funds:					
Derivatives embedded in life and annuity contracts	$ —	$ —	$ (630)		$ (630)
Other liabilities:					
Free-standing derivatives	—	(296)	(73)	$ 87	(282)
Total liabilities at fair value	$ —	$ (296)	$ (703)	$ 87	$ (912)
% of total liabilities at fair value	—%	32.4%	77.1%	(9.5)%	100.0%

(1) Includes $27 million of mortgage loans and $10 million of other investments written-down to fair value in connection with recognizing other-than-temporary impairments.

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

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, 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 December 31, 2010
Assets					
Fixed income securities:					
U.S. government and agencies	$ 882	$ 2,612	$ —		$ 3,494
Municipal	—	4,372	601		4,973
Corporate	—	26,890	1,760		28,650
Foreign government	—	2,257	—		2,257
RMBS	—	3,166	1,189		4,355
CMBS	—	1,059	844		1,903
ABS	—	593	1,974		2,567
Redeemable preferred stock	—	14	1		15
Total fixed income securities	882	40,963	6,369		48,214
Equity securities	137	45	29		211
Short-term investments	72	1,185	—		1,257

Other investments:					
Free-standing derivatives	—	602	10	$ (225)	387
Separate account assets	8,676	—	—		8,676
Other assets	—	—	1		1
Total recurring basis assets	9,767	42,795	6,409	(225)	58,746
Non-recurring basis [(1)]	—	—	117		117
Total assets at fair value	$ 9,767	$ 42,795	$ 6,526	$ (225)	$ 58,863
% of total assets at fair value	16.6%	72.7%	11.1%	(0.4)%	100.0%
Liabilities					
Contractholder funds:					
Derivatives embedded in life and annuity contracts	$ —	$ —	$ (653)		$ (653)
Other liabilities:					
Free-standing derivatives	—	(455)	(87)	$ 221	(321)
Total liabilities at fair value	$ —	$ (455)	$ (740)	$ 221	$ (974)
% of total liabilities at fair value	—%	46.7%	76.0%	(22.7)%	100.0%

(1) Includes $111 million of mortgage loans and $6 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 March 31, 2011.

($ in millions)	Balance as of December 31, 2010	Total realized and unrealized gains (losses) included in: Net income [(1)]	OCI on Statement of Financial Position	Transfers into Level 3	Transfers out of Level 3
Assets					
Fixed income securities:					
Municipal	$ 601	$ 1	$ 6	$ —	$ (1)
Corporate	1,760	11	10	93	(36)
RMBS	1,189	(38)	71	—	(3)
CMBS	844	(20)	113	55	—
ABS	1,974	43	14	—	(95)
Redeemable preferred stock	1	—	—	—	—
Total fixed income securities	6,369	(3)	214	148	(135)
Equity securities	29	(5)	—	—	(10)
Other investments:					
Free-standing derivatives, net	(77)	9	—	—	—
Other assets	1	—	—	—	—
Total recurring Level 3 assets	$ 6,322	$ 1	$ 214	$ 148	$ (145)
Liabilities					
Contractholder funds:					
Derivatives embedded in life and annuity contracts	$ (653)	$ 8	$ —	$ —	$ —
Total recurring Level 3 liabilities	$ (653)	$ 8	$ —	$ —	$ —

	Purchases	Sales	Issuances	Settlements	Balance as of March 31, 2011
Assets					
Fixed income securities:					
Municipal	$ 10	$ (73)	$ —	$ —	$ 544
Corporate	35	(19)	—	(6)	1,848
RMBS	—	(184)	—	(51)	984
CMBS	—	(25)	—	(1)	966
ABS	25	(105)	—	(38)	1,818
Redeemable preferred stock	—	—	—	—	1
Total fixed income securities	70	(406)	—	(96)	6,161
Equity securities	—	—	—	—	14
Other investments:					
Free-standing derivatives, net	10	—	—	(6)	(64)[(2)]
Other assets	—	—	—	—	1
Total recurring Level 3 assets	$ 80	$ (406)	$ —	$ (102)	$ 6,112

Liabilities					
Contractholder funds:					
Derivatives embedded in life and annuity contracts	$ —	$ —	$ (14)	$ 29	$ (630)
Total recurring Level 3 liabilities	$ —	$ —	$ (14)	$ 29	$ (630)

(1) The effect to net income totals $9 million and is reported in the Condensed Consolidated Statements of Operations as follows: $(6) million in realized capital gains and losses, $7 million in net investment income, $37 million in interest credited to contractholder funds and $(45) million in contract benefits.

(2) Comprises $9 million of assets and $73 million of liabilities.

The following table presents the rollforward of Level 3 assets and liabilities held at fair value on a recurring basis during the three months ended March 31, 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 March 31, 2010
Assets							
Fixed income securities:							
Municipal	$ 746	$ (5)	$ 7	$ (48)	$ —	$ (19)	$ 681
Corporate	2,020	(16)	91	(56)	3	(75)	1,967
Foreign government	20	—	—	(20)	—	—	—
RMBS	1,052	(40)	109	266	—	—	1,387
CMBS	1,322	(34)	109	(179)	24	(209)	1,033
ABS	1,710	5	86	99	—	—	1,900
Redeemable preferred stock	1	—	—	—	—	—	1
Total fixed income securities	6,871	(90)	402	62	27	(303)	6,969
Equity securities	27	—	2	2	—	—	31
Other investments:							
Free-standing derivatives, net	(53)	(24)	—	7	—	—	(70)[2]
Other assets	2	—	—	—	—	—	2
Total recurring Level 3 assets	$ 6,847	$ (114)	$ 404	$ 71	$ 27	$ (303)	$ 6,932
Liabilities							
Contractholder funds:							
Derivatives embedded in life and annuity contracts	$ (110)	$ 18	$ —	$ 2	$ —	$ —	$ (90)
Total recurring Level 3 liabilities	$ (110)	$ 18	$ —	$ 2	$ —	$ —	$ (90)

(1) The effect to net income totals $(96) million and is reported in the Condensed Consolidated Statements of Operations as follows: $(144) million in realized capital gains and losses, $29 million in net investment income, $(1) million in interest credited to contractholder funds and $(18) million in contract benefits.

(2) Comprises $20 million of assets and $90 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 months ended March 31, 2011 or 2010.

During the three months ended March 31, 2010, certain CMBS 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 months ended March 31, 2011 and 2010 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 months ended March 31, 2011 and 2010 included situations where a broker quote was used in the prior period and a fair value quote became available from the Company's independent third-party valuation service provider in the current period. A quote utilizing the new pricing source was not available as of the prior period, and any gains or losses related to the change in valuation source for individual securities were not significant.

The following table provides the total gains and (losses) included in net income during the three months ended March 31 for Level 3 assets and liabilities still held as of March 31.

($ in millions)	2011	2010
Assets		
Fixed income securities:		
Municipal	$ —	$ (4)
Corporate	9	(18)
RMBS	(24)	(39)
CMBS	(16)	(23)
ABS	1	—
Total fixed income securities	(30)	(84)
Equity securities	(5)	—
Other investments:		
Free-standing derivatives, net	4	(18)
Total recurring Level 3 assets	$ (31)	$ (102)
Liabilities		
Contractholder funds:		
Derivatives embedded in life and annuity contracts	$ 8	$ 18
Total recurring Level 3 liabilities	$ 8	$ 18

The amounts in the table above 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 $(23) million for the three months ended March 31, 2011 and are reported in the Condensed Consolidated Statements of Operations as follows: $(38) million in realized capital gains and losses, $7 million in net investment income, $37 million in interest credited to contractholder funds and $(45) million in contract benefits. These gains and losses total $(84) million for the three months ended March 31, 2010 and are reported in the Condensed Consolidated Statements of Operations as follows: $(130) million in realized capital gains and losses, $28 million in net investment income and $(18) million in contract benefits.

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

Financial assets

	March 31, 2011		December 31, 2010	
($ in millions)	Carrying value	Fair value	Carrying value	Fair value
Mortgage loans	$ 6,461	$ 6,367	$ 6,553	$ 6,312
Limited partnership interests - cost basis	697	806	662	719
Bank loans	296	293	322	314
Notes due from related party	275	247	275	245

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, is based on broker quotes from brokers familiar with the loans and current market conditions. The fair value of notes due from related party, which are reported in other investments, is based on discounted cash flow calculations using current interest rates for instruments with comparable terms.

Financial liabilities

	March 31, 2011		December 31, 2010	
($ in millions)	Carrying value	Fair value	Carrying value	Fair value

Contractholder funds on investment contracts	$ 33,771	$ 32,904	$ 35,040	$ 34,056
Notes due to related parties	686	653	677	649
Liability for collateral	602	602	465	465

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.

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 Company's equity exposure contained in equity indexed life and annuity product contracts that offer equity returns to contractholders. In addition, the Company also uses interest rate swaps to hedge interest rate risk inherent in funding agreements.

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.

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 equity options in life and annuity product contracts, which provide equity returns to contractholders; equity-indexed notes containing equity call options, which provide a coupon payout that is determined using one or more equity-based indices; credit default swaps in synthetic collateralized debt obligations, which provide enhanced coupon rates as a result of selling credit protection; and conversion options in fixed income securities, which provide the Company with the right to convert the instrument into a predetermined number of shares of common stock. Substantially all of the fixed income securities with conversion options were sold in March 2011.

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 March 31, 2011, the Company pledged $7 million of cash and securities in the form of margin deposits.

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

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The following table provides a summary of the volume and fair value positions of derivative instruments as well as their reporting location in the Condensed Consolidated Statement of Financial Position as of March 31, 2011.

($ in millions, except number of contracts)	Asset derivatives					
		Volume [1]				
	Balance sheet location	Notional amount	Number of contracts	Fair value, net	Gross asset	Gross liability
Derivatives designated as accounting hedging instruments						
Interest rate swap agreements	Other investments	$ 252	n/a	$ (16)	$ —	$ (16)
Foreign currency swap agreements	Other investments	50	n/a	(4)	3	(7)
Total		$ 302	n/a	$ (20)	$ 3	$ (23)
Derivatives not designated as accounting hedging instruments						
Interest rate contracts						
Interest rate swap agreements	Other investments	$ 5,386	n/a	$ 152	$ 178	$ (26)
Interest rate swaption agreements	Other investments	750	n/a	3	3	—
Interest rate cap and floor agreements	Other investments	1,352	n/a	(3)	—	(3)
Financial futures contracts and options	Other assets	n/a	702	—	—	—
Equity and index contracts						
Options, futures and warrants [2]	Other investments	142	18,916	381	381	—
Options, futures and warrants	Other assets	n/a	705	—	—	—
Foreign currency contracts						
Foreign currency swap agreements	Other investments	40	n/a	1	1	—
Embedded derivative financial instruments						
Conversion options	Fixed income securities	5	n/a	—	—	—
Equity-indexed call options	Fixed income securities	300	n/a	50	50	—
Credit default swaps	Fixed income securities	179	n/a	(86)	—	(86)
Credit default contracts						
Credit default swaps — buying protection	Other investments	48	n/a	(2)	—	(2)
Credit default swaps — selling protection	Other investments	30	n/a	(1)	1	(2)
Other contracts						
Other contracts	Other investments	6	n/a	—	—	—
Other contracts	Other assets	5	n/a	1	1	—
Total		$ 8,243	20,323	$ 496	$ 615	$ (119)
Total asset derivatives		$ 8,545	20,323	$ 476	$ 618	$ (142)

(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.

ALLSTATE LIFE INSURANCE COMPANY
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	Liability derivatives					
		Volume [1]				
	Balance sheet location	Notional amount	Number of contracts	Fair value, net	Gross asset	Gross liability
Derivatives designated as accounting hedging instruments						
Interest rate swap agreements	Other liabilities & accrued expenses	$ 59	n/a	$ (4)	$ —	$ (4)
Foreign currency swap agreements	Other liabilities & accrued expenses	152	n/a	(22)	—	(22)
Total		$ 211	n/a	$ (26)	$ —	$ (26)
Derivatives not designated as accounting hedging instruments						
Interest rate contracts						
Interest rate swap agreements	Other liabilities & accrued expenses	$ 1,018	n/a	$ 17	$ 26	$ (9)
Interest rate cap and floor agreements	Other liabilities & accrued expenses	2,020	n/a	(18)	2	(20)
Financial futures contracts and options	Other liabilities & accrued expenses	n/a	440	—	—	—
Equity and index contracts						
Options and futures	Other liabilities & accrued expenses	4	19,427	(207)	—	(207)
Foreign currency contracts						
Foreign currency swap agreements	Other liabilities & accrued expenses	50	n/a	1	1	—

	Balance sheet location	Notional amount	Number of contracts	Fair value, net	Gross asset	Gross liability
Embedded derivative financial instruments						
Guaranteed accumulation benefits	Contractholder funds	1,115	n/a	(58)	—	(58)
Guaranteed withdrawal benefits	Contractholder funds	761	n/a	(29)	—	(29)
Equity-indexed and forward starting options in life and annuity product contracts	Contractholder funds	4,624	n/a	(537)	—	(537)
Other embedded derivative financial instruments	Contractholder funds	85	n/a	(6)	—	(6)
Credit default contracts						
Credit default swaps — buying protection	Other liabilities & accrued expenses	61	n/a	—	1	(1)
Credit default swaps — selling protection	Other liabilities & accrued expenses	277	n/a	(49)	1	(50)
Total		$ 10,015	19,867	$ (886)	$ 31	$ (917)
Total liability derivatives		$ 10,226	19,867	$ (912)	$ 31	$ (943)
Total derivatives		$ 18,771	40,190	$ (436)		

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

The following table provides a summary of the volume and fair value positions of derivative instruments as well as their reporting location in the Condensed Consolidated Statement of Financial Position as of December 31, 2010.

	Asset derivatives					
		Volume (1)				
($ in millions, except number of contracts)	Balance sheet location	Notional amount	Number of contracts	Fair value, net	Gross asset	Gross liability
Derivatives designated as accounting hedging instruments						
Interest rate swap agreements	Other investments	$ 156	n/a	$ (18)	$ —	$ (18)
Foreign currency swap agreements	Other investments	64	n/a	2	3	(1)
Total		$ 220	n/a	$ (16)	$ 3	$ (19)
Derivatives not designated as accounting hedging instruments						
Interest rate contracts						
Interest rate swap agreements	Other investments	$ 1,094	n/a	$ 79	$ 81	$ (2)
Interest rate cap and floor agreements	Other investments	226	n/a	(2)	1	(3)
Financial futures contracts and options	Other assets	n/a	1,420	—	—	—
Equity and index contracts						
Options, futures and warrants (2)	Other investments	64	20,451	327	327	—
Foreign currency contracts						
Foreign currency swap agreements	Other investments	90	n/a	6	6	—
Embedded derivative financial instruments						
Conversion options	Fixed income securities	287	n/a	84	84	—
Equity-indexed call options	Fixed income securities	300	n/a	47	47	—
Credit default swaps	Fixed income securities	179	n/a	(87)	—	(87)
Credit default contracts						
Credit default swaps — buying protection	Other investments	66	n/a	(1)	1	(2)
Credit default swaps — selling protection	Other investments	42	n/a	(2)	1	(3)
Other contracts						
Other contracts	Other investments	13	n/a	—	—	—
Other contracts	Other assets	5	n/a	1	1	—
Total		$ 2,366	21,871	$ 452	$ 549	$ (97)
Total asset derivatives		$ 2,586	21,871	$ 436	$ 552	$ (116)

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

(2) In addition to the number of contracts presented in the table, the Company held 837,100 stock warrants. Stock warrants can be converted to cash upon sale of those instruments or exercised for shares of common stock.

	Liability derivatives					
		Volume (1)				
	Balance sheet location	Notional amount	Number of contracts	Fair value, net	Gross asset	Gross liability
Derivatives designated as accounting hedging instruments						
Interest rate swap agreements	Other liabilities & accrued expenses	$ 3,345	n/a	$ (181)	$ 20	$ (201)
Interest rate swap agreements	Contractholder funds	—	n/a	2	2	—
Foreign currency swap agreements	Other liabilities & accrued expenses	138	n/a	(20)	—	(20)
Foreign currency and interest rate swap agreements	Other liabilities & accrued expenses	435	n/a	34	34	—
Foreign currency and interest rate swap agreements	Contractholder funds	—	n/a	28	28	—
Total		$ 3,918	n/a	$ (137)	$ 84	$ (221)
Derivatives not designated as accounting hedging instruments						
Interest rate contracts						

Interest rate swap agreements	Other liabilities & accrued expenses	$ 3,642	n/a	$ 66	$ 96	$ (30)
Interest rate swaption agreements	Other liabilities & accrued expenses	750	n/a	4	4	—
Interest rate cap and floor agreements	Other liabilities & accrued expenses	3,216	n/a	(22)	1	(23)
Financial futures contracts and options	Other liabilities & accrued expenses	n/a	150	—	—	—
Equity and index contracts						
Options and futures	Other liabilities & accrued expenses	64	20,752	(168)	2	(170)
Embedded derivative financial instruments						
Guaranteed accumulation benefits	Contractholder funds	1,067	n/a	(88)	—	(88)
Guaranteed withdrawal benefits	Contractholder funds	739	n/a	(47)	—	(47)
Equity-indexed and forward starting options in life and annuity product contracts	Contractholder funds	4,694	n/a	(515)	—	(515)
Other embedded derivative financial instruments	Contractholder funds	85	n/a	(3)	—	(3)
Credit default contracts						
Credit default swaps — buying protection	Other liabilities & accrued expenses	181	n/a	(3)	4	(7)
Credit default swaps — selling protection	Other liabilities & accrued expenses	267	n/a	(61)	1	(62)
Total		$ 14,705	20,902	$ (837)	$ 108	$ (945)
Total liability derivatives		$ 18,623	20,902	$ (974)	$ 192	$ (1,166)
Total derivatives		$ 21,209	42,773	$ (538)		

[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 for the three months ended March 31. Amortization of net losses from accumulated other comprehensive income related to cash flow hedges is expected to be $5 million during the next twelve months.

($ in millions)	2011	2010
Effective portion		
(Loss) gain recognized in OCI on derivatives during the period	$ (8)	$ 6
Loss recognized in OCI on derivatives during the term of the hedging relationship	(26)	(13)
Gain reclassified from AOCI into income (net investment income)	1	1
Gain reclassified from AOCI into income (realized capital gains and losses)	—	—
Ineffective portion and amount excluded from effectiveness testing		
Gain recognized in income on derivatives (realized capital gains and losses)	—	—

The following tables present gains and losses from valuation, settlements and hedge ineffectiveness reported on derivatives used in fair value hedging relationships and derivatives not designated as accounting hedging instruments in the Condensed Consolidated Statements of Operations for the three months ended March 31.

	2011				
($ in millions)	Net investment income	Realized capital gains and losses	Contract benefits	Interest credited to contractholder funds	Total gain (loss) recognized in net income on derivatives
Derivatives in fair value accounting hedging relationships					
Interest rate contracts	$ 1	$ (8)	$ —	$ (5)	$ (12)
Foreign currency and interest rate contracts	—	—	—	(32)	(32)
Subtotal	1	(8)	—	(37)	(44)
Derivatives not designated as accounting hedging instruments					
Interest rate contracts	—	2	—	—	2
Equity and index contracts	—	—	—	38	38
Embedded derivative financial instruments	—	(1)	45	(22)	22
Credit default contracts	—	11	—	—	11
Other contracts	—	—	—	2	2
Subtotal	—	12	45	18	75
Total	$ 1	$ 4	$ 45	$ (19)	$ 31

2010				
Net	Realized	Contract	Interest	Total gain

	investment income	capital gains and losses	benefits	credited to contractholder funds	(loss) recognized in net income on derivatives
Derivatives in fair value accounting hedging relationships					
Interest rate contracts	$ (41)	$ —	$ —	$ (1)	$ (42)
Foreign currency and interest rate contracts	—	—	—	(24)	(24)
Subtotal	(41)	—	—	(25)	(66)
Derivatives not designated as accounting hedging instruments					
Interest rate contracts	—	(32)	—	—	(32)
Equity and index contracts	—	—	—	34	34
Embedded derivative financial instruments	—	(5)	20	(2)	13
Foreign currency contracts	—	4	—	—	4
Credit default contracts	—	(2)	—	—	(2)
Subtotal	—	(35)	20	32	17
Total	$ (41)	$ (35)	$ 20	$ 7	$ (49)

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 for the three months ended March 31.

($ in millions)

	2011			
	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	$ (7)	$ (34)	$ 41	$ —
Net investment income	21	—	—	(21)
Realized capital gains and losses	(8)	—	—	—
Total	$ 6	$ (34)	$ 41	$ (21)

	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	$ (1)	$ (33)	$ 34	$ —
Net investment income	(13)	—	—	13
Total	$ (14)	$ (33)	$ 34	$ 13

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 March 31, 2011, counterparties pledged $102 million in securities to the Company, and the Company pledged $77 million in securities to counterparties which includes $69 million of collateral posted under MNAs for contracts containing credit-risk-contingent provisions that are in a liability position and $8 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)

	March 31, 2011				December 31, 2010			
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	$ 622	$ 19	$ —	1	$ 675	$ 19	$ 10

A+	2	3,389	37	—	2	951	14	10
A	4	4,034	45	3	3	772	10	10
A-	—	—	—	—	1	89	32	32
BBB+	1	5	33	33	—	—	—	—
Total	8	$ 8,050	$ 134	$ 36	7	$ 2,487	$ 75	$ 62

(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)	March 31, 2011	December 31, 2010
Gross liability fair value of contracts containing credit-risk-contingent features	$ 158	$ 368
Gross asset fair value of contracts containing credit-risk-contingent features and subject to MNAs	(87)	(212)
Collateral posted under MNAs for contracts containing credit-risk-contingent features	(69)	(147)
Maximum amount of additional exposure for contracts with credit-risk-contingent features if all features were triggered concurrently	$ 2	$ 9

Credit derivatives - selling protection

Free-standing credit default swaps ("CDS") are utilized for selling credit protection against a specified credit event. A credit default swap is a derivative instrument, representing an agreement between two parties to exchange the credit risk of a specified entity (or a group of entities), or an index based on the credit risk of a group of entities (all commonly referred to as the "reference entity" or a portfolio of "reference entities"), in return for a periodic

premium. In selling protection, CDS are used to replicate fixed income securities and to complement the cash market when credit exposure to certain issuers is not available or when the derivative alternative is less expensive than the cash market alternative. CDS typically have a five-year term.

The following table shows the CDS notional amounts by credit rating and fair value of protection sold as of March 31, 2011:

	Notional amount					
($ in millions)	AA	A	BBB	BB and lower	Total	Fair value
Single name						
Investment grade corporate debt	$ 40	$ 55	$ 10	$ 10	$ 115	$ —
High yield debt	—	—	—	2	2	—
Municipal	25	—	—	—	25	(4)
Subtotal	65	55	10	12	142	(4)
Baskets						
Tranche						
Investment grade corporate debt	—	—	—	65	65	(16)
First-to-default						
Municipal	—	100	—	—	100	(30)
Subtotal	—	100	—	65	165	(46)
Total	$ 65	$ 155	$ 10	$ 77	$ 307	$ (50)

The following table shows the CDS notional amounts by credit rating and fair value of protection sold as of December 31, 2010:

	Notional amount					
($ in millions)	AA	A	BBB	BB and lower	Total	Fair value
Single name						

Investment grade corporate debt	$ 40	$ 55	$ 10	$ 10	$ 115	$ (1)
High yield debt	—	—	—	4	4	—
Municipal	25	—	—	—	25	(6)
Subtotal	65	55	10	14	144	(7)
Baskets						
Tranche						
Investment grade corporate debt	—	—	—	65	65	(19)
First-to-default						
Municipal	—	100	—	—	100	(37)
Subtotal	—	100	—	65	165	(56)
Total	$ 65	$ 155	$ 10	$ 79	$ 309	$ (63)

In selling protection with CDS, the Company sells credit protection on an identified single name, a basket of names in a first-to-default ("FTD") structure or a specific tranche of a basket, or credit derivative index ("CDX") that is generally investment grade, and in return receives periodic premiums through expiration or termination of the agreement. With single name CDS, this premium or credit spread generally corresponds to the difference between the yield on the reference entity's public fixed maturity cash instruments and swap rates at the time the agreement is executed. With a FTD basket or a tranche of a basket, because of the additional credit risk inherent in a basket of named reference entities, the premium generally corresponds to a high proportion of the sum of the credit spreads of the names in the basket and the correlation between the names. CDX index is utilized to take a position on multiple (generally 125) reference entities. Credit events are typically defined as bankruptcy, failure to pay, or restructuring, depending on the nature of the reference entities. If a credit event occurs, the Company settles with the

counterparty, either through physical settlement or cash settlement. In a physical settlement, a reference asset is delivered by the buyer of protection to the Company, in exchange for cash payment at par, whereas in a cash settlement, the Company pays the difference between par and the prescribed value of the reference asset. When a credit event occurs in a single name or FTD basket (for FTD, the first credit event occurring for any one name in the basket), the contract terminates at the time of settlement. When a credit event occurs in a tranche of a basket, there is no immediate impact to the Company until cumulative losses in the basket exceed the contractual subordination. To date, realized losses have not exceeded the subordination. For CDX index, the reference entity's name incurring the credit event is removed from the index while the contract continues until expiration. The maximum payout on a CDS is the contract notional amount. A physical settlement may afford the Company with recovery rights as the new owner of the asset.

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

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

7. Reinsurance

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

($ in millions)	2011	2010
Direct	$ 573	$ 551
Assumed		
Affiliate	28	27
Non-affiliate	5	5
Ceded—non-affiliate	(188)	(184)
Premiums and contract charges, net of reinsurance	$ 418	$ 399

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

($ in millions)	2011	2010
Direct	$ 436	$ 468
Assumed		
Affiliate	20	17
Non-affiliate	4	4
Ceded—non-affiliate	(78)	(125)
Contract benefits, net of reinsurance	$ 382	$ 364

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

($ in millions)	2011	2010
Direct	$ 410	$ 454
Assumed		
Affiliate	3	2
Non-affiliate	3	3
Ceded—non-affiliate	(8)	(7)
Interest credited to contractholder funds, net of reinsurance	$ 408	$ 452

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

8. Guarantees and Contingent Liabilities

Guaranty funds

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

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. At this time, Executive Life continues to fully pay claims when due. An Order to Show Cause dated December 17, 2010 from the New York Supreme Court mandates that the Bureau, Life Insurance Corporation of New York ("LICNY") and other interested parties provide a proposed plan of liquidation by July 1, 2011; otherwise, the Superintendent of the New York State Insurance Department will be required to do so by August 1, 2011. A public hearing on the proposed plan of liquidation is now scheduled for January 4, 2012. The current publicly available estimated shortfall from the Bureau is $1.27 billion.

If Executive Life were to be declared insolvent in the future, it is reasonably possible that the Company will 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 LICNY 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 three-year average market share for New York as of December 31, 2009, based on assessable premiums, was approximately 2.2%.

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 $67 million as of March 31, 2011. The obligations associated with these fixed income securities expire at various dates on or before March 11, 2018.

Related to the disposal through reinsurance of substantially all of the Company's variable annuity business to Prudential in 2006, the Company and the Corporation have agreed to indemnify Prudential for certain pre-closing contingent liabilities (including extra-contractual liabilities of the Company and liabilities specifically excluded from the transaction) that the Company has agreed to retain. In addition, the Company and the Corporation will each indemnify Prudential for certain post-closing liabilities that may arise from the acts of the Company and its agents, including in connection with the Company's provision of transition services. The reinsurance agreements contain no limitations or indemnifications with regard to insurance risk transfer, and transferred all of the future risks and responsibilities for performance on the underlying variable annuity contracts to Prudential, including those related to benefit guarantees. Management does not believe this agreement will have a material 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 March 31, 2011.

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 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. Other Comprehensive Income

The components of other comprehensive income on a pre-tax and after-tax basis for the three months ended March 31 are as follows:

	2011			2010		
($ in millions)	**Pre-tax**	**Tax**	**After-tax**	**Pre-tax**	**Tax**	**After-tax**
Unrealized holding gains and losses arising during the period, net of related offsets	$ 222	$ (78)	$ 144	$ 723	$ (253)	$ 470
Less: reclassification adjustment of realized capital gains and losses	29	(10)	19	(90)	32	(58)
Unrealized net capital gains and losses	193	(68)	125	813	(285)	528
Other comprehensive income	$ 193	$ (68)	125	$ 813	$ (285)	528
Net income (loss)			87			(18)
Comprehensive income			$ 212			$ 510

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have reviewed the accompanying condensed consolidated statement of financial position of Allstate Life Insurance Company and subsidiaries (the "Company"), an affiliate of The Allstate Corporation, as of March 31, 2011, and the related condensed consolidated statements of operations for the three-month periods ended March 31, 2011 and 2010, and the condensed consolidated statements of cash flows for the three-month periods ended March 31, 2011 and 2010. 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, 2010, 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 11, 2011, 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, 2010 is fairly stated, in all material respects, in relation to the consolidated statement of financial position from which it has been derived.

/s/ Deloitte & Touche LLP

Chicago, Illinois
May 4, 2011

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE THREE-MONTH PERIODS ENDED MARCH 31, 2011 AND 2010

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 2010. We operate as a single segment entity based on the manner in which we use financial information to evaluate business performance and to determine the allocation of resources.

OPERATIONS HIGHLIGHTS

- Net income was $87 million in the first quarter of 2011 compared to a net loss of $18 million in the first quarter of 2010.
- Premiums and contract charges on underwritten products, including traditional life, interest-sensitive life and accident and health insurance, totaled $366 million in 2011, an increase of 1.9% or $7 million from $359 million in 2010.
- During the first quarter of 2011, a $12 million pre-tax charge to income was recorded related to our annual comprehensive review of the deferred policy acquisition costs ("DAC"), deferred sales inducement costs ("DSI") and secondary guarantee liability balances and assumptions for our interest-sensitive life, fixed annuities and other investment contracts. This compares to a $13 million pre-tax credit to income in the first quarter of 2010.
- Net realized capital gains totaled $45 million in the first quarter of 2011 compared to net realized capital losses of $161 million in the first quarter of 2010.
- Investments as of March 31, 2011 totaled $58.51 billion, reflecting a decrease in carrying value of $935 million from $59.44 billion as of December 31, 2010. Net investment income decreased 6.4% to $662 million in the first quarter of 2011 from $707 million in the first quarter of 2010.
- Contractholder funds as of March 31, 2011 totaled $45.15 billion, reflecting decreases of $1.31 billion from $46.46 billion as of December 31, 2010 and $4.13 billion from $49.28 billion as of March 31, 2010.

OPERATIONS

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

($ in millions)	Three months ended March 31, 2011	2010
Revenues		
Premiums	$ 171	$ 153
Contract charges	247	246
Net investment income	662	707
Realized capital gains and losses	45	(161)
Total revenues	1,125	945
Costs and expenses		
Contract benefits	(382)	(364)
Interest credited to contractholder funds	(408)	(452)
Amortization of DAC	(124)	(67)
Operating costs and expenses	(77)	(86)
Restructuring and related charges	2	—
Interest expense	(11)	(11)
Total costs and expenses	(1,000)	(980)
Gain on disposition of operations	2	1
Income tax (expense) benefit	(40)	16
Net income (loss)	$ 87	$ (18)
Investments as of March 31	$ 58,507	$ 60,282

Net income in the first quarter of 2011 was $87 million compared to a net loss of $18 million in the first quarter of 2010. The favorable change of $105 million was primarily due to net realized capital gains in the current year compared to net realized capital losses in the prior year, decreased interest credited to contractholder funds and higher premiums and contract charges, partially offset by higher amortization of DAC and lower net investment income.

Analysis of revenues Total revenues increased 19.0% or $180 million in the first quarter of 2011 compared to the first quarter of 2010 due to net realized capital gains in the current year compared to net realized capital losses in the prior year and higher premiums and contract charges, partially offset by lower net investment income.

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.

The following table summarizes premiums and contract charges by product.

($ in millions)	Three months ended March 31, 2011	2010
Underwritten products		
Traditional life insurance premiums	$ 104	$ 102
Accident and health insurance premiums	24	24
Interest-sensitive life insurance contract charges	238	233
Subtotal	366	359
Annuities		
Immediate annuities with life contingencies premiums	43	27
Other fixed annuity contract charges	9	13
Subtotal	52	40
Premiums and contract charges [1]	$ 418	$ 399

[1] Contract charges related to the cost of insurance totaled $160 million and $153 million, for the first quarter of 2011 and 2010, respectively.

Total premiums and contract charges increased 4.8% in the first quarter of 2011 compared to the first quarter of 2010 primarily due to higher sales of immediate annuities with life contingencies due to more competitive pricing and higher contract charges on interest-sensitive life insurance products resulting from a shift in the mix of policies in force to contracts with higher cost of insurance rates.

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 March 31, 2011	2010
Contractholder funds, beginning balance	$ 46,458	$ 50,850
Deposits		
Fixed annuities	164	291
Interest-sensitive life insurance	308	374
Total deposits	472	665
Interest credited	400	451
Maturities, benefits, withdrawals and other adjustments		
Maturities and retirements of institutional products	(487)	(954)
Benefits	(370)	(391)
Surrenders and partial withdrawals	(1,015)	(994)
Contract charges	(235)	(226)
Net transfers from separate accounts	3	2
Fair value hedge adjustments for institutional products	(34)	(123)
Other adjustments [1]	(44)	1
Total maturities, benefits, withdrawals and other adjustments	(2,182)	(2,685)
Contractholder funds, ending balance	$ 45,148	$ 49,281

(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 2.8% and 3.1% in the first quarter of 2011 and 2010, respectively. Average contractholder funds decreased 8.5% in the first quarter of 2011 compared to the same period of 2010.

Contractholder deposits decreased 29.0% in the first quarter of 2011 compared to the same period of 2010 primarily due to lower deposits on fixed annuities. Deposits on fixed annuities decreased 43.6% in the first quarter of 2011 compared to the same period of 2010 due to our decision to discontinue distributing fixed annuities through banks and broker dealers in the first quarter of 2010 and our goal to reduce our concentration in spread based products and improve returns on new business.

Maturities and retirements of institutional products decreased 49.0% to $487 million in the first quarter of 2011 from $954 million in the same period of 2010.

Surrenders and partial withdrawals on deferred fixed annuities and interest-sensitive life insurance products increased 2.1% to $1.02 billion in the first quarter of 2011 from $994 million in the same period of 2010 primarily due to higher surrenders and partial withdrawals on fixed annuities, partially offset by lower surrenders and partial withdrawals on interest-sensitive life insurance products. The annualized surrender and partial withdrawal rate on deferred fixed annuities and interest-sensitive life insurance products, based on the beginning of year contractholder funds, was 10.5% in the first quarter of 2011 compared to 9.7% in the same period of 2010.

Analysis of costs and expenses Total costs and expenses increased 2.0% or $20 million in the first quarter of 2011 compared to the same period of 2010 primarily due to higher amortization of DAC and contract benefits, partially offset by lower interest credited to contractholder funds and operating costs and expenses.

Contract benefits increased 4.9% or $18 million in the first quarter of 2011 compared to the same period of 2010 primarily due to higher contract benefits on immediate annuities with life contingencies, reflecting the increase in premiums on these products.

We analyze our mortality and morbidity results using the difference between premiums and contract charges earned for the cost of insurance and contract benefits excluding the portion related to the implied interest on immediate annuities with life contingencies ("benefit spread"). This implied interest totaled $135 million and $139 million in the first quarter of 2011 and 2010, respectively.

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

($ in millions)	Three months ended March 31, 2011	2010
Life insurance	$ 90	$ 83
Accident and health insurance	6	8
Annuities	(12)	(10)
Total benefit spread	$ 84	$ 81

Benefit spread increased 3.7% or $3 million in the first quarter of 2011 compared to the same period of 2010. The increase was primarily due to increased cost of insurance contract charges on interest-sensitive life insurance products.

Interest credited to contractholder funds decreased 9.7% or $44 million in the first quarter of 2011 compared to the same period of 2010 primarily due to lower average contractholder funds and lower interest crediting rates on interest-sensitive life insurance and immediate fixed annuities. Additionally, valuation changes on derivatives embedded in equity-indexed annuity contracts that are not hedged decreased interest credited to contractholder funds by $12 million in the first quarter of 2011.

Amortization of DSI in the first quarter of 2011 was $10 million compared to $5 million in the same period of 2010. The increase was primarily due to higher amortization resulting from realized capital gains on sales of fixed income securities in 2011.

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 March 31, 2011	2010
Annuities and institutional products	$ 48	$ 50
Life insurance	13	7
Accident and health insurance	2	2
Net investment income on investments supporting capital	56	57
Total investment spread	$ 119	$ 116

Investment spread increased 2.6% or $3 million in the first quarter of 2011 compared to the same period of 2010 primarily due to decreased interest credited to contractholder funds, partially offset by lower net investment income.

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

	Weighted average investment yield		Weighted average interest crediting rate		Weighted average investment spreads	
	2011	2010	2011	2010	2011	2010
Interest-sensitive life insurance	5.4%	5.5%	4.2%	4.5%	1.2%	1.0%
Deferred fixed annuities and institutional products	4.5	4.4	3.3	3.2	1.2	1.2
Immediate fixed annuities with and without life contingencies	6.2	6.4	6.2	6.5	—	(0.1)
Investments supporting capital, traditional life and other products	3.8	3.7	n/a	n/a	n/a	n/a

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

($ in millions)	March 31, 2011	March 31, 2010
Immediate fixed annuities with life contingencies	$ 8,749	$ 8,512
Other life contingent contracts and other	4,066	3,859
Reserve for life-contingent contract benefits	$ 12,815	$ 12,371
Interest-sensitive life insurance	$ 10,098	$ 9,798
Deferred fixed annuities	28,558	31,540
Immediate fixed annuities without life contingencies	3,794	3,868
Institutional products	2,193	3,448
Market value adjustments related to fair value hedges and other	505	627
Contractholder funds	$ 45,148	$ 49,281

Amortization of DAC increased 85.1% or $57 million in the first quarter of 2011 compared to the same period of 2010. The components of amortization of DAC are summarized in the following table.

($ in millions)	Three months ended March 31, 2011	Three months ended March 31, 2010
Amortization of DAC before amortization relating to realized capital gains and losses and changes in assumptions	$ (76)	$ (77)
Amortization relating to realized capital gains and losses [1]	(35)	(3)
Amortization (acceleration) deceleration for changes in assumptions ("DAC unlocking")	(13)	13
Total amortization of DAC	$ (124)	$ (67)

[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 $57 million in the first quarter of 2011 was primarily due to increased amortization relating to realized capital gains and losses and an unfavorable change in amortization acceleration/deceleration for changes in assumptions. DAC amortization relating to realized capital gains and losses primarily resulted from realized capital gains on sales of fixed income securities in the first quarter of 2011.

Our annual comprehensive review of the profitability of our products to determine DAC balances for our interest-sensitive life, fixed annuities and other investment contracts covers assumptions for 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 2011, the review resulted in an acceleration of

DAC amortization (charge to income) of $13 million. Amortization acceleration of $19 million related to interest-sensitive life insurance and was primarily due to an increase in projected expenses. Amortization deceleration of $6 million related to fixed annuities and was primarily due to an increase in projected investment margins on equity-indexed annuities.

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.

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

($ in millions)	Three months ended March 31, 2011	2010
Investment margin	$ 2	$ 15
Benefit margin	7	(45)
Expense margin	(22)	43
Net (acceleration) deceleration	$ (13)	$ 13

Operating costs and expenses decreased 10.5% or $9 million in the first quarter of 2011 compared to the same period of 2010. The following table summarizes operating costs and expenses.

($ in millions)	Three months ended March 31, 2011	2010
Non-deferrable acquisition costs	$ 21	$ 22
Other operating costs and expenses	56	64
Total operating costs and expenses	$ 77	$ 86
Restructuring and related charges	$ (2)	$ —

Non-deferrable acquisition costs decreased 4.5% or $1 million in the first quarter of 2011 compared to the same period of 2010 primarily due to lower non-deferrable commissions and premium tax expenses related to discontinuing sales through banks and broker dealers effective March 31, 2010. Other operating costs and expenses decreased 12.5% or $8 million in the first quarter of 2011 compared to the same period of 2010 primarily due to increased reinsurance expense allowances, lower occupancy costs due to consolidation of office buildings and non-recurring offsets to certain administrative costs of $3 million.

Income tax expense of $40 million was recognized for the first quarter of 2011 compared to an income tax benefit of $16 million in the same period of 2010. This change was due to the proportionate change in the income on which the income tax expense was determined.

INVESTMENTS HIGHLIGHTS

- Investments as of March 31, 2011 totaled $58.51 billion, a decrease of 1.6% from $59.44 billion as of December 31, 2010.
- Unrealized net capital gains totaled $913 million as of March 31, 2011, improving from $758 million as of December 31, 2010.
- As of March 31, 2011, the fair value for our below investment grade fixed income securities with gross unrealized losses totaled $2.25 billion compared to $2.01 billion as of December 31, 2010. The gross unrealized losses for these securities totaled $587 million as of March 31, 2011, an improvement of 16.5% from $703 million as of December 31, 2010.
- Net investment income was $662 million in the first quarter of 2011, a decrease of 6.4% from $707 million in the first quarter of 2010.
- Net realized capital gains were $45 million in the first quarter of 2011 compared to net realized capital losses of $161 million in the first quarter of 2010.
- During the first quarter of 2011, our fixed income and mortgage loan portfolio generated $1.41 billion of cash flows from interest and maturities.

INVESTMENTS

Improved market fundamentals in combination with our risk mitigation and return optimization strategies have strengthened our capital position, enabling us to execute yield and return enhancement strategies, while continuing to manage interest rate, credit and real estate investment risks. Consistent with our economic outlook, we modified the maturity profile of our fixed income portfolio through shifts out of longer term fixed rate and shorter term lower yielding securities into intermediate term maturity securities. Additionally, we increased our exposure to below investment grade corporate fixed income securities through a higher targeted allocation and reinvestment of proceeds from the sale of lower rated structured securities.

The composition of the investment portfolio as of March 31, 2011 is presented in the table below.

($ in millions)	Investments	Percent to total
Fixed income securities [1]	$ 47,629	81.4%
Mortgage loans	6,461	11.0
Equity securities [2]	213	0.4
Limited partnership interests [3]	1,357	2.3
Short-term [4]	822	1.4
Policy loans	839	1.5
Other	1,186	2.0
Total	$ 58,507	100.0%

(1) Fixed income securities are carried at fair value. Amortized cost basis for these securities was $46.75 billion.
(2) Equity securities are carried at fair value. Cost basis for these securities was $154 million.
(3) We have commitments to invest in additional limited partnership interests totaling $736 million.
(4) Short-term investments are carried at fair value. Amortized cost basis for these investments was $822 million.

Total investments decreased to $58.51 billion as of March 31, 2011, from $59.44 billion as of December 31, 2010, primarily due to net reductions in contractholder obligations of $1.31 billion, partially offset by higher valuations for fixed income securities. 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 three months ended March 31, 2011 was mainly due to tightening of credit spreads in certain sectors.

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

($ in millions)	Fair value as of March 31, 2011	Percent to total investments	Fair value as of December 31, 2010	Percent to total investments
U.S. government and agencies	$ 2,517	4.3%	$ 3,494	5.9%
Municipal	4,718	8.1	4,973	8.4
Corporate	29,857	51.0	28,650	48.2
Foreign government	2,186	3.7	2,257	3.8
Residential mortgage-backed securities (“RMBS”)	3,928	6.7	4,355	7.3
Commercial mortgage-backed securities (“CMBS”)	1,955	3.4	1,903	3.2
Asset-backed securities (“ABS”)	2,453	4.2	2,567	4.3
Redeemable preferred stock	15	—	15	—
Total fixed income securities	$ 47,629	81.4%	$ 48,214	81.1%

As of March 31, 2011, 91.2% of the fixed income securities portfolio was rated investment grade, which is defined as a security having a rating of Aaa, Aa, A or Baa from Moody’s, a rating of AAA, AA, A or BBB from Standard 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. All of our fixed income securities are rated by third party credit rating agencies, the National Association of Insurance Commissioners (“NAIC”), and/or internally rated. Our initial investment decisions and ongoing monitoring procedures for fixed income securities are based on a thorough due diligence process which includes, but is not limited to, an assessment of the credit quality, sector, structure, and liquidity risks of each issue.

The following table summarizes the fair value and unrealized net capital gains and losses for fixed income securities by credit rating as of March 31, 2011.

($ in millions)	Aaa		Aa		A	
	Fair value	Unrealized gain/(loss)	Fair value	Unrealized gain/(loss)	Fair value	Unrealized gain/(loss)
U.S. government and agencies	$ 2,517	$ 207	$ —	$ —	$ —	$ —
Municipal						
Tax exempt	—	—	28	1	—	—
Taxable	179	—	2,497	2	1,036	(36)
Auction rate securities (“ARS”)	349	(26)	16	(3)	34	(4)
Corporate						
Public	732	7	1,699	65	6,190	263
Privately placed	560	9	1,602	45	3,527	155
Foreign government	1,366	215	146	4	377	29
RMBS						
U.S. government sponsored entities (“U.S. Agency”)	2,036	88	—	—	—	—
Prime residential mortgage-backed securities (“Prime”)	318	8	61	—	139	1
Alt-A residential mortgage-backed securities (“Alt-A”)	13	—	46	(1)	62	—
Subprime residential mortgage-backed securities (“Subprime”)	31	1	78	(18)	37	(6)
CMBS	989	38	284	1	157	(10)
ABS						
Collateralized debt obligations (“CDO”)	9	—	530	(9)	440	(40)
Consumer and other asset-backed securities (“Consumer and other ABS”)	279	8	161	2	206	—
Redeemable preferred stock	—	—	1	—	—	—
Total fixed income securities	$ 9,378	$ 555	$ 7,149	$ 89	$ 12,205	$ 352

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

U.S. government and agencies	$ —	$ —	$ —	$ —	$ 2,517	$ 207
Municipal						
Tax exempt	32	2	—	—	60	3
Taxable	433	(71)	59	(28)	4,204	(133)
ARS	42	(5)	13	(2)	454	(40)
Corporate						
Public	7,098	320	1,188	30	16,907	685
Privately placed	5,972	184	1,289	24	12,950	417
Foreign government	297	18	—	—	2,186	266
RMBS						
U.S. Agency	—	—	—	—	2,036	88
Prime	6	—	237	2	761	11
Alt-A	31	(1)	253	(42)	405	(44)
Subprime	63	(18)	517	(252)	726	(293)
CMBS	341	(53)	184	(81)	1,955	(105)
ABS						
CDO	275	(57)	426	(84)	1,680	(190)
Consumer and other ABS	102	(1)	25	(5)	773	4
Redeemable preferred stock	14	—	—	—	15	—
Total fixed income securities	$ 14,706	$ 318	$ 4,191	$ (438)	$ 47,629	$ 876

Municipal Bonds, including tax exempt, taxable and ARS securities, totaled $4.72 billion as of March 31, 2011 with an unrealized net capital loss of $170 million. The municipal bond portfolio includes general obligations of state and local issuers, revenue bonds and pre-refunded bonds, which are bonds for which an irrevocable trust has been established to fund the remaining payments of principal and interest.

The following table summarizes by state, the fair value, amortized cost and credit rating of our municipal bonds, excluding $33 million of pre-refunded bonds, as of March 31, 2011:

($ in millions) State	State general obligation	Local general obligation	Revenue (1)	Fair value	Amortized cost	Average credit rating (2)
California	$ 60	$ 342	$ 297	$ 699	$ 763	A
Texas	—	254	293	547	558	Aa
New York	16	4	346	366	373	Aa
New Jersey	120	21	121	262	272	Aa
Delaware	—	—	261	261	278	Aa
Illinois	—	92	120	212	220	Aa
Florida	24	56	116	196	196	Aa
Oregon	—	144	26	170	171	A
Ohio	—	78	79	157	154	Aa
Michigan	32	54	68	154	161	Aa
All others	204	249	1,208	1,661	1,713	A
Total	$ 456	$ 1,294	$ 2,935	$ 4,685	$ 4,859	Aa

(1) The nature of the activities supporting revenue municipals is highly diversified and includes transportation, health care, industrial development, housing, higher education, utilities, recreation/convention centers and other activities.

(2) The municipal bonds are rated by third party credit rating agencies, the NAIC and/or internally rated.

Our practice for acquiring and monitoring municipal bonds is predominantly based on the underlying credit quality of the primary obligor. We currently rely on the primary obligor to pay all contractual cash flows and are not relying on bond insurers for payments. As a result of downgrades in the insurers' credit ratings, the ratings of the insured municipal bonds generally reflect the underlying ratings of the primary obligor. As of March 31, 2011, 99.1% of our insured municipal bond portfolio is rated investment grade. Given the effects of the economic crisis on bond insurers, the value inherent in the insurance has declined. Further, we believe the fair value of our insured municipal bond portfolio substantially reflects the decline in the value of the insurance. We believe that the loss of the benefit of insurance would not result in a material adverse impact on our results of operations, financial position or liquidity.

Corporate bonds, including publicly traded and privately placed, totaled $29.86 billion as of March 31, 2011 with an unrealized net capital gain of $1.10 billion. Privately placed securities primarily consist of corporate issued senior debt securities that are in unregistered form or are directly negotiated with the borrower.

RMBS, *CMBS* and *ABS* are structured securities that are primarily collateralized by residential and commercial real estate loans and other consumer or corporate borrowings. The cash flows from the underlying collateral paid to the securitization trust are generally applied in a pre-determined order and are designed so that each security issued by the trust, typically referred to as a "class", qualifies for a specific original rating. For example, the "senior" portion or

"top" of the capital structure, or rating class, which would originally qualify for a rating of Aaa typically has priority in receiving principal repayments on the underlying collateral and retains this priority until the class is paid in full. In a sequential structure, underlying collateral principal repayments are directed to the most senior rated Aaa class in the structure until paid in full, after which principal repayments are directed to the next most senior Aaa class in the structure until it is paid in full. Senior Aaa classes generally share any losses from the underlying collateral on a pro-rata basis after losses are absorbed by classes with lower original ratings. The payment priority and class subordination included in these securities serves as credit enhancement for holders of the senior or top portions of the structures. These securities continue to retain the payment priority features that existed at the origination of the securitization trust. Other forms of credit enhancement may include structural features embedded in the securitization trust, such as overcollateralization, excess spread and bond insurance. The underlying collateral can have fixed interest rates, variable interest rates (such as adjustable rate mortgages ("ARM")) or may contain features of both fixed and variable rate mortgages.

RMBS, including U.S. Agency, Prime, Alt-A and Subprime, totaled $3.93 billion, with 74.4% rated investment grade, as of March 31, 2011. 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 51.8% 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 $238 million as of March 31, 2011 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 higher risk premiums caused by macroeconomic conditions and credit market deterioration, including the impact of lower real estate valuations, which began to show signs of stabilization in certain geographic areas in 2010. The following table shows our RMBS portfolio as of March 31, 2011 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	$ —	$ —	$ 167	$ 3	$ 52	$ 1	$ —	$ —	$ 219	$ 4
2009	392	6	47	1	8	—	—	—	447	7
2008	247	6	—	—	—	—	—	—	247	6
2007	77	3	131	7	32	(12)	190	(108)	430	(110)
2006	98	7	96	(2)	94	(12)	162	(72)	450	(79)
2005	321	13	110	(3)	95	(5)	195	(72)	721	(67)
Pre-2005	901	53	210	5	124	(16)	179	(41)	1,414	1
Total	$ 2,036	$ 88	$ 761	$ 11	$ 405	$ (44)	$ 726	$ (293)	$ 3,928	$ (238)

Prime are collateralized by residential mortgage loans issued to prime borrowers. As of March 31, 2011, $614 million of the Prime had fixed rate underlying collateral and $147 million had variable rate underlying collateral.

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 March 31, 2011, $331 million of the Alt-A had fixed rate underlying collateral and $74 million had variable rate underlying collateral.

Subprime includes securities collateralized by residential mortgage loans issued to borrowers that cannot qualify for Prime or Alt-A financing terms due in part to weak or limited credit history. It also includes securities that are collateralized by certain second lien mortgages regardless of the borrower's credit history. The Subprime portfolio consisted of $538 million and $188 million of first lien and second lien securities, respectively. As of March 31, 2011, $409 million of the Subprime had fixed rate underlying collateral and $317 million had variable rate underlying collateral.

CMBS totaled $1.96 billion, with 90.6% rated investment grade, as of March 31, 2011. 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, 96.6% are traditional conduit transactions collateralized by commercial mortgage loans, broadly diversified across property types and geographical area. The remainder consists of non-traditional CMBS such as small balance transactions, large loan pools and single borrower transactions.

The following table shows our CMBS portfolio as of March 31, 2011 based upon vintage year of the underlying collateral.

($ in millions)	Fair value	Unrealized gain/(loss)
2007	$ 285	$ (8)
2006	608	(82)
2005	321	(24)
Pre-2005	741	9
Total CMBS	$ 1,955	$ (105)

The unrealized net capital loss of $105 million as of March 31, 2011 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 lower real estate valuations, which began to show signs of stabilization in certain geographic areas in 2010. 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 $2.45 billion, with 81.6% rated investment grade, as of March 31, 2011. Credit risk is managed by monitoring the performance of the underlying collateral. Many of the securities in the ABS portfolio have credit enhancement with features such as overcollateralization, subordinated structures, reserve funds, guarantees and/or insurance. The unrealized net capital loss of $186 million as of March 31, 2011 on our ABS portfolio was the result of wider credit spreads than at initial purchase.

CDO totaled $1.68 billion, with 74.6% rated investment grade, as of March 31, 2011. 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 $97 million. The remaining $402 million of securities consisted of synthetic CDO, trust preferred CDO, project finance CDO, market value CDO, collateralized bond obligations and other CLO with unrealized losses of $93 million.

Consumer and other ABS totaled $773 million, with 96.8% rated investment grade, as of March 31, 2011. Consumer and other ABS consists of $369 million of consumer auto and $404 million of other ABS with unrealized gains of $4 million for consumer auto and no unrealized gains or losses for other ABS.

Mortgage loans Our mortgage loan portfolio totaled $6.46 billion as of March 31, 2011, compared to $6.55 billion as of December 31, 2010, and primarily comprises loans secured by first mortgages on developed commercial real estate. Key considerations used to manage our exposure include property type and geographic diversification by state and metropolitan area.

We recognized $2 million of realized capital losses related to net increases in the valuation allowances on impaired mortgage loans for the three months ended March 31, 2011, 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.

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

Limited partnership interests consist of investments in private equity/debt funds, real estate funds, hedge funds and tax credit funds. The limited partnership interests portfolio is well diversified across a number of characteristics including fund sponsors, vintage years, strategies, geography (including international), and company/property types. The following table presents information about our limited partnership interests as of March 31, 2011.

($ in millions)	Private equity/debt funds	Real estate funds	Hedge funds	Tax credit funds	Total
Cost method of accounting ("Cost")	$ 554	$ 143	$ —	$ —	$ 697
Equity method of accounting ("EMA")	380	161	2	117	660
Total	$ 934	$ 304	$ 2	$ 117	$ 1,357
Number of sponsors	80	29	1	6	
Number of individual funds	127	54	2	6	
Largest exposure to single fund	$ 23	$ 16	$ 2	$ 25	

Our aggregate limited partnership exposure represented 2.3% and 2.1% of total invested assets as of March 31, 2011 and December 31, 2010, respectively.

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

	2011				2010			
($ in millions)	Cost	EMA	Total income	Impairment write-downs [1]	Cost	EMA	Total income	Impairment write-downs [1]
Private equity/debt funds	$ 5	$ 12	$ 17	$ —	$ 3	$ 9	$ 12	$ (2)
Real estate funds	—	6	6	—	—	(18)	(18)	(9)
Hedge funds	—	—	—	—	—	5	5	—
Total	$ 5	$ 18	$ 23	$ —	$ 3	$ (4)	$ (1)	$ (11)

(1) There were no impairment write-downs related to Cost limited partnerships in the three months ended March 31, 2011. Impairment write-downs related to Cost limited partnerships were $11 million in the three months ended March 31, 2010. There were no impairment write-downs related to EMA limited partnerships in the three months ended March 31, 2011 and 2010.

Limited partnership interests, excluding impairment write-downs, produced income of $23 million in the three months ended March 31, 2011 compared to losses of $1 million in the three months ended March 31, 2010. Income on EMA limited partnerships is recognized on a delay due to the availability of the related financial statements. The recognition of income on hedge funds is primarily on a one-month delay and the income recognition on private equity/debt funds, real estate funds and tax credit funds are generally on a three-month delay. Income on Cost limited partnerships is recognized only upon receipt of amounts distributed by the partnership.

Unrealized net capital gains totaled $913 million as of March 31, 2011 compared to unrealized net capital gains of $758 million as of December 31, 2010. The improvement since December 31, 2010 was primarily a result of tightening of credit spreads in certain sectors. The following table presents unrealized net capital gains and losses, pre-tax and after-tax.

($ in millions)	March 31, 2011	December 31, 2010
U.S. government and agencies	$ 207	$ 236
Municipal	(170)	(206)
Corporate	1,102	1,141
Foreign government	266	295
RMBS	(238)	(319)
CMBS	(105)	(218)
ABS	(186)	(201)
Fixed income securities [1]		

	876	728
Equity securities	59	47
EMA limited partnership interests	4	—
Derivatives	(26)	(17)
Unrealized net capital gains and losses, pre-tax	913	758
Amounts recognized for:		
Insurance reserves [(2)]	(2)	(41)
DAC and DSI [(3)]	97	98
Amounts recognized	95	57
Deferred income taxes	(358)	(290)
Unrealized net capital gains and losses, after-tax	$ 650	$ 525

(1) Unrealized net capital gains and losses for fixed income securities as of March 31, 2011 and December 31, 2010 comprise $(159) million and $(153) million, respectively, related to unrealized net capital losses on fixed income securities with other-than-temporary impairment and $1.04 billion and $881 million, 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 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 $876 million and comprised $2.24 billion of gross unrealized gains and $1.37 billion of gross unrealized losses as of March 31, 2011. This is compared to unrealized net capital gains for the fixed income portfolio totaling $728 million, comprised of $2.42 billion of gross unrealized gains and $1.69 billion of gross unrealized losses as of December 31, 2010.

Gross unrealized gains and losses as of March 31, 2011 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	$ 3,039	$ 2,969	$ 87	$ (101)	$ 2,955	97.7%	97.2%
Utilities	5,541	5,544	369	(60)	5,853	100.1	105.6
Consumer goods (cyclical and non-cyclical)	4,948	5,019	211	(42)	5,188	101.4	104.9
Financial services	2,522	2,530	103	(26)	2,607	100.3	103.4
Capital goods	3,306	3,303	194	(23)	3,474	99.9	105.1
Transportation	1,581	1,597	81	(22)	1,656	101.0	104.7
Technology	1,137	1,148	44	(12)	1,180	101.0	103.8
Basic industry	1,482	1,491	79	(10)	1,560	100.6	105.3
Communications	1,660	1,661	84	(7)	1,738	100.1	104.7
Energy	1,983	2,000	106	(5)	2,101	100.9	106.0
Other	1,593	1,493	60	(8)	1,545	93.7	97.0
Total corporate fixed income portfolio	28,792	28,755	1,418	(316)	29,857	99.9	103.7
U.S. government and agencies	2,952	2,310	213	(6)	2,517	78.3	85.3
Municipal	6,932	4,888	95	(265)	4,718	70.5	68.1
Foreign government	2,375	1,920	275	(9)	2,186	80.8	92.0
RMBS	4,539	4,166	122	(360)	3,928	91.8	86.5
CMBS	2,083	2,060	60	(165)	1,955	98.9	93.9
ABS	2,967	2,639	59	(245)	2,453	88.9	82.7
Redeemable preferred stock	14	15	—	—	15	107.1	107.1
Total fixed income securities	$ 50,654	$ 46,753	$ 2,242	$ (1,366)	$ 47,629	92.3	94.0

(1) Included in par value are zero-coupon securities that are generally purchased at a deep discount to the par value that is received at maturity. These primarily included corporate, municipal, foreign government and U.S. government and agencies zero-coupon securities with par value of $683 million, $2.98 billion, $1.33 billion and $1.64 billion, respectively.

(2) Excluding the impact of zero-coupon securities, the percentage of amortized cost to par value would be 100.4% for corporates, 98.9% for municipals, 104.0% for foreign governments and 103.9% for U.S. government and agencies. Similarly, excluding the impact of zero-coupon securities, the

percentage of fair value to par value would be 104.2% for corporates, 97.9% for municipals, 109.7% for foreign governments and 107.4% for U.S. government and agencies.

The banking, utilities, consumer goods, financial services and capital goods sectors had the highest concentration of gross unrealized losses in our corporate fixed income securities portfolio as of March 31, 2011. 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 $59 million and comprised $60 million of gross unrealized gains and $1 million of gross unrealized losses as of March 31, 2011. This is compared to an unrealized net capital gain for the equity portfolio totaling $47 million, comprised of $48 million of gross unrealized gains and $1 million of gross unrealized losses as of December 31, 2010.

We have a comprehensive portfolio monitoring process to identify and evaluate each fixed income and equity security that may be other-than-temporarily impaired. The process includes a quarterly review of all securities to identify instances where the fair value of a security compared to its amortized cost (for fixed income securities) or cost (for equity securities) is below established thresholds. The process also includes the monitoring of other impairment indicators such as ratings, ratings downgrades and payment defaults. The securities identified, in addition to other securities for which we may have a concern, are evaluated based on facts and circumstances for inclusion on our watch-list. All investments in an unrealized loss position as of March 31, 2011 were included in our portfolio monitoring process for determining whether declines in value were other than temporary.

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

The following table summarizes the fair values and gross unrealized losses of fixed income securities by type and investment grade classification as of March 31, 2011.

($ in millions)	Investment grade		Below investment grade		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
U.S. government and agencies	$ 177	$ (6)	$ —	$ —	$ 177	$ (6)
Municipal	2,431	(234)	55	(31)	2,486	(265)
Corporate	5,882	(265)	928	(51)	6,810	(316)
Foreign government	206	(9)	—	—	206	(9)
RMBS	412	(48)	740	(312)	1,152	(360)
CMBS	673	(80)	157	(85)	830	(165)
ABS	1,025	(137)	374	(108)	1,399	(245)
Total	$ 10,806	$ (779)	$ 2,254	$ (587)	$ 13,060	$ (1,366)

We have experienced declines in the fair values of fixed income securities primarily due to wider credit spreads resulting from higher risk premiums since the time of initial purchase, largely due to macroeconomic conditions and credit market deterioration, including the impact of lower real estate valuations, which began to show signs of stabilization in certain geographic areas in 2010. Consistent with their ratings, our portfolio monitoring process indicates that investment grade securities have a low risk of default. Securities rated below investment grade, comprising securities with a rating of Ba, B and Caa or lower, have a higher risk of default.

As of March 31, 2011, 66% of our below investment grade gross unrealized losses were concentrated in RMBS, specifically Alt-A and Subprime, and CMBS. The fair value of these securities totaled $848 million, an increase of 6.8%, compared to $794 million as of December 31, 2010. Gross unrealized losses on these securities totaled $385 million as of March 31, 2011, a decrease of 15.9%, compared to $458 million as of December 31, 2010, due to improved valuations, sales, impairment write-downs and principal collections, partially offset by the downgrade of certain securities to below investment grade during the first quarter of 2011.

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 and CMBS, are heavily influenced by risk factors other than those related to our best estimate of future cash flows. The difference between these securities' original or current effective rates and the yields implied by their fair value indicates that a higher risk premium is included in the valuation of these securities than existed at 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 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

As of March 31, 2011, the fair value of our below investment grade Alt-A securities with gross unrealized losses totaled $211 million, an increase of 25.6% compared to $168 million as of December 31, 2010. As of March 31, 2011, gross unrealized losses for our below investment grade Alt-A portfolio totaled $47 million, an increase of 11.9% compared to $42 million as of December 31, 2010, due to downgrades of certain Alt-A securities to below investment grade during first quarter of 2011, partially offset by impairment write-downs. For our below investment grade Alt-A securities with gross unrealized gains of $4 million, we have recognized cumulative write-downs in earnings totaling $4 million as of March 31, 2011.

As of March 31, 2011, the fair value of our below investment grade Subprime securities with gross unrealized losses totaled $480 million, a decrease of 2.0% compared to $490 million as of December 31, 2010. As of March 31, 2011, gross unrealized losses for our below investment grade Subprime portfolio totaled $253 million, a decrease of 10.6% compared to $283 million as of December 31, 2010, due to improved valuations resulting from lower risk premiums, sales, impairment write-downs and principal collections, partially offset by downgrades of certain Subprime securities to below investment grade during the first quarter of 2011. For our below investment grade Subprime with gross unrealized gains totaling $2 million, we have recognized cumulative write-downs in earnings totaling $63 million as of March 31, 2011.

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 an estimate of trust-level projected additional collateral loss.

We then analyze the actual cumulative collateral losses incurred to date by the securitization trust, our projected additional collateral losses expected to be incurred and the position of the class of securities we own in the securitization trust relative to the trust's other classes to determine whether any of the collateral losses will be applied to our class. If our class has remaining credit enhancement sufficient to withstand the projected additional collateral losses, no collateral losses will be realized by our class and we expect to collect all contractual principal and interest of the security we own. Remaining credit enhancement is measured in terms of (i) subordination from other classes of securities in the trust that are contractually obligated to absorb losses before the class of security we own and (ii) the expected impact of other structural features embedded in the securitization trust 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.

94.9% and 5.1% 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. 74.7%, 21.3% and 4.0% 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.

	March 31, 2011						
	With other-than-temporary impairments recorded in earnings		Without other-than-temporary impairments recorded in earnings				
($ in millions)	Caa or lower	Total	Ba	B	Caa or lower	Total	Total
Trust-level							
Actual cumulative collateral losses incurred to date [1]	5.9%	5.9%	0.3%	0.8%	3.3%	1.5%	n/a
Projected additional collateral losses to be incurred [2]	21.2%	21.2%	5.5%	10.2%	15.5%	10.2%	n/a
Class-level							
Average remaining credit enhancement [3]	5.2%	5.2%	8.9%	13.1%	15.7%	12.4%	n/a
Security-specific							
Number of positions	16	16	4	4	4	12	28
Par value	$ 220	$ 220	$ 37	$ 20	$ 32	$ 89	$ 309
Amortized cost	$ 174	$ 174	$ 37	$ 20	$ 27	$ 84	$ 258
Fair value	$ 140	$ 140	$ 34	$ 15	$ 22	$ 71	$ 211
Gross unrealized losses							
Total	$ (34)	$ (34)	$ (3)	$ (5)	$ (5)	$ (13)	$ (47)
12-24 months [4]	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Over 24 months [5]	$ (34)	$ (34)	$ (2)	$ (5)	$ (5)	$ (12)	$ (46)

Cumulative write-downs recognized [6]	$ (36)	$ (36)	$ —	$ —	$ —	$ —	$ (36)
Principal payments received during the period [7]	$ 3	$ 3	$ —	$ —	$ 1	$ 1	$ 4

	December 31, 2010								
	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]	0.5%	0.7%	5.9%	5.7%	0.1%	1.2%	2.5%	1.8%	n/a
Projected additional collateral losses to be incurred [2]	9.9%	22.5%	20.5%	20.3%	4.8%	11.6%	14.3%	11.5%	n/a
Class-level									
Average remaining credit enhancement [3]	9.9%	19.0%	4.6%	4.9%	5.3%	24.0%	17.6%	14.0%	n/a
Security-specific									
Number of positions	1	1	13	15	2	1	2	5	20
Par value	$ 4	$ 3	$ 197	$ 204	$ 16	$ 1	$ 37	$ 54	$ 258
Amortized cost	$ 4	$ 2	$ 154	$ 160	$ 16	$ 1	$ 33	$ 50	$ 210
Fair value	$ 1	$ 1	$ 122	$ 124	$ 13	$ 1	$ 30	$ 44	$ 168
Gross unrealized losses									
Total	$ (3)	$ (1)	$ (32)	$ (36)	$ (3)	$ —	$ (3)	$ (6)	$ (42)
12-24 months [4]	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Over 24 months [5]	$ (3)	$ (1)	$ (32)	$ (36)	$ (3)	$ —	$ (3)	$ (6)	$ (42)
Cumulative write-downs recognized [6]	$ —	$ (1)	$ (33)	$ (34)	$ —	$ —	$ —	$ —	$ (34)
Principal payments received during the period [7]	$ —	$ —	$ 13	$ 13	$ 1	$ —	$ 2	$ 3	$ 16

(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 Alt-A securities we own, as reported by the trust servicers, were $4 million as of March 31, 2011.

(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 March 31, 2011, $16 million of unrealized losses on securities with other-than-temporary impairments recognized in earnings and $8 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, 2010, $19 million of unrealized losses on securities with other-than-temporary impairments recognized in earnings and $1 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.

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

(7) Reflects principal payments for the three months ended March 31, 2011 or the year ended December 31, 2010, respectively.

The above tables include information about our 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, principal payments, sales, purchases and realized principal losses.

As of March 31, 2011, 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 1.5%. Our impairment evaluation forecasts more severe assumptions than the trusts are actually experiencing, including a projected weighted average underlying default rate of 25.7% and a projected weighted average loss severity of 41.0%, which resulted in projected additional collateral losses of 10.2%. As the average remaining credit enhancement for these securities of 12.4% exceeds the projected additional collateral losses of 10.2%, these securities have not been impaired.

As of March 31, 2011, 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 5.9%. Our impairment evaluation forecasts more severe assumptions than the trusts are actually experiencing, including a projected weighted average underlying default rate of 37.5% and a projected weighted average loss severity of 55.5%, which resulted in projected additional collateral losses of 21.2%. As the average remaining credit enhancement for these securities of 5.2% 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 79.5% and exceeded these securities' current average amortized cost as a percentage of par of 79.1%, which demonstrates our conclusion that the nature of the remaining unrealized loss on these securities is temporary and will reverse over time. The comparison indicates that recovery value exceeds amortized cost based on a comprehensive evaluation of financial, economic and capital markets assumptions developed for this reporting period.

We believe the unrealized losses on our Alt-A securities, including those over 24 months, result from the current risk premium on these securities, which should continue to reverse over the securities' remaining lives, as demonstrated by improved valuations in 2010. We expect to receive our estimated share of contractual principal and interest collections used to determine the securities' recovery value. As of March 31, 2011, 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.

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

	March 31, 2011							
	With other-than-temporary impairments recorded in earnings			Without other-than-temporary impairments recorded in earnings				
($ in millions)	**B**	**Caa or lower**	**Total**	**Ba**	**B**	**Caa or lower**	**Total**	**Total**
Trust-level								
Actual cumulative collateral losses incurred to date [1]	14.9%	16.2%	16.1%	2.8%	6.7%	7.6%	6.3%	n/a
Projected additional collateral losses to be incurred	39.4%	40.7%	40.6%	31.9%	34.4%	31.3%	32.2%	n/a
Class-level								
Average remaining credit enhancement	23.2%	17.9%	18.2%	46.0%	49.7%	39.3%	43.4%	n/a
Security-specific								
Number of positions	4	55	59	5	9	26	40	99
Par value	$ 31	$ 577	$ 608	$ 46	$ 53	$ 111	$ 210	$ 818
Amortized cost	$ 25	$ 382	$ 407	$ 46	$ 53	$ 112	$ 211	$ 618
Fair value	$ 16	$ 253	$ 269	$ 36	$ 34	$ 59	$ 129	$ 398
Gross unrealized losses								
Total	$ (9)	$ (129)	$ (138)	$ (10)	$ (19)	$ (53)	$ (82)	$ (220)
12-24 months	$ —	$ (1)	$ (1)	$ —	$ —	$ —	$ —	$ (1)
Over 24 months [2]	$ (9)	$ (128)	$ (137)	$ (10)	$ (19)	$ (53)	$ (82)	$ (219)
Cumulative write-downs recognized	$ (5)	$ (190)	$ (195)	$ —	$ —	$ —	$ —	$ (195)
Principal payments received during the period	$ 1	$ 5	$ 6	$ 2	$ —	$ 2	$ 4	$ 10

	December 31, 2010							
	With other-than-temporary impairments recorded in earnings			Without other-than-temporary impairments recorded in earnings				
	B	**Caa or lower**	**Total**	**Ba**	**B**	**Caa or lower**	**Total**	**Total**
Trust-level								
Actual cumulative collateral losses incurred to date	14.2%	15.6%	15.5%	12.0%	12.2%	10.8%	11.3%	n/a
Projected additional collateral losses to be incurred	38.9%	41.2%	41.1%	44.7%	42.1%	38.8%	40.6%	n/a
Class-level								
Average remaining credit enhancement	24.5%	19.2%	19.5%	69.9%	65.3%	49.0%	56.4%	n/a
Security-specific								
Number of positions	4	55	59	11	7	26	44	103
Par value	$ 32	$ 592	$ 624	$ 55	$ 43	$ 152	$ 250	$ 874
Amortized cost	$ 27	$ 376	$ 403	$ 55	$ 43	$ 152	$ 250	$ 653
Fair value	$ 17	$ 236	$ 253	$ 45	$ 31	$ 97	$ 173	$ 426
Gross unrealized losses								
Total	$ (10)	$ (140)	$ (150)	$ (10)	$ (12)	$ (55)	$ (77)	$ (227)
12-24 months	$ —	$ (1)	$ (1)	$ —	$ —	$ —	$ —	$ (1)
Over 24 months [2]	$ (10)	$ (139)	$ (149)	$ (10)	$ (12)	$ (55)	$ (77)	$ (226)
Cumulative write-downs recognized	$ (5)	$ (209)	$ (214)	$ —	$ —	$ —	$ —	$ (214)
Principal payments received during the period	$ 4	$ 16	$ 20	$ 13	$ 1	$ 5	$ 19	$ 39

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(1) Actual cumulative realized principal losses on the below investment grade Subprime securities we own, as reported by the trust servicers, were $18 million as of March 31, 2011.

(2) As of March 31, 2011, $116 million of unrealized losses on securities with other-than-temporary impairments recognized in earnings and $73 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, 2010, $123 million of unrealized losses on securities with other-than-temporary impairments recognized in earnings and $63 million of unrealized losses on securities without other-than-temporary impairments recognized in earnings have been greater than or equal to 20% of those securities' amortized cost for a period of more than 24 consecutive months.

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

As of March 31, 2011, our Subprime securities that are reliably insured include 9 below investment grade Subprime securities with a total fair value of $82 million and aggregate gross unrealized losses of $33 million, all of which are rated B. These securities are insured by one bond insurer rated B that we estimate has sufficient claims paying capacity to service its obligations on these securities. The securitization trusts from which our securities were issued are currently receiving contractual payments from the bond insurer and considering the combination of expected future payments from the bond insurer and cash flows available from the underlying collateral, we expect

the trust to have adequate cash flows to make all contractual payments due to the class of securities we own. As a result, our security-specific estimates of future cash flows indicate that these securities' estimated recovery values equal or exceed their amortized cost. Accordingly, no other-than-temporary

impairments have been recognized on these securities. As of December 31, 2010, our Subprime securities that are reliably insured included 9 below investment grade Subprime securities with a total fair value of $64 million and aggregate gross unrealized losses of $56 million.

As of March 31, 2011, 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 6.3%. Our impairment evaluation forecasts more severe assumptions than the trusts are actually experiencing, including a projected weighted average underlying default rate of 46.7% and a projected weighted average loss severity of 69.8%, which resulted in projected additional collateral losses of 32.2%. As the average remaining credit enhancement for these securities of 43.4% exceeds the projected additional collateral losses of 32.2%, these securities have not been impaired.

As of March 31, 2011, our below investment grade Subprime securities with gross unrealized losses that are not reliably insured and with other-than-temporary impairments recorded in earnings had incurred actual cumulative collateral losses of 16.1%. Our impairment evaluation forecasts more severe assumptions than the trusts are actually experiencing, including a projected weighted average underlying default rate of 53.5% and a projected weighted average loss severity of 77.9%, which resulted in projected additional collateral losses of 40.6%. As the average remaining credit enhancement for these securities of 18.2% is insufficient to withstand the projected additional collateral losses, we have recognized cumulative write-downs in earnings on the securities as reflected in the table above using our calculated recovery value at the time of impairment. The current average recovery value of these securities as a percentage of par was 70.1% and exceeded these securities' current average amortized cost as a percentage of par of 67.0%, which demonstrates our conclusion that the nature of the remaining unrealized loss on these securities is temporary and will reverse over time. The comparison indicates that recovery value exceeds amortized cost based on a comprehensive evaluation of financial, economic and capital markets assumptions developed for this reporting period.

We believe the unrealized losses on our Subprime securities, including those over 24 months, result from the current risk premium on these securities, which should continue to reverse over the securities' remaining lives, as demonstrated by improved valuations in 2010. We expect to receive our estimated share of contractual principal and interest collections used to determine the securities' recovery value. As of March 31, 2011, 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.

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

As of March 31, 2011, the fair value of our below investment grade CMBS with gross unrealized losses totaled $157 million compared to $136 million as of December 31, 2010. As of March 31, 2011, gross unrealized losses for our below investment grade CMBS portfolio totaled $85 million, a decrease of 36.1% compared to $133 million as of December 31, 2010, due to improved valuations resulting from lower risk premiums, impairment write-downs, sales and principal collections, partially offset by downgrades of certain CMBS to below investment grade during the first quarter of 2011. For our below investment grade CMBS with gross unrealized gains totaling $4 million, we have recognized cumulative write-downs in earnings totaling $9 million as of March 31, 2011.

The credit loss evaluation for CMBS 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 commercial property prices, current and projected rental incomes, the propensity of the 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.

15.2%, 74.7% and 7.3% 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. 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 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 with gross unrealized losses, by credit rating.

March 31, 2011

($ in millions)	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]	0.7%	3.2%	4.8%	4.0%	1.4%	0.7%	—%	1.2%	n/a
Projected additional collateral losses to be incurred	6.1%	7.0%	64.5%	47.6%	6.9%	4.4%	—%	6.1%	n/a
Class-level									
Average remaining credit enhancement	11.8%	7.2%	26.0%	21.1%	9.0%	7.0%	—%	8.3%	n/a
Security-specific									
Number of positions	3	1	4	8	12	6	1	19	27
Par value	$ 13	$ 16	$ 69	$ 98	$ 118	$ 54	$ 3	$ 175	$ 273
Amortized cost	$ 13	$ 15	$ 31	$ 59	$ 125	$ 55	$ 3	$ 183	$ 242
Fair value	$ 10	$ 11	$ 12	$ 33	$ 88	$ 35	$ 1	$ 124	$ 157
Gross unrealized losses									
Total	$ (3)	$ (4)	$ (19)	$ (26)	$ (37)	$ (20)	$ (2)	$ (59)	$ (85)
12-24 months	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Over 24 months [2]	$ (3)	$ (4)	$ (19)	$ (26)	$ (37)	$ (20)	$ (2)	$ (59)	$ (85)
Cumulative write-downs recognized	$ (2)	$ (2)	$ (38)	$ (42)	$ —	$ —	$ —	$ —	$ (42)
Principal payments received during the period	$ —	$ —	$ 1	$ 1	$ —	$ —	$ —	$ —	$ 1

	December 31, 2010								
	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	0.6%	3.2%	2.5%	2.3%	1.1%	0.3%	0.4%	0.9%	n/a
Projected additional collateral losses to be incurred	12.2%	7.0%	38.1%	29.2%	7.0%	4.4%	7.2%	6.4%	n/a
Class-level									
Average remaining credit enhancement	12.5%	7.0%	25.5%	20.7%	9.1%	7.5%	9.0%	8.7%	n/a
Security-specific									
Number of positions	2	1	5	8	14	5	2	21	29
Par value	$ 22	$ 16	$ 79	$ 117	$ 138	$ 46	$ 7	$ 191	$ 308
Amortized cost	$ 17	$ 15	$ 39	$ 71	$ 143	$ 47	$ 8	$ 198	$ 269
Fair value	$ 13	$ 6	$ 13	$ 32	$ 75	$ 25	$ 4	$ 104	$ 136
Gross unrealized losses									
Total	$ (4)	$ (9)	$ (26)	$ (39)	$ (68)	$ (22)	$ (4)	$ (94)	$ (133)
12-24 months	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Over 24 months [2]	$ (4)	$ (9)	$ (26)	$ (39)	$ (68)	$ (22)	$ (4)	$ (94)	$ (133)
Cumulative write-downs recognized	$ (5)	$ (2)	$ (41)	$ (48)	$ —	$ —	$ —	$ —	$ (48)
Principal payments received during the period	$ —	$ —	$ 1	$ 1	$ —	$ 1	$ —	$ 1	$ 2

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[1] There were no actual cumulative realized principal losses on the below investment grade CMBS we own, as reported by the trust servicers, as of March 31, 2011.

[2] As of March 31, 2011, $25 million of unrealized losses on securities with other-than-temporary impairments recognized in earnings and $58 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, 2010, $39 million of unrealized losses on securities with other-than-temporary impairments recognized in earnings and $93 million of unrealized losses on securities without other-than-temporary impairments recognized in earnings have been greater than or equal to 20% of those securities' amortized cost for a period of more than 24 consecutive months.

The above tables include information 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, principal payments, sales and purchases.

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 1.9% for holdings with a vintage year of 2003 to a high of 12.3% for holdings with a vintage year of 2005.

As of March 31, 2011, our below investment grade CMBS with gross unrealized losses and without other-than-temporary impairments recorded in earnings had incurred actual cumulative collateral losses of 1.2%, and the projected additional collateral loss rate for these securities as of March 31, 2011 was 6.1%. As the average remaining credit enhancement for these securities of 8.3% exceeds the projected additional collateral losses of 6.1%, these securities have not been impaired.

As of March 31, 2011, our below investment grade CMBS with gross unrealized losses and with other-than-temporary impairments recorded in earnings had incurred actual cumulative collateral losses of 4.0%. The projected additional collateral loss rate for these securities as of March 31, 2011 was 47.6%. As the average remaining credit enhancement for these securities of 21.1% 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 59.4% and exceeded these securities' current average amortized cost as a percentage of par of 58.7%, 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 based on a comprehensive evaluation of financial, economic and capital markets assumptions developed for this reporting period.

We believe the unrealized losses on our CMBS, including those over 24 months, result from the current risk premium on these securities, which should continue to reverse over the securities' remaining lives, as demonstrated by improved valuations during 2010. We expect to receive our estimated share of contractual principal and interest

collections used to determine the securities' recovery value. As of March 31, 2011, 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.

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)	March 31, 2011					
	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	$ 53	77.9%	$ 55	80.9%	0.1%
Problem	354	81	22.9	66	18.6	0.1
Potential problem	1,726	811	47.0	654	37.9	1.4
Total	$ 2,148	$ 945	44.0	$ 775	36.1	1.6%
Cumulative write-downs recognized [3]		$ 567				

	December 31, 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%	$ 55%	80.9%	0.1%
Problem	414	92	22.2	77	18.6	0.2
Potential problem	2,468	867	35.1	687	27.8	1.4
Total	$ 2,950	$ 1,011	34.3	$ 819	27.8	1.7%
Cumulative write-downs recognized [3]		$ 659				

(1) The difference between par value and amortized cost of $1.20 billion and $1.94 billion as of March 31, 2011 and December 31, 2010, respectively, is primarily attributable to write-downs and a zero-coupon security.
(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.

As of March 31, 2011, amortized cost for the problem category was $81 million and comprised $45 million of Subprime, $16 million of Alt-A, $7 million of municipal bonds, $6 million of corporates (primarily privately placed), $4 million of CDO, and $3 million of Consumer and other ABS.

As of March 31, 2011, amortized cost for the potential problem category was $811 million and comprised $371 million of Subprime, $178 million of Alt-A, $90 million of Prime, $62 million of CMBS, $55 million of CDO, $35 million of corporates (primarily privately placed), $14 million of municipal bonds, $3 million of bank loans and $3 million of Consumer and other ABS.

Net investment income The following table presents net investment income.

($ in millions)	Three months ended March 31, 2011	Three months ended March 31, 2010
Fixed income securities	$ 591	$ 635
Mortgage loans	88	101
Equity securities	1	1
Limited partnership interests	5	3
Short-term investments	1	1
Other	3	(8)
Investment income, before expense	689	733

	2011	2010
Investment expense	(27)	(26)
Net investment income	$ 662	$ 707

Net investment income decreased 6.4% or $45 million to $662 million in the first quarter of 2011 from $707 million in the same period of 2010 primarily due to reduced average investment balances. Net investment income was $683 million and $670 million in the third and fourth 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 March 31, 2011	Three months ended March 31, 2010
Impairment write-downs	$ (47)	$ (142)
Change in intent write-downs	(42)	(23)
Net other-than-temporary impairment losses recognized in earnings	(89)	(165)
Sales	112	43
Valuation of derivative instruments	(2)	(54)
Settlements of derivative instruments	6	19
EMA limited partnership income	18	(4)
Realized capital gains and losses, pre-tax	45	(161)
Income tax (expense) benefit	(15)	57
Realized capital gains and losses, after-tax	$ 30	$ (104)

Impairment write-downs are presented in the following table.

($ in millions)	Three months ended March 31, 2011	Three months ended March 31, 2010
Fixed income securities	$ (39)	$ (118)
Mortgage loans	(2)	(13)
Equity securities	(5)	—
Limited partnership interests	—	(11)
Other investments	(1)	—
Impairment write-downs	$ (47)	$ (142)

Impairment write-downs for the three months ended March 31, 2011 were primarily driven by investments with commercial real estate exposure, including CMBS, equity securities and mortgage loans, which were impacted by lower real estate valuations or experienced deterioration in expected cash flows, and RMBS, which experienced deterioration in expected cash flows. Impairment write-downs on below investment grade CMBS, RMBS and ABS for the three months ended March 31, 2011 were $20 million, $11 million and $2 million, respectively.

Impairment write-downs that were related primarily to securities subsequently disposed were $9 million for the three months ended March 31, 2011. Of the remaining write-downs for the three months ended March 31, 2011, $24 million or 80.0% of the fixed income security write-downs 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 March 31, 2011, there were either no defaults or defaults only impacted classes lower than our position in the capital structure. $6 million of the fixed income security write-downs for the three months ended March 31, 2011 related to securities experiencing a significant departure from anticipated cash flows; however, we believe they retain economic value.

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

($ in millions)	Three months ended March 31, 2011	Three months ended March 31, 2010
Fixed income securities	$ (42)	$ (17)
Mortgage loans	—	(6)
Change in intent write-downs	$ (42)	$ (23)

The change in intent write-downs in the three months ended March 31, 2011 were primarily a result of ongoing comprehensive reviews of our portfolios resulting in write-downs of individually identified investments, primarily lower yielding, floating rate RMBS and municipal bonds.

Sales generated $112 million of net realized gains for the three months ended March 31, 2011 primarily due to $20 million of net gains on the sale of our convertible bond portfolio and $71 million of net gains on sales of other corporate, U.S. and foreign government and ABS securities.

Valuation and settlement of derivative instruments net realized capital gains totaling $4 million for the three months ended March 31, 2011 included $2 million of losses on the valuation of derivative instruments and $6 million of gains 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, 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 management which 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.

As of March 31, 2011, our securities with embedded derivatives totaled $377 million, a decrease in fair value of $297 million from December 31, 2010, comprising net sales activity of $319 million primarily related to the sale of our convertible bond portfolio, realized capital losses on valuation of $1 million and unrealized net capital gains reported in OCI of $23 million for the host securities. Unrealized net capital gains were further decreased by $1 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 $8 million as of March 31, 2011. 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 $107 million as of March 31, 2011.

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.

($ in millions)	Three months ended March 31,				
	2011			2010	
	Valuation	Settlements	Total	Total	2011 Explanations
Risk reduction					
Duration gap management	$ (13)	$ 15	$ 2	$ (43)	Interest rate caps, floors, swaptions, swaps and interest rate futures are used to balance interest-rate sensitivities of its 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 futures contracts are exchange traded, daily cash settled and can be exited at any time for minimal additional cost. The 2011 valuation losses primarily relate to losses on interest rate swaps resulting from increasing interest rates in the current year and are offset by gains on settlements resulting from decreases in interest rates over the life of the interest rate swaps acquired prior to 2011. The valuation losses and settlement gains 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	—	—	—	20	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.
Hedging of interest rate exposure in annuity contracts	—	—	—	(9)	
Hedge ineffectiveness	3	(11)	(8)	—	The hedge ineffectiveness of $8 million includes $28 million in realized capital losses on swaps that were offset by $20 million in realized capital gains on the hedged risk.
Foreign currency contracts	—	—	—	4	
Credit risk reduction	(1)	(1)	(2)	—	Losses are the result of tightening credit spreads on referenced credit entities.
Total Risk reduction	(11)	3	(8)	(28)	
Income generation					
Asset replication -credit exposure	10	3	13	(2)	The 2011 changes in valuation are due to the tightening credit spreads on referenced credit entities. The gains are primarily on first-to-default credit default swaps (“CDS”) and single name 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 notes	3	—	3	(4)	Equity-indexed notes are fixed income securities that contain embedded options. 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 $13 million as of March 31, 2011. 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 March 31, 2011 and December 31, 2010 holdings, respectively.

($ in millions)	March 31, 2011	Change in fair value	Change due to net sale activity	December 31, 2010
Par value	$ 300	$ —	$ —	$ 300
Amortized cost of host contract	$ 227	$ 3	$ —	$ 224
Fair value of equity-indexed call option	50	3	—	47
Total amortized cost	$ 277	$ 6	$ —	$ 271
Total fair value	$ 287	$ 8	$ —	$ 279
Unrealized gain/loss	$ 10	$ 2	$ —	$ 8

Conversion options in fixed income securities	(5)	—	(5)	(1)	We sold our convertible bond portfolio during the first quarter of 2011. As of March 31, 2011, the fair value of our holdings was $5 million.

($ in millions)	Three months ended March 31, 2011 Valuation	Settlements	Total	2010 Total	2011 Explanations
CDS in fixed income securities	1	—	1	—	Synthetic CDO's are fixed income securities that contain embedded CDS. 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 $94 million as of March 31, 2011. 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 March 31, 2011 and December 31, 2010 holdings, respectively.

($ in millions)	March 31, 2011	Change in fair value	Change due to net sale activity	December 31, 2010
Par value	$ 179	$ —	$ —	$ 179
Amortized cost of host contract	$ 173	$ (3)	$ —	$ 176
Fair value of credit default swap	(86)	1	—	(87)
Total amortized cost	$ 87	$ (2)	$ —	$ 89
Total fair value	$ 85	$ 8	$ —	$ 77

Unrealized gain/loss	$ (2)	$ 10	$ —	$ (12)

Total Accounting	(1)	—	(1)	(5)
Total	$ (2)	$ 6	$ 4	$ (35)

CAPITAL RESOURCES AND LIQUIDITY

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

($ in millions)	March 31, 2011	December 31, 2010
Common stock, retained income and additional capital paid-in	$ 5,194	$ 5,107
Accumulated other comprehensive income	650	525
Total shareholder's equity	5,844	5,632
Notes due to related parties	686	677
Total capital resources	$ 6,530	$ 6,309

Shareholder's equity increased in the first three months of 2011, due to increased unrealized net capital gains on investments and net income.

Financial ratings and strength Our ratings are influenced by many factors including our operating and financial performance, asset quality, liquidity, asset/liability management, overall portfolio mix, financial leverage (i.e., debt), exposure to risks, the current level of operating leverage and Allstate Insurance Company's ("AIC's") ratings. There have been no changes to our insurance financial strength ratings from Moody's, S&P and A.M. Best since December 31, 2010.

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

In addition to the Liquidity Agreement, the Company also has an intercompany loan agreement with the Corporation. The amount of intercompany loans available to the Company is at the discretion of the Corporation. The maximum amount of loans the Corporation will have outstanding to all its eligible subsidiaries at any given

point in time is limited to $1.00 billion. The Corporation may use commercial paper borrowings, bank lines of credit and 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. 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 $3.65 billion of deployable invested assets as of March 31, 2011. 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 March 31, 2011, 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 as of March 31, 2011 was 19.2%. 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 first three months of 2011. 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 376 million shares of treasury stock as of March 31, 2011), 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 March 31, 2011 were $45.15 billion. The following table summarizes contractholder funds by their contractual withdrawal provisions as of March 31, 2011.

($ in millions)		Percent to total
Not subject to discretionary withdrawal	$ 6,289	13.9%
Subject to discretionary withdrawal with adjustments:		
Specified surrender charges [1]	18,750	41.5
Market value adjustments [2]	7,534	16.7
Subject to discretionary withdrawal without adjustments [3]	12,575	27.9
Total contractholder funds [4]	$ 45,148	100.0%

[1] Includes $9.24 billion of liabilities with a contractual surrender charge of less than 5% of the account balance.

[2] $6.28 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] 68% of these contracts have a minimum interest crediting rate guarantee of 3% or higher.

[4] Includes $1.16 billion of contractholder funds on variable annuities reinsured to The Prudential Insurance Company of America, a subsidiary of Prudential Financial, Inc., in 2006.

While we are able to quantify remaining scheduled maturities for our institutional products, anticipating retail product surrenders is less precise. Retail life and annuity products may be surrendered by customers for a variety of reasons. Reasons unique to individual customers include a current or unexpected need for cash or a change in life insurance coverage needs. Other key factors that may impact the likelihood of customer surrender include the level of the contract surrender charge, the length of time the contract has been in force, distribution channel, market interest rates, equity market conditions and potential tax implications. In addition, the propensity for retail life insurance policies to lapse is lower than it is for fixed annuities because of the need for the insured to be re-underwritten upon policy replacement. Surrenders and partial withdrawals for our retail annuities increased 2.7% in the first three months of 2011 compared to the same period of 2010. The annualized surrender and partial withdrawal rate on deferred annuities and interest-sensitive life insurance, based on the beginning of year contractholder funds, was 10.5% and 9.7% for the first three months of 2011 and 2010, respectively. We strive to promptly pay customers who request cash surrenders, however, statutory regulations generally provide up to six months in most states to fulfill surrender requests.

Our institutional products are primarily funding agreements sold to unaffiliated trusts used to back medium-term notes. As of March 31, 2011, total institutional products outstanding were $2.15 billion. The following table presents the remaining scheduled maturities for our institutional products outstanding as of March 31, 2011.

($ in millions)	
2011	$ 275
2012	40
2013	1,750
2016	85
	$ 2,150

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

Cash Flows As reflected in our Condensed Consolidated Statements of Cash Flows, lower cash provided by operating cash flows in the first three months of 2011 compared to the first three months of 2010 was primarily due to income tax refunds in the first quarter of 2010.

Higher cash provided by investing activities in the first three months of 2011 compared to the first three months of 2010 were impacted by higher net sales of fixed income securities used to fund reductions in contractholder fund liabilities.

Lower cash used in financing activities in the first three months of 2011 compared to the first three months of 2010 were primarily due to decreased maturities and retirements of institutional products, partially offset by lower deposits 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 March 31, 2011, 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 2010.

Item 6. Exhibits

(a) Exhibits

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

SIGNATURE

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

Allstate Life Insurance Company
(Registrant)

May 4, 2011

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

Exhibit No.	Description
10.1	Form of Asset Purchase Agreement between Allstate Insurance Company and Road Bay Investments, LLC dated as of March 24, 2011.
10.2	Form of Pledge and Security Agreement between Road Bay Investments, LLC and Allstate Insurance Company dated as of March 24, 2011.
15	Acknowledgment of awareness from Deloitte & Touche LLP, dated May 4, 2011, 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

Exhibit 10.1

ASSET PURCHASE AGREEMENT

Between

ALLSTATE INSURANCE COMPANY,
as Seller

and

ROAD BAY INVESTMENTS, LLC,
as Purchaser

Dated as of March 24, 2011

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SCHEDULES AND EXHIBITS

Schedule I Initial Assets
Schedule II Notice Information
Exhibit A Form of Note

This ASSET PURCHASE AGREEMENT, dated as of March 24, 2011, is made by and between Allstate Insurance Company, an insurance company domiciled in Illinois (together with its successors and assigns, the "Seller"), and Road Bay Investments, LLC, a limited liability company organized under the laws of the State of Delaware (together with its successors and assigns, the "Purchaser").

RECITALS

WHEREAS, the Seller desires to sell to the Purchaser on the date hereof and from time to time hereafter on or before December 31, 2011, and the Purchaser desires to purchase from the Seller, commercial mortgage loans, participations in commercial mortgage loans, bonds, or real estate acquired by Seller in connection with such loans with an aggregate fair value not in excess of $25,000,000 (the "Assets"); and

WHEREAS, as consideration for the sale of the Assets, the Seller shall receive one or more notes (the " Notes") from the Purchaser with an aggregate principal amount equal to the fair value of the Assets;

NOW, THEREFORE, for full and fair consideration, the parties hereto agree as follows:

ARTICLE I
DEFINITIONS

Section 1.01 Definitions. The following capitalized terms shall have the following meanings:

"Agreement" means this Asset Purchase Agreement, as the same may from time to time be amended, supplemented, or otherwise modified in accordance with the terms hereof.

"Assets" has the meaning specified in the first WHEREAS clause in the recitals hereof.

"Business Day" means any day other than a Saturday or a Sunday or any day on which banking institutions in Chicago, Illinois, are authorized or obligated by law, regulation, or executive order to be closed.

"Debt" means, without duplication, the Purchaser's liabilities for borrowed money; liabilities for the deferred purchase price of property (excluding accounts payable arising in the ordinary course of business but including, without limitation, all liabilities created or arising under any conditional sale or other title retention agreement with respect to any such property); capital lease obligations; all liabilities for borrowed money secured by any lien with respect to any property owned by the Purchaser (whether or not it has assumed or otherwise become liable for such liabilities); and any guaranty by the Purchaser with respect to such liabilities or obligations of another person or entity.

"Event of Default" has the meaning specified in Section 6.01 hereof.

"Fair Value" with respect to any Asset means the fair value of such Asset on the date of purchase and sale under this Agreement determined in accordance with statutory accounting principles as set forth in the National Association of Insurance Commissioners' Accounting Practices and Procedures Manual as then in effect.

"Holder" means, with respect to any Note, the Person in whose name such Note is registered in the Note Register.

"Initial Assets" has the meaning specified in Section 2.01 hereof.

"Interest Payment Date" means each April 1 and October 1, commencing April 1, 2011, provided that if such day is not a Business Day, the next succeeding Business Day.

"Interest Period" means, with respect to any Note, (a) in the case of the initial interest period with respect to such Note, the period from, and including, the date such Note was issued to the Seller to, but excluding, the immediately following Payment Date, (b) thereafter, the period from, and including, the preceding Payment Date to, but excluding, the next succeeding Payment Date, and (c) in the case of the final interest period with respect to such Note, the period from, and including, the preceding Payment Date to, but excluding, the Maturity Date.

"Interest Rate" means, with respect to each Note, the rate set forth in such note.

"Maturity Date" means, with respect to a Note, the date on which all outstanding unpaid principal on such Note becomes due and payable, whether at the Stated Maturity Date or by acceleration pursuant to Section 6.02.

"Note Register" has the meaning specified in Section 4.01 hereof.

"Notes" has the meaning specified in the second WHEREAS clause in the recitals hereof.

"Payment Date" means any Interest Payment Date or Maturity Date.

"Person" means an individual, corporation (including a business trust), partnership, limited liability company, joint venture, association, joint stock company, trust (including any beneficiary thereof), unincorporated association or government or any agency or political subdivision thereof.

"Purchaser" has the meaning specified in the introduction to this Agreement.

"Record Date" means the date on which the Holders of any Note entitled to receive a payment with respect to principal or interest on the next succeeding Payment Date are determined, such date as to any Payment Date being five (5) Business Days prior to such Payment Date.

"Seller" has the meaning specified in the introduction to this Agreement.

"Stated Maturity Date" means, with respect to each Note, the seventh (7th) anniversary of the issuance date of such Note, provided such date is a Business Day.

"Total Assets" means, at any time, the total assets of the Purchaser which would be shown as assets on a balance sheet as of such time prepared in accordance with generally accepted accounting principles as in effect from time to time in the United States of America.

Section 1.02 Other Definitional Provisions.

(a) All terms defined in this Agreement shall have the defined meanings when used in any certificate or other document made or delivered pursuant hereto.

(b) The words "hereof," "herein," and "hereunder" and words of similar import when used in this Agreement shall refer to this Agreement as a whole and not to any particular provision of this Agreement; and Section and subsection references

contained in this Agreement are references to Sections or subsections in or to this Agreement unless otherwise specified.

ARTICLE II
PURCHASE AND SALE OF ASSETS

Section 2.01 Purchase and Sale of Assets. Upon the terms and subject to the conditions set forth in this Agreement, and in reliance on the covenants and agreements herein set forth, on the date hereof, the Seller shall sell and the Purchaser shall purchase the Assets listed on Schedule I (the "Initial Assets"). From time to time on or after the date hereof and on or before December 31, 2011, the Seller may, on ten (10) Business Days' notice to the Purchaser, offer to sell to the Purchaser, and the Purchaser may purchase, additional Assets. Notwithstanding the foregoing provisions of this Section 2.01, the aggregate fair value of Assets that may be purchased and sold under this agreement shall not exceed $25,000,000. As security for the performance of the Purchaser's obligations under this Agreement, the parties hereto shall, concurrent with this Agreement, enter into a Pledge and Security Agreement wherein Purchaser grants a pledge of and security interest in the Purchaser's right, title, and interest in the Assets and the other collateral identified therein.

Section 2.02 Delivery and Payment. The Seller shall deliver the Initial Assets to the Purchaser on the date hereof. Against delivery of the Initial Assets or any additional Assets, the Purchaser shall issue to Seller Notes with an aggregate principal amount equal to the aggregate Fair Value of such Assets. Purchaser shall issue a separate Note for the purchase of each Asset.

Section 2.03 Forms of Notes. The Notes shall be issued substantially in the form of the Note attached as Exhibit A hereto and shall be duly executed and delivered by the Purchaser as hereinafter provided.

ARTICLE III
TERMS AND CONDITIONS OF REPAYMENT OF NOTES; MATURITY

Section 3.01 Interest. Each Note shall bear interest during each Interest Period at the Interest Rate set forth in such Note. Interest shall be due and payable on each Interest Payment Date. Interest shall be computed on the basis of a 360-day year comprised of twelve 30-day months.

Section 3.02 Principal. The principal of each Note shall be due and payable on the Stated Maturity Date.

Section 3.03 Payments by the Purchaser.

(a) On any Payment Date, the Purchaser shall pay in accordance with the terms of this Agreement: (i) all accrued but unpaid interest on the Notes and (ii) any principal payments due with respect to the Notes, if any.

(b) Any interest or principal that has not been paid when due shall accrue interest at a rate per annum equal to the Interest Rate from and including, for each such amount, the Payment Date therefor, up to but excluding the date on which each such amount is actually paid.

(c) All payments required to be made by the Purchaser with respect to this Article III shall be made: (i) by wire transfer of immediately available funds and/or the transfer of marketable securities (valued at their fair market value) not later than

1:00 p.m., Chicago time, and (ii) to the account of the Seller, or to such other account as the Seller may have most recently designated in writing for such purpose by notice to the Purchaser.

(d) The Purchaser and any agent of the Purchaser may treat the Person in whose name any Note is registered on the Note Register as the owner of such Note on the applicable Record Date for the purpose of receiving payments of principal and interest on such Note and on any other date for all other purposes whatsoever (regardless of whether such payment is overdue), and neither the Purchaser nor any agent of the Purchaser shall be affected by notice to the contrary.

Section 3.04 Prepayment. The Purchaser may prepay the Notes, in part or in full, at any time. Upon Purchaser's disposition of any Asset, or any real estate related to such Asset, Purchaser shall prepay, in full, the Note issued in connection with the purchase of such Asset.

ARTICLE IV
REGISTRATION OF NOTES; TRANSFER AND EXCHANGE

Section 4.01 Note Register. The Purchaser shall keep a register (the "Note Register") at its office in Northbrook, Illinois, in which it shall provide for the registration of the Notes and the registration of transfers of the Notes. Such Note Register shall be in written form or in any other form capable of being converted into written form within a reasonable time. Upon surrender for registration of transfer of any Note at the office of the Purchaser and in compliance with the restrictions set forth in any legend appearing on any Note, the Purchaser shall execute and deliver, in the name of the designated transferee or transferees, one or more new Notes of any authorized denomination and of like terms.

Section 4.02 Exchanges and Transfers. At the option of any Holder, any Note may be exchanged for one or more Notes, of any authorized denomination and of like terms, upon surrender of the Note to be exchanged at the office of the Purchaser or such other office as the Purchaser may designate for such purposes. Whenever any Note is surrendered for exchange, the Purchaser shall execute and deliver the Note that the Holder making the exchange is entitled to receive. Any Notes issued upon any registration of transfer or exchange of a Note shall be the valid obligations of the Purchaser, evidencing the same debt, and entitled to the same benefits under this Agreement, as the Note surrendered upon such registration of transfer or exchange. Every Note presented or surrendered for registration of transfer or exchange shall be duly endorsed, or be accompanied by a written instrument of transfer in form satisfactory to the Purchaser duly executed by the Holder thereof or its attorney duly authorized in writing. No service charge shall be made to a purchaser for any registration of transfer or exchange of a Note, but the Purchaser may require payment of a sum sufficient to cover the expenses of delivery (if any) not made by regular mail or any tax or other governmental charge payable in connection therewith.

ARTICLE V
RATIO OF DEBT TO TOTAL ASSETS COVENANT

Until this Agreement is terminated and all obligations of the Purchaser under this Agreement and the Notes have been paid or performed in full, the Purchaser covenants and agrees that it will not directly or indirectly, create, incur, assume, guarantee, or otherwise become directly or indirectly liable with respect to any Debt, unless on the date the Purchaser becomes liable with respect to any such Debt and immediately after giving effect thereto and the concurrent retirement of any other Debt, no Event of

Default exists and the aggregate amount of its Debt does not exceed 50% of its Total Assets for its then most recently ended fiscal year.

ARTICLE VI
EVENTS OF DEFAULT

Section 6.01 Events of Default. The occurrence of any of the following events shall constitute an "Event of Default" hereunder:

(a) default is made in the payment of any installment of interest on the Notes when such interest becomes due and payable and such default continues for a period of 30 days,

(b) default is made in the payment of the principal of the Notes when such principal becomes due and payable, or

(c) default is made in the performance of the covenant set forth in Article V of this Agreement or any other part of this Agreement as it may be amended from time to time.

Section 6.02 Remedies Upon an Event of Default. Upon the occurrence of an Event of Default, the Seller may give notice of such Event of Default to the Purchaser and demand payment of the entire outstanding principal amount of such Notes, plus all accrued but unpaid interest, plus interest on such overdue principal and overdue interest at the Interest Rate, plus such further amounts as shall be necessary to cover the Seller's costs and expenses of collection, including reasonable attorneys' fees.

ARTICLE VII
MISCELLANEOUS

Section 7.01 Notices. Except in the case of notices and other communications expressly permitted to be given by telephone, all notices and other communications provided for herein shall be delivered by the following means: (i) hand delivery, (ii) overnight courier service (e.g., FedEx, or Airborne Express); (iii) registered or certified U.S. mail, postage prepaid, and return receipt requested; or (iv) facsimile transmission. If any notice or other communication provided for herein is sent by any party by electronic e-mail it shall not be deemed to have been delivered to the addressee if the party sending such notice or communication receives a response from the intended addressee that he or she will not be able to retrieve e-mail due to vacation, other absence from the office, system failure, or other reason. All such notices shall be delivered to the parties as set forth on Schedule II hereof. All notices and other communications given to any party hereto in accordance with the provisions of this Agreement shall be deemed to have been given on the date of receipt.

Section 7.02 Amendments, Waivers.

(a) Except as otherwise expressly provided herein, no amendment or waiver of any provision of this Agreement shall in any event be effective unless the same shall be in writing and signed by the parties hereto.

(b) The Seller and the Purchaser may amend any provision of this Agreement to effectuate the division of any Notes held by the Seller into paid and unpaid portions and the surrender of the paid portion.

(c) Each such amendment, waiver, or consent shall be effective only in the specific instance and for the specific purpose for which given. A failure or delay in exercising any right, power, or privilege with respect to this Agreement will not be presumed to operate as a waiver, and a single or partial exercise of any right, power, or privilege will not be presumed to preclude any subsequent or further exercise of that right, power, or privilege or the exercise of any other right, power, or privilege.

Section 7.03 Successors and Assigns; Third Party Beneficiaries. The provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors. This Agreement shall not be transferred or assigned under any circumstances. Nothing in this Agreement, expressed or implied, shall be construed to confer upon any Person (other than the parties hereto and their respective successors and permitted transferees) any legal or equitable right, remedy, or claim under or by reason of this Agreement.

Section 7.04 Severability. Any provision of this Agreement held to be invalid, illegal, or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such invalidity, illegality, or unenforceability without affecting the validity, legality, and enforceability of the remaining provisions hereof; and the invalidity of a particular provision in a particular jurisdiction shall not invalidate such provision in any other jurisdiction.

Section 7.05 Binding Effect. This Agreement shall remain in full force and effect until such time as all of the Notes issued by the Purchaser shall have been repaid in full and cancelled.

Section 7.06 GOVERNING LAW; CONSENT TO JURISDICTION. THIS AGREEMENT SHALL IN ALL RESPECTS BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF ILLINOIS.

Section 7.07 Execution in Counterparts. This Agreement may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which when taken together shall constitute one and the same agreement. Delivery of an executed counterpart of a signature page of this Agreement by telecopy shall be effective as delivery of a manually executed counterpart of this Agreement.

Section 7.08 Entire Agreement. This Agreement constitutes the entire agreement between the parties relating to the subject matter hereof and supersedes any and all previous agreements and understandings, oral or written, relating to the subject matter hereof.

Section 7.09 Headings. Article and Section headings used herein are for convenience of reference only, are not part of this Agreement, and shall not affect the construction of, or be taken into consideration in interpreting, this Agreement.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed by their respective officers thereunto duly authorized, as of the first date written above.

ALLSTATE INSURANCE COMPANY
as Seller

By: ______________________________
Name:
Title: Authorized Signatory

By: ______________________________
Name:

Title: Authorized Signatory

ROAD BAY INVESTMENTS, LLC
as Purchaser

By: ______________________________
Name:
Title: Authorized Signatory

By: ______________________________
Name:
Title: Authorized Signatory

SCHEDULE I
to
Asset Purchase Agreement between Allstate Insurance Company
and Road Bay Investments, LLC

1. New Castle County, Delaware Multi-Family Mortgage Revenue Bonds (Fieldcrest Apartment Project), Series 1999 secured by Greentree Village Apartments, a 286 unit apartment complex located in Claymont, DE.

SCHEDULE II
to
Asset Purchase Agreement between Allstate Insurance Company
and Road Bay Investments, LLC

NOTICE INFORMATION

Address for Notices to Seller:

Allstate Insurance Company
3075 Sanders Road
Northbrook, Illinois 60062
Attention: Commercial Mortgage Division

Address for Notices to Purchaser:

Road Bay Investments, LLC
3075 Sanders Road, Suite G5C
Northbrook, IL 60062
Attention: President

EXHIBIT A

FORM OF NOTE

[ISSUE DATE]

Road Bay Investments, LLC, a limited liability company duly organized and existing under the laws of the State of Delaware (the "Company"), for value received hereby promises to pay to [ ], or its assigns, the outstanding balance of the principal sum of [ ] in cash on [STATED MATURITY DATE] and to pay interest thereon semi-annually on the first day of April and October in each year, commencing [FIRST INTEREST DATE], at [RATE], until the principal hereof is paid in full, except that the final payment of any accrued and unpaid interest shall be concurrent with the final payment of principal. Interest will be computed on the basis of a 360-day year of twelve 30-day months. All principal and interest shall be paid at the principal corporate office of the Company or such other place, which shall be acceptable to the Company, as the holder hereof shall designate in writing to the Company, in collected and immediately available funds in lawful money of the United States of America. Principal and interest shall be payable on the terms and conditions set forth below

1. The Company covenants that if:

(a) default is made in the payment of any installment of interest on this Note when such interest becomes due and payable and such default continues for a period of 30 days,

(b) default is made in the payment of the principal of this Note when such principal becomes due and payable, or

(c) default is made in the performance of the covenant set forth in Article V, or any other part, of that certain Asset Purchase Agreement dated as of , 20 between the Company and , as it may be amended from time to time,

the Company will, upon demand by the holder of this Note, pay to it the entire outstanding principal amount of this Note, plus all accrued but unpaid interest, plus interest on such overdue principal and overdue interest at the interest rate borne by this Note; and, in addition thereof, such further amount as shall be sufficient to cover the costs and expenses of collection, including reasonable attorneys' fees.

2. Each payment made hereunder will be credited first to accrued but unpaid interest, if any, and the balance of such payment will be credited to the principal amount hereof.

3. In the event that any payment of principal or interest on this Note is scheduled to be made on a day that is not a Business Day, then such payment shall be made on the next following Business Day and no additional interest shall accrue as a result of payment on such following Business Day. For the purpose of this paragraph, "Business Day" shall mean any day that is not a Saturday, Sunday, or any other day on which banking institutions in the State of Illinois are permitted or required by any applicable law to close.

4. The Company's obligations under this Note are secured pursuant to that certain Pledge and Security Agreement dated as of , 20 between the Company and , as it may be amended from time to time.

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5. The Company may prepay this Note, in part or in full, at any time. The Company shall prepay this Note upon disposition of the asset, or any real estate related to such asset, purchased by the Company with this Note.

6. In the event the Company consolidates or merges into another entity or transfers substantially all of its assets to another entity, the entity into which the Company consolidates or merges or to which the assets of the Company are transferred must assume the liability of the Company hereunder.

7. This Note shall be construed in accordance with, and governed by, the laws of the State of Illinois.

IN WITNESS WHEREOF, the Company has caused this Note to be executed in its name and attested to by its authorized officer, all as of the date first written above.

ROAD BAY INVESTMENTS, LLC

By: ________________________
Name:
Title:

By: ________________________
Name:
Title: Authorized Signatory

Attest: ________________________

PLEDGE AND SECURITY AGREEMENT

THIS PLEDGE AND SECURITY AGREEMENT (this "Pledge Agreement") is dated as of March 24, 2011 and made by and between ROAD BAY INVESTMENTS, LLC (the "Pledgor") and ALLSTATE INSURANCE COMPANY(the "Secured Party").

W I T N E S S E T H

WHEREAS, the Secured Party and the Pledgor have entered into an Asset Purchase Agreement dated as of March 9, 2011 (the "Asset Purchase Agreement"), under which the Secured Party has agreed to sell, and the Pledgor has agreed to purchase from the Secured Party, certain Assets (as defined in the Asset Purchase Agreement); and

WHEREAS, as security for the payment and performance by the Pledgor of its obligations under the Asset Purchase Agreement, the Pledgor has agreed to grant a pledge of and security interest in the Pledgor's right, title, and interest in and to the Assets;

NOW, THEREFORE, in consideration of the premises and of the mutual covenants herein contained, the Pledgor and the Secured Party hereby agree as follows:

ARTICLE I

GRANT OF PLEDGE AND SECURITY INTEREST

Section 1.1 Grant of Security Interest. To secure the payment in full when due by the Pledgor to the Secured Party under the Asset Purchase Agreement of all amounts (including fees, charges, and expenses) which accrue and become due thereunder and the timely performance by the Pledgor of each of its other obligations thereunder (collectively, the "Secured Obligations"), the Pledgor hereby pledges and grants to the Secured Party a security interest in all of the Pledgor's right, title, and interest in, to, and under the following (collectively, the "Collateral"): (a) the Assets and all certificates or instruments evidencing the same and all proceeds thereof, all accessions thereto, and substitutions therefor; (b) all interest, distributions, and other proceeds from time to time received, receivable, or otherwise distributed to Pledgor in respect of or in exchange for any or all of the Assets; and (c) all "Proceeds" (as such term is defined in the Uniform Commercial Code as in effect in the State of Illinois or any other relevant jurisdiction (the "UCC")) of any of the foregoing.

Section 1.2 Perfection of Security Interest.

(a) The Pledgor agrees to take all other actions which may be necessary under the laws of the State of Illinois or may be requested by the Secured Party to protect and perfect the interest of the Secured Party in the Collateral created hereby and to ensure that such interest is senior in rank to the claims of any other creditor of the Pledgor claiming an interest in and to the Collateral, including the filing of UCC-1 financing statements (including any continuation statements with respect to such financing statements when applicable) identifying the Assets and naming the Pledgor as debtor and the Secured Party as secured party. The Pledgor shall deliver to the Secured Party file-stamped copies or other evidence of such filings. Notwithstanding the agreements set forth in this Section 1.2, the Pledgor hereby authorizes the Secured Party to take,

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and appoints the Secured Party as its attorney-in-fact for the purpose of taking, any action necessary under the UCC to perfect, and to maintain the perfection and priority of, the Secured Party's interest in the Collateral, including, without limitation, the filing of any such financing and continuation statements.

(b) Notwithstanding the agreements set forth in this Section 1.2, Pledgor shall not be required to file or record any mortgage or other security instrument in the event any recordation, transfer, stamp, documentary, or other fees or taxes are or would be levied on Pledgor by reason of the making or recording of any Note (as defined in the Asset Purchase Agreement) or mortgage. All such recordation, transfer, stamp, documentary, or other fees or taxes shall be the sole responsibility of Secured Party.

ARTICLE II

REPRESENTATIONS, WARRANTIES, AND COVENANTS

Section 2.1 Representations, Warranties, and Covenants as to the Pledgor. The Pledgor hereby represents, warrants, and covenants to the Secured Party:

(a) Title to Collateral. The Assets and all of the other Collateral in existence on the date hereof are, and all Assets and all of the other Collateral issued subsequent to the date hereof will be, owned by the Pledgor free and clear of any lien or encumbrance. The Pledgor has not (i) filed or consented to the filing with any governmental authority of any financing statement or analogous document under the UCC or any other applicable laws covering any Collateral, (ii) made any assignment to any other person of any interest in the Collateral, or (iii) entered into any security agreement or similar instrument or arrangement covering all or any part of the Collateral with any other person, which financing statement or analogous document, assignment, security agreement, or similar instrument is still in effect.

(b) Organization. The Pledgor is a limited liability company organized under the laws of the State of Delaware.

(c) Principal Office. The Pledgor maintains its chief executive office at 3075 Sanders Road, Northbrook, Illinois 60062.

(d) No Liens. Pledgor is as of the date hereof, and at the time of any delivery of any Collateral to the Secured Party pursuant to Article I of this Pledge Agreement, Pledgor will be, the sole legal and beneficial owner of the Collateral. All Collateral is on the date hereof, and will be, so owned by Pledgor free and clear of any lien except for the lien created by this Pledge Agreement.

(e) Due Authorization. The execution and delivery to the Secured Party of this Pledge Agreement by the Pledgor, the delivery to the Secured Party of the Assets together with any necessary endorsements, and the consummation of the transactions provided for in this Pledge Agreement have

been duly authorized by the Pledgor by all necessary corporate action on its part and this Pledge Agreement constitutes a legal, valid, and binding obligation of the Pledgor, enforceable against the Pledgor in accordance with its terms, and except in each case as enforcement may be limited by bankruptcy, insolvency, examination, suspension of payments,

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fraudulent transfer, reorganization, moratorium, and other similar laws of general applicability affecting the enforcement of creditors' rights generally, public policy, and general principles of equity (regardless of whether such proceeding is considered in a proceeding in equity or law).

(f) No Conflict. The execution and delivery of this Pledge Agreement, the delivery of the Collateral, the consummation of the transactions contemplated hereby, and the fulfillment of the terms hereof will not conflict with or result in the breach of any of the material terms and provisions of, constitute (with or without notice or lapse of time or both) a default under, or result in the creation of any lien upon any property or assets of the Pledgor pursuant to, any indenture, contract, agreement, mortgage, deed of trust, or other instrument to which the Pledgor is a party or by which it or any of its properties is bound.

(g) No Violation. The execution and delivery of this Pledge Agreement, the delivery of the Collateral, the consummation of the transactions contemplated hereby, and the fulfillment of the terms hereof will not conflict with or violate any organizational or governing documents of the Pledgor or any law, treaty, rule, or regulation, or any judgment, order, or decree, or determination of an arbitrator or governmental authority applicable to or binding upon the Pledgor.

(h) No Proceedings. There are no actions at law, suits in equity, or proceedings by or before any governmental commission, bureau, or administrative agency pending or, to the best knowledge of the Pledgor, threatened against the Pledgor or any of its assets, that would adversely affect the ability of the Pledgor to perform its obligations under this Pledge Agreement.

(i) No Authorization Required. Except for such authorizations or approvals as shall have been obtained prior to the date hereof, no authorization or approval of any governmental agency or commission or public or quasi-public body or authority with jurisdiction over the Pledgor or any of its assets is necessary for the due execution and delivery of this Pledge Agreement or for the validity or enforceability hereof.

Section 2.2 Delivery of Pledged Collateral; Filings.

Pledgor has delivered, or will deliver, to the Secured Party an appropriate UCC-1 financing statement to be filed with the Secretaries of State of the States of Delaware and Illinois, the States in which the Pledgor is organized and located, respectively, evidencing the lien created by this Pledge Agreement. Pledgor has delivered, or will deliver, to the Secured Party an appropriate mortgage or other security instrument evidencing the lien of this Pledge Agreement on any Assets constituting real property.

Section 2.3 Distributions; etc. So long as no Event of Default shall have occurred, Pledgor shall be entitled to receive and retain, and to utilize free and clear of the lien of this Pledge Agreement, any and all distributions of interest or other funds in respect of the Assets to the extent made in accordance with the provisions of the Asset Purchase Agreement.

Section 2.4 Transfers and Other Liens. Pledgor shall not (i) sell, convey, assign, or otherwise dispose of, or grant any option or right with respect to, any of the Collateral except in connection with the full and complete payment or prepayment of the Note issued in

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connection with the acquisition of the Asset or Collateral to be sold, conveyed, assigned or otherwise disposed of or (ii) create or permit to exist any lien or encumbrance upon or with respect to any Collateral, other than the lien and security interest granted to the Secured Party pursuant to this Pledge Agreement.

ARTICLE III

EVENTS OF DEFAULT; REMEDIES

Section 3.1 Events of Default. Each of the following events shall constitute an event of default (each, an "Event of Default") under this Pledge Agreement: (i) any material breach by the Pledgor of any term, provision, or covenant of the Asset Purchase Agreement; (ii) any material breach by the Pledgor of any term, provision, or covenant of this Pledge Agreement; (iii) the Secured Party ceases to have a security interest in the Collateral; or (iv) the Pledgor becomes subject to bankruptcy, insolvency, reorganization, liquidation, conservation, rehabilitation, or other similar proceedings.

Section 3.2 Remedies Upon Default.

(a) Upon the occurrence of an Event of Default, all rights of Pledgor to receive distributions which it would otherwise be authorized to receive and retain pursuant to Section 2.3 hereof shall cease and all such rights shall thereupon become vested in the Secured Party, which shall thereupon have the sole right to receive and hold as Collateral such distributions.

(b) All distributions which are received by Pledgor contrary to the provisions of paragraph (a) of this Section 3.2 shall be received in trust for the benefit of the Secured Party, shall be segregated from other funds of Pledgor and shall immediately be paid over to the Secured Party as Collateral in the same form as so received (with any necessary endorsement).

(c) If an Event of Default shall have occurred, Secured Party shall have the right, in addition to the other rights and remedies provided for herein or otherwise available to it to be exercised from time to time, (i) to retain and apply the distributions to the Secured Obligations and (ii) to exercise all the rights and remedies of a secured party on default under the UCC in effect in the State of Illinois at that time, and the Secured Party may also in its sole discretion, without notice except as specified below, sell the Collateral or any part thereof (including, without limitation, any partial interest in the Assets) in one or more parcels at public or private sale, at any exchange, broker's board, or at any of the Secured Party's offices or elsewhere, at such price or prices and upon such other terms as the Secured Party may deem commercially reasonable. Secured Party may be the purchaser of any or all of the Collateral at any

such sale and shall be entitled, for the purpose of bidding and making settlement or payment of the purchase price for all or any portion of the Collateral sold at such sale, to use and apply any of the Secured Obligations owed to it as a credit on account of the purchase price of any Collateral payable by it at such sale. Each purchaser at any such sale shall acquire the property sold absolutely free from any claim or right on the part of Pledgor, and Pledgor hereby waives, to the fullest extent permitted by law, all rights of redemption, stay, and/or appraisal which it now has, or may at any time in the future have, under any rule of law or statute now existing or

hereafter enacted. Pledgor acknowledges and agrees that five days' notice to Pledgor of the time and place of any public sale or the time after which any private sale or other intended disposition is to take place shall constitute reasonable notification of such matters. No notification need be given to Pledgor if it has signed, after the occurrence of an Event of Default, a statement renouncing or modifying any right to notification of sale or other intended disposition. The Secured Party shall not be obligated to make any sale of Collateral regardless of notice of sale having been given. The Secured Party may adjourn any public or private sale from time to time by announcement at the time and place fixed therefore, and such sale may, without further notice, be made at the time and place to which it was so adjourned. Pledgor hereby waives, to the fullest extent permitted by law, any claims against the Secured Party arising by reason of the fact that the price at which any Collateral may have been sold at such a private sale was less than the price which might have been obtained at a public sale, even if the Secured Party accepts the first offer received and does not offer such Collateral to more than one offeree. The Secured Party shall not be liable for any incorrect or improper payment made pursuant to this Section in the absence of gross negligence or willful misconduct.

(d) Pledgor recognizes that, by reason of certain prohibitions contained in the Securities Act of 1933, as amended (the "Securities Act"), and applicable state securities law, the Secured Party may be compelled, with respect to any sale of all or any part of the Collateral, to limit purchasers to persons who will agree, among other things, to acquire the Collateral for their own account, for investment and not with a view to the distribution or resale thereof. Pledgor acknowledges that any such private sales may be at prices and on terms less favorable to the Secured Party than those obtainable through a public sale without such restrictions (including, without limitation, a public offering made pursuant to a registration statement under the Securities Act), and, notwithstanding such circumstances, agrees that any such private sale shall be deemed to have been made in a commercially reasonable manner and that the Secured Party shall have no obligation to engage in public sales and no obligation to delay the sale of any Collateral for the period of time necessary to permit the issuer thereof to register it for a form of public sale requiring registration under the Securities Act or under applicable state securities laws, even if such issuer would agree to do so.

Section 3.3 Application of Proceeds. All distributions held from time to time by the Secured Party and all proceeds received by the Secured Party in respect of any sale of, collection from, or other realization upon all or any part of the Collateral pursuant to the exercise by the Secured Party of its remedies as a secured creditor as provided herein shall be applied, together with any other sums then held by the Secured Party pursuant to this Pledge Agreement, promptly by the Secured Party as follows:

First, to the payment of all costs and expenses, fees, commissions, and taxes of such sale, collection, or other realization, including, without limitation, compensation to the Secured Party and its agents and counsel, and all expenses, liabilities, and advances made or incurred by the Secured Party in connection therewith, together with interest on each such amount at the highest rate then in effect under the Asset Purchase Agreement from and after the date such amount is due, owing, or unpaid until paid in full;

Second, without duplication of amounts applied pursuant to clause First above, to the indefeasible payment in full in cash of the Secured Obligations in accordance with the terms of the Asset Purchase Agreement; and

Third, the balance, if any, to the persons lawfully entitled thereto (including Pledgor or its successors or assigns).

Section 3.4 Expenses. Pledgor will upon demand pay to the Secured Party the amount of any and all expenses, including the fees and expenses of its counsel and the fees and expenses of any experts and agents, which the Secured Party may incur in connection with (i) the collection of the Secured Obligations, (ii) the enforcement and administration of this Pledge Agreement, (iii) the custody or preservation of, or the sale of, collection from, or other realization upon, any of the Collateral, (iv) the exercise or enforcement of any of the rights of the Secured Party hereunder, or (v) the failure by Pledgor to perform or observe any of the provisions hereof. All amounts payable by Pledgor under this Section 3.4 shall be due upon demand and shall be part of the Secured Obligations. Pledgor's obligations under this Section 3.4 shall survive the termination of this Pledge Agreement and the discharge of Pledgor's other obligations hereunder.

ARTICLE IV

MISCELLANEOUS

Section 4.1 Notices. All demands, notices, instructions, and communications hereunder shall be in writing and shall be deemed to have been duly given when received. All notices or communications under this Pledge Agreement shall be addressed as follows:

Notices to Secured Party:

Allstate Insurance Company

3075 Sanders Road
Northbrook, Illinois 60062
Attention: Commercial Mortgage Division
Facsimile: 847-402-4346

Notices to Pledgor:

Road Bay Investments, LLC

3075 Sanders Road, Suite G5C
Northbrook, IL 60062
Attention: President

Section 4.2 Termination; Release. When a Note issued in connection with the acquisition of an Asset or Collateral has been paid in full, the security interest in such Asset or Collateral created by this Pledge Agreement shall be released. When all the Secured Obligations have been paid in full, this Pledge Agreement shall terminate. Upon partial release or

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termination of this Pledge Agreement, the Secured Party shall, upon the request and at the sole cost and expense of Pledgor, forthwith assign, transfer, and deliver to Pledgor, against receipt and without recourse to or warranty by the Secured Party, such of the Collateral to be released (in the case of a release) as may be in the possession of the Secured Party and as shall not have been sold or otherwise applied pursuant to the terms hereof, and, with respect to any other Collateral, proper instruments (including UCC termination statements on Form UCC-3) acknowledging the termination of this Pledge Agreement or the release of such pledged Collateral, as the case may be.

Section 4.3 Continuing Security Interest; Assignment. This Pledge Agreement shall create a continuing security interest in the Collateral and shall (i) be binding upon Pledgor, its successors, and assigns and (ii) inure, together with the rights and remedies of the Secured Party hereunder, to the benefit of the Secured Party and each of its successors, transferees, and assigns; no other persons (including, without limitation, any other creditor of Pledgor) shall have any interest herein or any right or benefit with respect hereto.

Section 4.4 Severability of Provisions. If any one or more of the covenants, agreements, provisions, or terms of this Pledge Agreement shall for any reason whatsoever be held invalid, then such covenants, agreements, provisions, or terms shall be deemed severable from the remaining covenants, agreements, provisions, or terms of this Pledge Agreement and shall in no way affect the validity or enforceability of the other provisions of this Pledge Agreement.

Section 4.5 Further Assurances. The Pledgor agrees to do and perform, from time to time, any and all acts and to execute any and all further instruments required or reasonably requested by the Secured Party to maintain the perfection and the priority of the Secured Party’s interest and to effect more fully the purposes of this Pledge Agreement.

Section 4.6 No Waiver; Cumulative Remedies. No failure to exercise and no delay in exercising, on the part of the Secured Party, any right, remedy, power, or privilege hereunder, shall operate as a waiver thereof; nor shall any single or partial exercise of any right, remedy, power, or privilege hereunder preclude any other or further exercise thereof or the exercise of any other right, remedy, power, or privilege. The rights, remedies, powers, and privileges herein provided are cumulative and not exhaustive of any rights, remedies, powers, and privileges provided by law.

Section 4.7 Amendment. This Pledge Agreement may not be modified, amended, waived, or supplemented except by a writing signed by each of the parties hereto.

Section 4.8 Headings. The headings herein are for purposes of reference only and shall not otherwise affect the meaning or interpretation of any provision hereof.

Section 4.9 **GOVERNING LAW. THIS PLEDGE AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LOCAL LAWS OF THE STATE OF ILLINOIS, WITHOUT REGARD TO ITS PRINCIPLES OF CHOICE OF LAW.**

Section 4.10 Submission to Jurisdiction. Pledgor hereby irrevocably submits to the jurisdiction of the federal and state courts of competent jurisdiction in the State of Illinois in any suit or proceeding arising out of this Pledge Agreement or the transactions contemplated hereby, agrees to be bound by any judgment rendered by such courts in connection with this Pledge Agreement, and waives any and all objections to jurisdiction that it may have under the laws of Illinois or any other jurisdiction.

IN WITNESS WHEREOF, the undersigned have caused this Pledge Agreement to be duly executed and delivered by their respective duly authorized officers as of the day and year first above written.

ROAD BAY INVESTMENTS, LLC

By: ______________________________
Name:
Title: Authorized Signatory

By: ______________________________
Name:
Title: Authorized Signatory

ALLSTATE INSURANCE COMPANY

By: ____________________
Name:
Title: Authorized Signatory

By: ____________________
Name:
Title: Authorized Signatory

EXHIBIT 15

Allstate Life Insurance Company
3100 Sanders Road
Northbrook, IL 60062

We have reviewed, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the unaudited interim financial information of Allstate Life Insurance Company and subsidiaries for the three-month periods ended March 31, 2011 and 2010, as indicated in our report dated May 4, 2011; because we did not perform an audit, we expressed no opinion on that information.

We are aware that our report referred to above, which is included in your Quarterly Report on Form 10-Q for the quarter ended March 31, 2011, 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
May 4, 2011

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.

May 4, 2011

/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.

May 4, 2011

/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 March 31, 2011 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.

May 4, 2011

/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