

ALLSTATE CORP
Form 10-Q
August 01, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2011

OR

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

For the transition period from _____ to _____

Commission file number 1-11840

THE ALLSTATE CORPORATION

(Exact name of registrant as specified in its charter)

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Delaware
(State or other jurisdiction of incorporation or organization)

36-3871531
(I.R.S. Employer Identification No.)

2775 Sanders Road, Northbrook, Illinois 60062
(Address of principal executive offices) (Zip Code)

(847) 402-5000

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

As of July 20, 2011, the registrant had 516,608,362 common shares, \$.01 par value, outstanding.

THE ALLSTATE CORPORATION

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June 30, 2011

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

THE ALLSTATE CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(\$ in millions, except per share data)	Three Months Ended			Six Months Ended				
	June 30,			June 30,				
	2011	(unaudited)	2010	2011	(unaudited)	2010		
Revenues								
Property-liability insurance premiums	\$	6,457	\$	6,513	\$	12,905	\$	13,016
Life and annuity premiums and contract charges		547		545		1,116		1,089
Net investment income		1,020		1,049		2,002		2,099
Realized capital gains and losses:								
Total other-than-temporary impairment losses		(82)		(288)		(238)		(538)
Portion of loss recognized in other comprehensive income		(4)		(18)		(31)		(23)
Net other-than-temporary impairment losses recognized in earnings		(86)		(306)		(269)		(561)
Sales and other realized capital gains and losses		143		(145)		422		(238)
Total realized capital gains and losses		57		(451)		153		(799)
		8,081		7,656		16,176		15,405
Costs and expenses								
Property-liability insurance claims and claims expense		6,355		4,714		10,831		9,506
Life and annuity contract benefits		422		485		876		927
Interest credited to contractholder funds		417		450		835		913
Amortization of deferred policy acquisition costs		1,018		949		2,069		1,963
Operating costs and expenses		802		789		1,640		1,618
Restructuring and related charges		11		13		20		24
Interest expense		91		92		183		184
		9,116		7,492		16,454		15,135
Gain (loss) on disposition of operations		6		2		(17)		3
(Loss) income from operations before income tax (benefit) expense		(1,029)		166		(295)		273
Income tax (benefit) expense		(409)		21		(194)		8
Net (loss) income	\$	(620)	\$	145	\$	(101)	\$	265
Earnings per share:								
Net (loss) income per share - Basic	\$	(1.19)	\$	0.27	\$	(0.19)	\$	0.49
Weighted average shares - Basic		523.1		540.7		528.2		540.4
Net (loss) income per share - Diluted	\$	(1.19)	\$	0.27	\$	(0.19)	\$	0.49
Weighted average shares - Diluted		523.1		543.0		528.2		542.4
Cash dividends declared per share	\$	0.21	\$	0.20	\$	0.42	\$	0.40

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See notes to condensed consolidated financial statements.

THE ALLSTATE CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(\$ in millions, except par value data)	June 30, 2011 (unaudited)	December 31, 2010
Assets		
Investments		
Fixed income securities, at fair value (amortized cost \$76,502 and \$78,786)	\$ 78,414	\$ 79,612
Equity securities, at fair value (cost \$4,329 and \$4,228)	4,954	4,811
Mortgage loans	6,827	6,679
Limited partnership interests	4,400	3,816
Short-term, at fair value (amortized cost \$2,536 and \$3,279)	2,536	3,279
Other	2,158	2,286
Total investments	99,289	100,483
Cash	693	562
Premium installment receivables, net	4,869	4,839
Deferred policy acquisition costs	4,572	4,769
Reinsurance recoverables, net	6,446	6,552
Accrued investment income	875	809
Deferred income taxes	525	784
Property and equipment, net	914	921
Goodwill	874	874
Other assets	1,791	1,605
Separate Accounts	8,175	8,676
Total assets	\$ 129,023	\$ 130,874
Liabilities		
Reserve for property-liability insurance claims and claims expense	\$ 20,456	\$ 19,468
Reserve for life-contingent contract benefits	13,787	13,482
Contractholder funds	45,078	48,195
Unearned premiums	9,727	9,800
Claim payments outstanding	948	737
Other liabilities and accrued expenses	6,152	5,564
Long-term debt	5,907	5,908
Separate Accounts	8,175	8,676
Total liabilities	110,230	111,830
Commitments and Contingent Liabilities (Note 10)		
Equity		
Preferred stock, \$1 par value, 25 million shares authorized, none issued	--	--
Common stock, \$.01 par value, 2.0 billion shares authorized and 900 million issued, 517 million and 533 million shares outstanding	9	9
Additional capital paid-in	3,165	3,176
Retained income	31,647	31,969
Deferred ESOP expense	(43)	(44)
Treasury stock, at cost (383 million and 367 million shares)	(16,387)	(15,910)
Accumulated other comprehensive income:		
Unrealized net capital gains and losses:		
Unrealized net capital losses on fixed income securities with OTTI	(156)	(190)
Other unrealized net capital gains and losses	1,783	1,089
Unrealized adjustment to DAC, DSI and insurance reserves	(181)	36
Total unrealized net capital gains and losses	1,446	935
Unrealized foreign currency translation adjustments	83	69
Unrecognized pension and other postretirement benefit cost	(1,156)	(1,188)
Total accumulated other comprehensive income (loss)	373	(184)
Total shareholders' equity	18,764	19,016
Noncontrolling interest	29	28
Total equity	18,793	19,044
Total liabilities and equity	\$ 129,023	\$ 130,874

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See notes to condensed consolidated financial statements.

THE ALLSTATE CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(\$ in millions)	Six Months Ended June 30,	
	2011	2010
		(unaudited)
Cash flows from operating activities		
Net (loss) income	\$ (101)	\$ 265
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation, amortization and other non-cash items	89	26
Realized capital gains and losses	(153)	799
Loss (gain) on disposition of operations	17	(3)
Interest credited to contractholder funds	835	913
Changes in:		
Policy benefits and other insurance reserves	665	306
Unearned premiums	(87)	(135)
Deferred policy acquisition costs	57	(70)
Premium installment receivables, net	(22)	9
Reinsurance recoverables, net	(40)	(206)
Income taxes	(226)	74
Other operating assets and liabilities	226	116
Net cash provided by operating activities	1,260	2,094
Cash flows from investing activities		
Proceeds from sales		
Fixed income securities	14,140	9,114
Equity securities	854	3,046
Limited partnership interests	335	278
Mortgage loans	65	44
Other investments	109	62
Investment collections		
Fixed income securities	2,385	2,391
Mortgage loans	308	638
Other investments	92	44
Investment purchases		
Fixed income securities	(13,934)	(11,900)
Equity securities	(781)	(1,501)
Limited partnership interests	(765)	(616)
Mortgage loans	(536)	(10)
Other investments	(146)	(79)
Change in short-term investments, net	1,166	439
Change in other investments, net	(170)	(128)
Purchases of property and equipment, net	(106)	(69)
Disposition of operations	(1)	--
Net cash provided by investing activities	3,015	1,753
Cash flows from financing activities		
Repayment of long-term debt	(1)	(1)
Contractholder fund deposits	1,120	1,567
Contractholder fund withdrawals	(4,508)	(5,112)
Dividends paid	(218)	(215)
Treasury stock purchases	(544)	(5)
Shares reissued under equity incentive plans, net	17	25
Excess tax benefits on share-based payment arrangements	(3)	(4)
Other	(7)	(3)

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Net cash used in financing activities	(4,144)	(3,748)
Net increase in cash	131	99
Cash at beginning of period	562	612
Cash at end of period	\$ 693	\$ 711

See notes to condensed consolidated financial statements.

THE ALLSTATE CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. General

Basis of presentation

The accompanying condensed consolidated financial statements include the accounts of The Allstate Corporation and its wholly owned subsidiaries, primarily Allstate Insurance Company (AIC), a property-liability insurance company with various property-liability and life and investment subsidiaries, including Allstate Life Insurance Company (ALIC) (collectively referred to as the Company or Allstate).

The condensed consolidated financial statements and notes as of June 30, 2011, and for the three-month and six-month periods ended June 30, 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.

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 pro forma 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

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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.

Criteria for Determining Effective Control for Repurchase Agreements

In April 2011, the FASB issued guidance modifying the assessment criteria of effective control for repurchase agreements. The new guidance removes the criterion requiring an entity to have the ability to repurchase or redeem financial assets on substantially the agreed terms and the collateral maintenance implementation guidance related to that criterion. The guidance is to be applied prospectively to transactions or modifications of existing transactions that occur during reporting periods beginning on or after December 15, 2011. Early adoption is not permitted. The impact of adoption is not expected to be material to the Company's results of operations and financial position.

Amendments to Fair Value Measurement and Disclosure Requirements

In May 2011, the FASB issued guidance that clarifies the application of existing fair value measurement and disclosure requirements and amends certain fair value measurement principles, requirements and disclosures. To improve consistency in global application, changes in wording were made. The guidance is to be applied prospectively for reporting periods beginning after December 15, 2011. Early adoption is not permitted. The impact of adoption is not expected to be material to the Company's results of operations and financial position.

Presentation of Comprehensive Income

In June 2011, the FASB issued guidance amending the presentation of comprehensive income and its components. Under the new guidance, an entity has the option to present comprehensive income in a single continuous statement or in two separate but consecutive statements. Both options require an entity to present reclassification adjustments for items reclassified from other comprehensive income to net income in the statement(s) where the components of net income and the components of comprehensive income are presented. The guidance is effective for reporting periods beginning after December 15, 2011 and is to be applied retrospectively. Early adoption is permitted. The impact of adoption is related to presentation only and will have no impact on the Company's results of operations and financial position.

2. Earnings per share

Basic earnings per share is computed using the weighted average number of common shares outstanding, including unvested participating restricted stock units. Diluted earnings per share is computed using the weighted average number of common and dilutive potential common shares outstanding. For the Company, dilutive potential common shares consist of outstanding stock options and unvested non-participating restricted stock units.

The computation of basic and diluted earnings per share is presented in the following table.

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(\$ in millions, except per share data)	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
Numerator:				
Net (loss) income	\$ (620)	\$ 145	\$ (101)	\$ 265
Denominator:				
Weighted average common shares outstanding	523.1	540.7	528.2	540.4
Effect of dilutive potential common shares:				
Stock options	--	2.1	--	2.0
Restricted stock units (non-participating)	--	0.2	--	--
Weighted average common and dilutive potential common shares outstanding	523.1	543.0	528.2	542.4
Earnings per share - Basic	\$ (1.19)	\$ 0.27	\$ (0.19)	\$ 0.49
Earnings per share - Diluted	\$ (1.19)	\$ 0.27	\$ (0.19)	\$ 0.49

As a result of the net loss for the three-month and six-month periods ended June 30, 2011, weighted average dilutive potential common shares outstanding resulting from 2.1 million stock options and 0.5 million restricted stock options (non-participating) in both periods were not included in the computation of diluted earnings per share since inclusion of these securities would have an anti-dilutive effect. In the absence of the net loss, weighted

average common and dilutive potential common shares would have totaled 525.7 million and 530.8 million for the three-month and six-month periods ended June 30, 2011, respectively.

The effect of dilutive potential common shares does not include the effect of options with an anti-dilutive effect on earnings per share because their exercise prices exceed the average market price of Allstate common shares during the period or for which the unrecognized compensation cost would have an anti-dilutive effect. Options to purchase 28.3 million and 27.7 million Allstate common shares, with exercise prices ranging from \$27.36 to \$62.84 and \$28.52 to \$62.84, were outstanding for the three-month periods ended June 30, 2011 and 2010, respectively, but were not included in the computation of diluted earnings per share in those periods. Options to purchase 28.4 million and 26.1 million Allstate common shares, with exercise prices ranging from \$27.36 to \$62.84 and \$27.36 to \$64.53, were outstanding for the six-month periods ended June 30, 2011 and 2010, respectively, but were not included in the computation of diluted earnings per share in those periods.

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 \$513 million and \$353 million for the six months ended June 30, 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 are as follows:

(\$ in millions)	Six months ended	
	June 30,	
	2011	2010
Net change in proceeds managed		
Net change in short-term investments	\$ (421)	\$ 211
Operating cash flow (used) provided	(421)	211
Net change in cash	(2)	2
Net change in proceeds managed	\$ (423)	\$ 213
Net change in liabilities		
Liabilities for collateral, beginning of year	\$ (484)	\$ (658)
Liabilities for collateral, end of period	(907)	(445)
Operating cash flow provided (used)	\$ 423	\$ (213)

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		Fair value
		Gains	Losses		
June 30, 2011					
U.S. government and agencies	\$ 5,872	\$ 318	\$ (3)	\$	6,187
Municipal	14,557	491	(375)		14,673
Corporate	40,610	2,014	(255)		42,369
Foreign government	2,720	327	(4)		3,043
Residential mortgage-backed securities (RMBS)	6,356	203	(569)		5,990
Commercial mortgage-backed securities (CMBS)	2,083	57	(154)		1,986
Asset-backed securities (ABS)	4,281	95	(234)		4,142
Redeemable preferred stock	23	1	--		24
Total fixed income securities	\$ 76,502	\$ 3,506	\$ (1,594)	\$	78,414
December 31, 2010					
U.S. government and agencies	\$ 8,320	\$ 327	\$ (51)	\$	8,596
Municipal	16,201	379	(646)		15,934
Corporate	36,260	1,816	(421)		37,655
Foreign government	2,821	347	(10)		3,158
RMBS	8,509	216	(732)		7,993
CMBS	2,213	58	(277)		1,994
ABS	4,425	113	(294)		4,244
Redeemable preferred stock	37	1	--		38
Total fixed income securities	\$ 78,786	\$ 3,257	\$ (2,431)	\$	79,612

Scheduled maturities

The scheduled maturities for fixed income securities are as follows as of June 30, 2011:

(\$ in millions)	Amortized cost	Fair value
Due in one year or less	\$ 2,921	\$ 2,965
Due after one year through five years	24,089	25,112
Due after five years through ten years	19,237	20,311

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Due after ten years	19,618	19,894
	65,865	68,282
RMBS and ABS	10,637	10,132
Total	\$ 76,502	\$ 78,414

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

Net investment income

Net investment income is as follows:

(\$ in millions)	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
Fixed income securities	\$ 899	\$ 955	\$ 1,799	\$ 1,914
Equity securities	34	25	53	46
Mortgage loans	87	99	176	203
Limited partnership interests	18	7	28	13
Short-term investments	1	2	3	4
Other	26	6	37	7
Investment income, before expense	1,065	1,094	2,096	2,187
Investment expense	(45)	(45)	(94)	(88)
Net investment income	\$ 1,020	\$ 1,049	\$ 2,002	\$ 2,099

Realized capital gains and losses

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

(\$ in millions)	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
Fixed income securities	\$ 39	\$ (188)	\$ 12	\$ (324)
Equity securities	15	45	137	59
Mortgage loans	(3)	(28)	(9)	(53)
Limited partnership interests	53	26	121	5
Derivatives	(53)	(308)	(120)	(493)
Other	6	2	12	7
Realized capital gains and losses	\$ 57	\$ (451)	\$ 153	\$ (799)

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

(\$ in millions)	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
Impairment write-downs	\$ (70)	\$ (239)	\$ (184)	\$ (462)
Change in intent write-downs	(16)	(67)	(85)	(99)
Net other-than-temporary impairment losses recognized in earnings	(86)	(306)	(269)	(561)
Sales	141	145	424	233
Valuation of derivative instruments	(50)	(283)	(28)	(438)
Settlements of derivative instruments	(3)	(27)	(92)	(57)

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Equity method of accounting (EMA) limited partnership income	55	20	118	24
Realized capital gains and losses	\$ 57	\$ (451)	\$ 153	\$ (799)

Gross gains of \$177 million and \$144 million and gross losses of \$98 million and \$113 million were realized on sales of fixed income securities during the three months ended June 30, 2011 and 2010, respectively. Gross gains of \$388 million and \$286 million and gross losses of \$186 million and \$187 million were realized on sales of fixed income securities during the six months ended June 30, 2011 and 2010, respectively.

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

(\$ in millions)	Three months ended June 30, 2011			Six months ended June 30, 2011		
	Gross	Included in OCI	Net	Gross	Included in OCI	Net
Fixed income securities:						
Municipal	\$ (15)	\$ (1)	\$ (16)	\$ (42)	\$ (3)	\$ (45)
Corporate	--	--	--	(5)	1	(4)
Foreign government	--	--	--	(1)	--	(1)
RMBS	(35)	--	(35)	(107)	(25)	(132)
CMBS	(10)	(3)	(13)	(26)	(7)	(33)
ABS	--	--	--	(7)	3	(4)
Total fixed income securities	(60)	(4)	(64)	(188)	(31)	(219)
Equity securities	(13)	--	(13)	(33)	--	(33)
Mortgage loans	(7)	--	(7)	(13)	--	(13)
Limited partnership interests	(1)	--	(1)	(2)	--	(2)
Other	(1)	--	(1)	(2)	--	(2)
Other-than-temporary impairment losses	\$ (82)	\$ (4)	\$ (86)	\$ (238)	\$ (31)	\$ (269)

(\$ in millions)	Three months ended June 30, 2010			Six months ended June 30, 2010		
	Gross	Included in OCI	Net	Gross	Included in OCI	Net
Fixed income securities:						
Municipal	\$ (68)	\$ 4	\$ (64)	\$ (105)	\$ 4	\$ (101)
Corporate	(6)	(1)	(7)	(53)	2	(51)
RMBS	(124)	5	(119)	(212)	(2)	(214)
CMBS	(17)	(11)	(28)	(43)	(11)	(54)
ABS	(6)	(15)	(21)	(9)	(16)	(25)
Total fixed income securities	(221)	(18)	(239)	(422)	(23)	(445)
Equity securities	(31)	--	(31)	(37)	--	(37)
Mortgage loans	(28)	--	(28)	(47)	--	(47)
Limited partnership interests	(8)	--	(8)	(32)	--	(32)
Other-than-temporary impairment losses	\$ (288)	\$ (18)	\$ (306)	\$ (538)	\$ (23)	\$ (561)

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 \$249 million and \$322 million as of June 30, 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)	June 30, 2011	December 31, 2010
Municipal	\$ (13)	\$ (27)
Corporate	(32)	(31)
RMBS	(411)	(467)
CMBS	(11)	(49)
ABS	(22)	(41)
Total	\$ (489)	\$ (615)

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

(\$ in millions)	Three months ended		Six months ended	
	June 30,		June 30,	
	2011	2010	2011	2010
Beginning balance	\$ (963)	\$ (1,236)	\$ (1,046)	\$ (1,187)
Additional credit loss for securities previously other-than-temporarily impaired	(31)	(101)	(90)	(180)
Additional credit loss for securities not previously other-than-temporarily impaired	(17)	(71)	(44)	(172)
Reduction in credit loss for securities disposed or collected	94	95	247	226
Reduction in credit loss for securities the Company has made the decision to sell or more likely than not will be required to sell	--	1	15	1
Change in credit loss due to accretion of increase in cash flows	5	3	6	3
Ending balance	\$ (912)	\$ (1,309)	\$ (912)	\$ (1,309)

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)
June 30, 2011		Gains	Losses	
Fixed income securities	\$ 78,414	\$ 3,506	\$ (1,594)	\$ 1,912
Equity securities	4,954	705	(80)	625
Short-term investments	2,536	--	--	--
Derivative instruments (1)	(31)	--	(36)	(36)
EMA limited partnership interests (2)				7
Unrealized net capital gains and losses, pre-tax				2,508
Amounts recognized for:				
Insurance reserves (3)				(217)
DAC and DSI (4)				(61)
Amounts recognized				(278)
Deferred income taxes				(784)
Unrealized net capital gains and losses, after-tax				\$ 1,446

(1) Included in the fair value of derivative instruments are \$(5) million classified as assets and \$26 million classified as liabilities.

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

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

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

December 31, 2010	Fair value	Gross unrealized		Unrealized net gains (losses)
		Gains	Losses	
Fixed income securities	\$ 79,612	\$ 3,257	\$ (2,431)	\$ 826
Equity securities	4,811	646	(63)	583
Short-term investments	3,279	--	--	--
Derivative instruments (1)	(17)	2	(24)	(22)
Unrealized net capital gains and losses, pre-tax				1,387
Amounts recognized for:				
Insurance reserves				(41)
DAC and DSI				97
Amounts recognized				56
Deferred income taxes				(508)
Unrealized net capital gains and losses, after-tax				\$ 935

(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 six months ended June 30, 2011 is as follows:

(\$ in millions)

Fixed income securities	\$	1,086
Equity securities		42
Derivative instruments		(14)
EMA limited partnership interests		7
Total		1,121
Amounts recognized for:		
Insurance reserves		(176)
DAC and DSI		(158)
Amounts recognized		(334)
Deferred income taxes		(276)
Increase in unrealized net capital gains and losses	\$	511

Portfolio monitoring

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

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

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

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

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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.

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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 unrealized losses
	Number of issues	Fair value	Unrealized losses	Number of issues	Fair value	Unrealized losses	
June 30, 2011							
Fixed income securities							
U.S. government and agencies	9	\$ 198	\$ (3)	--	\$ --	\$ --	\$ (3)
Municipal	417	1,985	(75)	357	2,222	(300)	(375)
Corporate	385	4,980	(95)	113	1,552	(160)	(255)
Foreign government	25	114	(4)	--	--	--	(4)
RMBS	120	368	(12)	296	1,338	(557)	(569)
CMBS	29	314	(16)	75	609	(138)	(154)
ABS	30	441	(5)	121	1,235	(229)	(234)
Total fixed income securities	1,015	8,400	(210)	962	6,956	(1,384)	(1,594)
Equity securities	895	666	(60)	87	73	(20)	(80)
Total fixed income and equity securities	1,910	\$ 9,066	\$ (270)	1,049	\$ 7,029	\$ (1,404)	\$ (1,674)
Investment grade fixed income securities	836	\$ 6,786	\$ (156)	618	\$ 4,665	\$ (607)	\$ (763)
Below investment grade fixed income securities	179	1,614	(54)	344	2,291	(777)	(831)
Total fixed income securities	1,015	\$ 8,400	\$ (210)	962	\$ 6,956	\$ (1,384)	\$ (1,594)
December 31, 2010							
Fixed income securities							
U.S. government and agencies	32	\$ 2,081	\$ (51)	--	\$ --	\$ --	\$ (51)
Municipal	847	4,130	(175)	411	2,715	(471)	(646)
Corporate	438	5,994	(186)	150	1,992	(235)	(421)
Foreign government	33	277	(9)	1	10	(1)	(10)
RMBS	280	583	(12)	422	1,939	(720)	(732)
CMBS	14	158	(3)	114	835	(274)	(277)
ABS	68	762	(8)	133	1,313	(286)	(294)
Total fixed income securities	1,712	13,985	(444)	1,231	8,804	(1,987)	(2,431)
Equity securities	773	610	(48)	44	91	(15)	(63)
Total fixed income and equity securities	2,485	\$ 14,595	\$ (492)	1,275	\$ 8,895	\$ (2,002)	\$ (2,494)
Investment grade fixed income securities	1,607	\$ 13,280	\$ (408)	857	\$ 6,217	\$ (943)	\$ (1,351)
Below investment grade fixed income securities	105	705	(36)	374	2,587	(1,044)	(1,080)
Total fixed income securities	1,712	\$ 13,985	\$ (444)	1,231	\$ 8,804	\$ (1,987)	\$ (2,431)

As of June 30, 2011, \$750 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 \$750 million, \$532 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 June 30, 2011, the remaining \$924 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 \$231 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 \$924 million, \$660 million are related to below investment grade

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fixed income securities and \$33 million are related to equity securities. Of these amounts, \$542 million of the below investment grade fixed income securities had been in an unrealized loss position greater than or equal to 20% of amortized cost for a period of twelve or more consecutive months as of June 30, 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 June 30, 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 June 30, 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 June 30, 2011 and December 31, 2010, the carrying value of equity method limited partnership interests totaled \$2.99 billion and \$2.47 billion, 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 and six months ended June 30, 2011 and \$1 million for the three months and six months ended June 30, 2010.

As of June 30, 2011 and December 31, 2010, the carrying value for cost method limited partnership interests was \$1.41 billion and \$1.35 billion, respectively. To determine if an other-than-temporary impairment has occurred, the Company evaluates whether an impairment indicator has occurred in the period that may have a significant adverse effect on the carrying value of the investment. Impairment indicators may include: significantly reduced valuations of the investments held by the limited partnerships; actual recent cash flows received being significantly less than expected cash flows; reduced valuations based on financing completed at a lower value; completed sale of a material underlying investment at a price significantly lower than expected; or any other adverse events since the last financial statements received that might affect the fair value of the investee's capital. Additionally, the Company's portfolio monitoring process includes a quarterly review of all cost method limited partnerships to identify instances where the net asset value is below established thresholds for certain periods of time, as well as investments that are performing below expectations, for further impairment consideration. If a cost method limited partnership is other-than-temporarily impaired, the carrying value is written down to fair value, generally estimated to be equivalent to the reported net asset value of the underlying funds. The Company had write-downs related to cost method investments of \$1 million and \$7 million for the three months ended June 30, 2011 and 2010, respectively, and \$2 million and \$31 million for the six months ended June 30, 2011 and 2010, respectively.

Mortgage loans

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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 June 30, 2011.

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

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

(\$ in millions)	June 30, 2011			December 31, 2010		
	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	\$ 327	\$ --	\$ 327	\$ 280	\$ --	\$ 280
1.0 - 1.25	1,622	--	1,622	1,583	16	1,599
1.26 - 1.50	1,672	26	1,698	1,520	5	1,525
Above 1.50	2,740	266	3,006	2,540	546	3,086
Total non-impaired mortgage loans	\$ 6,361	\$ 292	\$ 6,653	\$ 5,923	\$ 567	\$ 6,490

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)	June 30, 2011	December 31, 2010
Impaired mortgage loans with a valuation allowance	\$ 153	\$ 168
Impaired mortgage loans without a valuation allowance	21	21
Total impaired mortgage loans	\$ 174	\$ 189
Valuation allowance on impaired mortgage loans	\$ 68	\$ 84

The average balance of impaired loans was \$178 million during the six months ended June 30, 2011.

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

(\$ in millions)	Three months ended June 30, 2011	Six months ended June 30, 2011
Beginning balance	\$ 77	\$ 84
Net increase in valuation allowance	7	13

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Charge offs		(16)		(29)
Ending balance	\$	68	\$	68

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

(\$ in millions)		June 30, 2011		December 31, 2010
Less than 90 days past due	\$	27	\$	12
90 days or greater past due		48		78
Total past due		75		90
Current loans		6,752		6,589
Total mortgage loans	\$	6,827	\$	6,679

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

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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

Level 1 measurements

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

Level 2 measurements

- Fixed income securities:

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

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

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

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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.

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

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

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

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

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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.

The following table summarizes the Company's assets and liabilities measured at fair value on a recurring and non-recurring basis as of June 30, 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 June 30, 2011
Assets					
Fixed income securities:					
U.S. government and agencies	\$ 4,298	\$ 1,889	\$ --		\$ 6,187
Municipal	--	13,119	1,554		14,673
Corporate	--	40,649	1,720		42,369
Foreign government	--	3,043	--		3,043
RMBS	--	4,796	1,194		5,990
CMBS	--	1,048	938		1,986
ABS	--	1,975	2,167		4,142
Redeemable preferred stock	--	23	1		24
Total fixed income securities	4,298	66,542	7,574		78,414
Equity securities	4,248	664	42		4,954
Short-term investments	271	2,265	--		2,536
Other investments:					
Free-standing derivatives	--	425	22	\$ (99)	348
Separate account assets	8,175	--	--		8,175
Other assets	2	--	1		3
Total recurring basis assets	16,994	69,896	7,639	(99)	94,430
Non-recurring basis (1)	--	--	62		62
Total assets at fair value	\$ 16,994	\$ 69,896	\$ 7,701	\$ (99)	\$ 94,492
% of total assets at fair value	18.0 %	74.0 %	8.1 %	(0.1) %	100.0 %
Liabilities					
Contractholder funds:					
Derivatives embedded in life and annuity contracts	\$ --	\$ --	\$ (629)		\$ (629)
Other liabilities:					
Free-standing derivatives	--	(217)	(78)	\$ 95	(200)
Total liabilities at fair value	\$ --	\$ (217)	\$ (707)	\$ 95	\$ (829)
% of total liabilities at fair value	-- %	26.2 %	85.3 %	(11.5) %	100.0 %

(1) Includes \$50 million of mortgage loans, \$1 million of limited partnership interests and \$11 million of other investments written-down to fair value in connection with recognizing other-than-temporary impairments.

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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	\$ 4,976	\$ 3,620	\$ --		\$ 8,596
Municipal	--	13,918	2,016		15,934
Corporate	--	35,747	1,908		37,655
Foreign government	--	3,158	--		3,158
RMBS	--	6,199	1,794		7,993
CMBS	--	1,071	923		1,994
ABS	--	1,827	2,417		4,244
Redeemable preferred stock	--	37	1		38
Total fixed income securities	4,976	65,577	9,059		79,612
Equity securities	4,316	432	63		4,811
Short-term investments	174	3,105	--		3,279
Other investments:					
Free-standing derivatives	--	651	74	\$ (286)	439
Separate account assets	8,676	--	--		8,676
Other assets	--	--	1		1
Total recurring basis assets	18,142	69,765	9,197	(286)	96,818
Non-recurring basis (1)	--	--	120		120
Total assets at fair value	\$ 18,142	\$ 69,765	\$ 9,317	\$ (286)	\$ 96,938
% of total assets at fair value	18.7 %	72.0 %	9.6 %	(0.3) %	100.0 %
Liabilities					
Contractholder funds:					
Derivatives embedded in life and annuity contracts	\$ --	\$ --	\$ (653)		\$ (653)
Other liabilities:					
Free-standing derivatives	(2)	(529)	(95)	\$ 263	(363)
Total liabilities at fair value	\$ (2)	\$ (529)	\$ (748)	\$ 263	\$ (1,016)
% of total liabilities at fair value	0.2 %	52.1 %	73.6 %	(25.9) %	100.0 %

(1) Includes \$111 million of mortgage loans and \$9 million of limited partnership interests written-down to fair value in connection with recognizing other-than-temporary impairments.

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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 June 30, 2011.

(\$ in millions)	Total realized and unrealized gains (losses) included in:				
	Balance as of March 31, 2011	Net income (1)	OCI on Statement of Financial Position	Transfers into Level 3	Transfers out of Level 3
Assets					
Fixed income securities:					
Municipal	\$ 1,864	\$ (13)	\$ 45	\$ --	\$ (22)
Corporate	2,035	23	8	87	(117)
RMBS	1,398	(26)	1	--	(68)
CMBS	995	(21)	4	10	(10)
ABS	2,091	11	12	--	(9)
Redeemable preferred stock	1	--	--	--	--
Total fixed income securities	8,384	(26)	70	97	(226)
Equity securities	43	--	--	--	--
Other investments:					
Free-standing derivatives, net	(71)	(3)	--	--	--
Other assets	1	--	--	--	--
Total recurring Level 3 assets	\$ 8,357	\$ (29)	\$ 70	\$ 97	\$ (226)
Liabilities					
Contractholder funds:					
Derivatives embedded in life and annuity contracts	\$ (630)	\$ (34)	\$ --	\$ --	\$ --
Total recurring Level 3 liabilities	\$ (630)	\$ (34)	\$ --	\$ --	\$ --
	Purchases	Sales	Issuances	Settlements	Balance as of June 30, 2011
Assets					
Fixed income securities:					
Municipal	\$ 3	\$ (321)	\$ --	\$ (2)	\$ 1,554
Corporate	35	(347)	--	(4)	1,720
RMBS	--	(60)	--	(51)	1,194
CMBS	2	(41)	--	(1)	938
ABS	213	(49)	--	(102)	2,167
Redeemable preferred stock	--	--	--	--	1
Total fixed income securities	253	(818)	--	(160)	7,574
Equity securities	--	(1)	--	--	42
Other investments:					
Free-standing derivatives, net	19	--	--	(1)	(56)(2)
Other assets	--	--	--	--	1
Total recurring Level 3 assets	\$ 272	\$ (819)	\$ --	\$ (161)	\$ 7,561
Liabilities					
Contractholder funds:					
Derivatives embedded in life and annuity contracts	\$ --	\$ --	\$ (13)	\$ 48	\$ (629)
Total recurring Level 3 liabilities	\$ --	\$ --	\$ (13)	\$ 48	\$ (629)

(1) The effect to net income totals \$(63) million and is reported in the Condensed Consolidated Statements of Operations as follows: \$(38) million in realized capital gains and losses, \$9 million in net investment income, \$(26) million in interest credited to contractholder funds and \$(8) million in life and annuity contract benefits.

(2) Comprises \$22 million of assets and \$78 million of liabilities.

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The following table presents the rollforward of Level 3 assets and liabilities held at fair value on a recurring basis during the six months ended June 30, 2011.

(\$ in millions)	Total realized and unrealized gains (losses) included in:				
	Balance as of December 31, 2010	Net income (1)	OCI on Statement of Financial Position	Transfers into Level 3	Transfers out of Level 3
Assets					
Fixed income securities:					
Municipal	\$ 2,016	\$ (24)	\$ 66	\$ --	\$ (59)
Corporate	1,908	35	18	182	(164)
RMBS	1,794	(87)	106	--	(113)
CMBS	923	(42)	118	66	(69)
ABS	2,417	55	28	--	(313)
Redeemable preferred stock	1	--	--	--	--
Total fixed income securities	9,059	(63)	336	248	(718)
Equity securities	63	(10)	--	--	(10)
Other investments:					
Free-standing derivatives, net	(21)	(34)	--	--	--
Other assets	1	--	--	--	--
Total recurring Level 3 assets	\$ 9,102	\$ (107)	\$ 336	\$ 248	\$ (728)
Liabilities					
Contractholder funds:					
Derivatives embedded in life and annuity contracts	\$ (653)	\$ (26)	\$ --	\$ --	\$ --
Total recurring Level 3 liabilities	\$ (653)	\$ (26)	\$ --	\$ --	\$ --
	Purchases	Sales	Issuances	Settlements	Balance as of June 30, 2011
Assets					
Fixed income securities:					
Municipal	\$ 13	\$ (455)	\$ --	\$ (3)	\$ 1,554
Corporate	131	(378)	--	(12)	1,720
RMBS	--	(378)	--	(128)	1,194
CMBS	10	(66)	--	(2)	938
ABS	303	(163)	--	(160)	2,167
Redeemable preferred stock	--	--	--	--	1
Total fixed income securities	457	(1,440)	--	(305)	7,574
Equity securities	--	(1)	--	--	42
Other investments:					
Free-standing derivatives, net	67	--	--	(68)	(56)(2)
Other assets	--	--	--	--	1
Total recurring Level 3 assets	\$ 524	\$ (1,441)	\$ --	\$ (373)	\$ 7,561
Liabilities					
Contractholder funds:					
Derivatives embedded in life and annuity contracts	\$ --	\$ --	\$ (27)	\$ 77	\$ (629)
Total recurring Level 3 liabilities	\$ --	\$ --	\$ (27)	\$ 77	\$ (629)

(1) The effect to net income totals \$(133) million and is reported in the Condensed Consolidated Statements of Operations as follows: \$(123) million in realized capital gains and losses, \$16 million in net investment income, \$(63) million in interest credited to contractholder funds and \$37 million in life and annuity contract benefits.

(2) Comprises \$22 million of assets and \$78 million of liabilities.

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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 June 30, 2010.

(\$ in millions)	Total realized and unrealized gains (losses) included in:							Balance as of June 30, 2010
	Balance as of March 31, 2010	Net income (1)	OCI on Statement of Financial Position	Purchases, sales, issuances and settlements, net	Transfers into Level 3	Transfers out of Level 3		
Assets								
Fixed income securities:								
Municipal	\$ 2,482	\$ (31)	\$ 21	\$ (236)	\$ 16	\$ (55)	\$	2,197
Corporate	2,177	(10)	26	45	151	(164)		2,225
RMBS	2,079	(111)	180	(124)	--	(14)		2,010
CMBS	1,130	(73)	192	(165)	--	(204)		880
ABS	2,403	3	6	141	--	(123)		2,430
Redeemable preferred stock	2	--	--	(1)	--	--		1
Total fixed income securities	10,273	(222)	425	(340)	167	(560)		9,743
Equity securities	72	(6)	1	(1)	--	--		66
Other investments:								
Free-standing derivatives, net	(38)	(99)	--	38	--	--		(99)(2)
Other assets	2	--	--	--	--	--		2
Total recurring Level 3 assets	\$ 10,309	\$ (327)	\$ 426	\$ (303)	\$ 167	\$ (560)	\$	9,712
Liabilities								
Contractholder funds:								
Derivatives embedded in life and annuity contracts	\$ (90)	\$ (30)	\$ --	\$ 1	\$ --	\$ --	\$	(119)
Total recurring Level 3 liabilities	\$ (90)	\$ (30)	\$ --	\$ 1	\$ --	\$ --	\$	(119)

(1) The effect to net income totals \$(357) million and is reported in the Condensed Consolidated Statements of Operations as follows: \$(345) million in realized capital gains and losses, \$22 million in net investment income, \$(4) million in interest credited to contractholder funds and \$(30) million in life and annuity contract benefits.

(2) Comprises \$27 million of assets and \$126 million of liabilities.

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The following table presents the rollforward of Level 3 assets and liabilities held at fair value on a recurring basis during the six months ended June 30, 2010.

(\$ in millions)	Total realized and unrealized gains (losses) included in:							Balance as of June 30, 2010
	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		
Assets								
Fixed income securities:								
Municipal	\$ 2,706	\$ (47)	\$ 58	\$ (452)	\$ 16	\$ (84)	\$	2,197
Corporate	2,241	(37)	101	34	163	(277)		2,225
Foreign government	20	--	--	(20)	--	--		--
RMBS	1,671	(169)	343	179	--	(14)		2,010
CMBS	1,404	(107)	300	(328)	24	(413)		880
ABS	2,001	18	99	472	--	(160)		2,430
Redeemable preferred stock	2	--	--	(1)	--	--		1
Total fixed income securities	10,045	(342)	901	(116)	203	(948)		9,743
Equity securities	69	(6)	4	3	--	(4)		66
Other investments:								
Free-standing derivatives, net	55	(232)	--	78	--	--		(99)(2)
Other assets	2	--	--	--	--	--		2
Total recurring Level 3 assets	\$ 10,171	\$ (580)	\$ 905	\$ (35)	\$ 203	\$ (952)	\$	9,712
Liabilities								
Contractholder funds:								
Derivatives embedded in life and annuity contracts	\$ (110)	\$ (12)	\$ --	\$ 3	\$ --	\$ --	\$	(119)
Total recurring Level 3 liabilities	\$ (110)	\$ (12)	\$ --	\$ 3	\$ --	\$ --	\$	(119)

(1) The effect to net income totals \$(592) million and is reported in the Condensed Consolidated Statements of Operations as follows: \$(631) million in realized capital gains and losses, \$54 million in net investment income, \$(3) million in interest credited to contractholder funds and \$(12) million in life and annuity contract benefits.

(2) Comprises \$27 million of assets and \$126 million of liabilities.

Transfers between level categorizations may occur due to changes in the availability of market observable inputs, which generally are caused by changes in market conditions such as liquidity, trading volume or bid-ask spreads. Transfers between level categorizations may also occur due to changes in the valuation source. For example, in situations where a fair value quote is not provided by the Company's independent third-party valuation service provider and as a result the price is stale or has been replaced with a broker quote, the security is transferred into Level 3. Transfers in and out of level categorizations are reported as having occurred at the beginning of the quarter in which the transfer occurred. Therefore, for all transfers into Level 3, all realized and changes in unrealized gains and losses in the quarter of transfer are reflected in the Level 3 rollforward table.

There were no transfers between Level 1 and Level 2 during the three and six months ended June 30, 2011 or 2010.

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During the six months ended June 30, 2011 and the three and six months ended June 30, 2010, certain CMBS and ABS were transferred into Level 2 from Level 3 as a result of increased liquidity in the market and the availability of market observable quoted prices for similar assets. When transferring these securities into Level 2, the Company did not change the source of fair value estimates or modify the estimates received from independent third-party valuation service providers or the internal valuation approach. Accordingly, for securities included within this group, there was no change in fair value in conjunction with the transfer resulting in a realized or unrealized gain or loss.

Transfers into Level 3 during the three and six months ended June 30, 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 and six months ended June 30, 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 for Level 3 assets and liabilities still held as of June 30.

(\$ in millions)	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
Assets				
Fixed income securities:				
Municipal	\$ (5)	\$ (31)	\$ (15)	\$ (43)
Corporate	6	(14)	10	(50)
RMBS	(27)	(106)	(63)	(164)
CMBS	(11)	(19)	(16)	(43)
ABS	5	14	7	15
Total fixed income securities	(32)	(156)	(77)	(285)
Equity securities	--	(7)	(10)	(6)
Other investments:				
Free-standing derivatives, net	--	(55)	3	(141)
Total recurring Level 3 assets	\$ (32)	\$ (218)	\$ (84)	\$ (432)
Liabilities				
Contractholder funds:				
Derivatives embedded in life and annuity contracts	\$ (34)	\$ (30)	\$ (26)	\$ (12)
Total recurring Level 3 liabilities	\$ (34)	\$ (30)	\$ (26)	\$ (12)

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 \$(66) million for the three months ended June 30, 2011 and are reported as follows: \$(41) million in realized capital gains and losses, \$9 million in net investment income, \$(26) million in interest credited to contractholder funds and \$(8) million in life and annuity contract benefits. These gains and losses total \$(248) million for the three months ended June 30, 2010 and are reported as follows: \$(233) million in realized capital gains and losses, \$20 million in net investment income, \$(5) million in interest credited to contractholder funds and \$(30) million in life and annuity contract benefits. These gains and losses total \$(110) million for the six months ended June 30, 2011 and are reported as follows: \$(97) million in realized capital gains and losses, \$13 million in net investment income, \$(63) million in interest credited to contractholder funds and \$37 million in life and annuity contract benefits. These gains and losses total \$(444) million for the six months ended June 30, 2010 and are reported as follows: \$(461) million in realized capital gains and losses, \$34 million in net investment income, \$(5) million in interest credited to contractholder funds and \$(12) million in life and annuity contract benefits.

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

Financial assets

(\$ in millions)	June 30, 2011		December 31, 2010	
	Carrying value	Fair value	Carrying value	Fair value
Mortgage loans	\$ 6,827	\$ 6,879	\$ 6,679	\$ 6,439
Limited partnership interests - cost basis	1,408	1,704	1,348	1,481
Bank loans	354	351	363	355

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.

Financial liabilities

(\$ in millions)	June 30, 2011		December 31, 2010	
	Carrying value	Fair value	Carrying value	Fair value
Contractholder funds on investment contracts	\$ 33,126	\$ 32,269	\$ 36,163	\$ 35,194
Long-term debt	5,907	6,222	5,908	6,325
Liability for collateral	907	907	484	484

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 long-term debt is based on market observable data (such as the fair value of the debt when traded as an asset) or, in certain cases, is determined using discounted cash flow calculations based on current interest rates for instruments with comparable terms and considers the Company's own credit risk. The liability for collateral is valued at carrying value due to its short-term nature.

6. Derivative Financial Instruments

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The Company primarily uses derivatives for risk management, to partially mitigate potential adverse impacts from changes in risk-free interest rates, negative equity market valuations and increases in credit spreads, 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.

Property-Liability uses interest rate swaps to mitigate municipal bond interest rate risk within the municipal bond portfolio. Equity index futures are used by Property-Liability to offset valuation losses in the equity portfolio during periods of declining equity market values. Credit default swaps are typically used to mitigate the credit risk within the Property-Liability fixed income portfolio. Prior to March 31, 2011, Property-Liability used interest rate swaption contracts and exchange traded options on interest rate futures to offset potential declining fixed income market values resulting from significant increases in interest rates. Prior to March 31, 2011, exchange traded equity put options were utilized by Property-Liability for overall equity portfolio protection from significant declines in equity market values below a targeted level.

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Portfolio duration management is a risk management strategy that is principally employed by Property-Liability wherein financial futures and interest rate swaps are utilized to change the duration of the portfolio in order to offset the economic effect that interest rates would otherwise have on the fair value of its fixed income securities.

Property-Liability uses futures to hedge the market risk related to deferred compensation liability contracts and forward contracts to hedge foreign currency risk associated with holding foreign currency denominated investments and foreign operations.

Asset-liability management is a risk management strategy that is principally employed by Allstate Financial to balance the respective interest-rate sensitivities of its assets and liabilities. Depending upon the attributes of the assets acquired and liabilities issued, derivative instruments such as interest rate swaps, caps, 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. Allstate Financial uses financial futures and interest rate swaps to hedge anticipated asset purchases and liability issuances and futures and options for hedging the equity exposure contained in its equity indexed life and annuity product contracts that offer equity returns to contractholders. In addition, Allstate Financial uses interest rate swaps to hedge interest rate risk inherent in funding agreements.

Allstate Financial uses foreign currency swaps primarily to reduce the foreign currency risk associated with issuing foreign currency denominated funding agreements and holding foreign currency denominated investments. Credit default swaps are also typically used to mitigate the credit risk within the Allstate Financial fixed income portfolio.

When derivatives meet specific criteria, they may be designated as accounting hedges and accounted for as fair value, cash flow, foreign currency fair value or foreign currency cash flow hedges. Allstate Financial designates certain of its interest rate and foreign currency swap contracts and certain investment risk transfer reinsurance agreements as fair value hedges when the hedging instrument is highly effective in offsetting the risk of changes in the fair value of the hedged item. Allstate Financial designates certain of its foreign currency swap contracts as cash flow hedges when the hedging instrument is highly effective in offsetting the exposure of variations in cash flows for the hedged risk that could affect net income. Amounts are reclassified to net investment income or realized capital gains and losses as the hedged item affects net income.

Asset replication refers to the synthetic creation of assets through the use of derivatives and primarily investment grade host bonds to replicate securities that are either unavailable in the cash markets or more economical to acquire in synthetic form. The Company replicates fixed income securities using a combination of a credit default swap and one or more highly rated fixed income securities to synthetically replicate the economic characteristics of one or more cash market securities. The Company also creates synthetic exposure to equity markets through the use of exchange traded equity index future contracts and an investment grade host bond.

The Company's primary embedded derivatives are equity options in Allstate Financial 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.

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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 June 30, 2011, the Company pledged \$12 million of cash and securities in the form of margin deposits.

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

The following table provides a summary of the volume and fair value positions of derivative instruments as well as their reporting location in the Condensed Consolidated Statement of Financial Position as of June 30, 2011.

(\$ in millions, except number of contracts)

	Balance sheet location	Asset derivatives Volume (1)		Fair value, net	Gross asset	Gross liability
		Notional amount	Number of contracts			
Derivatives designated as accounting hedging instruments						
Interest rate swap agreements	Other investments	\$ 207	n/a	\$ (15)	\$ --	\$ (15)
Foreign currency swap agreements	Other investments	50	n/a	(5)	2	(7)
Total		\$ 257	n/a	\$ (20)	\$ 2	\$ (22)
Derivatives not designated as accounting hedging instruments						
Interest rate contracts						
Interest rate swap agreements	Other investments	\$ 5,585	n/a	\$ 138	\$ 161	\$ (23)
Interest rate swaption agreements	Other investments	2,250	n/a	13	13	--
Interest rate cap and floor agreements	Other investments	1,383	n/a	(5)	--	(5)
Financial futures contracts and options	Other investments	n/a	9,000	5	5	--
Financial futures contracts and options	Other assets	n/a	840	--	--	--
Equity and index contracts						
Options, futures and warrants (2)	Other investments	160	14,931	221	221	--
Options, futures and warrants	Other assets	n/a	1,183	2	2	--
Embedded derivative financial instruments						
Conversion options	Fixed income securities	5	n/a	--	--	--
Equity-indexed call options	Fixed income securities	150	n/a	16	16	--
Credit default swaps	Fixed income securities	172	n/a	(78)	--	(78)
Other embedded derivative financial instruments	Other investments	1,000	n/a	--	--	--
Credit default contracts						
Credit default swaps - buying protection	Other investments	121	n/a	(1)	1	(2)
Credit default swaps - selling protection	Other investments	60	n/a	(1)	1	(2)
Other contracts						
Other contracts	Other investments	6	n/a	--	--	--
Other contracts	Other assets	5	n/a	1	1	--
Total		\$ 10,897	25,954	\$ 311	\$ 421	\$ (110)
Total asset derivatives		\$ 11,154	25,954	\$ 291	\$ 423	\$ (132)

(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 308,430 stock rights and 4,389,707 stock warrants. Stock rights and warrants can be converted to cash upon sale of those instruments or exercised for shares of common stock.

**Liability derivatives
Volume (1)**

	Balance sheet location	Notional amount	Number of contracts	Fair value, net	Gross asset	Gross liability
Derivatives designated as accounting hedging instruments						
Interest rate swap agreements	Other liabilities & accrued expenses	\$ 39	n/a	\$ (2)	\$ --	\$ (2)
Foreign currency swap agreements	Other liabilities & accrued expenses	152	n/a	(27)	--	(27)
Total		\$ 191	n/a	\$ (29)	\$ --	\$ (29)
Derivatives not designated as accounting hedging instruments						
Interest rate contracts						
Interest rate swap agreements	Other liabilities & accrued expenses	\$ 2,479	n/a	\$ 15	\$ 28	\$ (13)
Interest rate swaption agreements	Other liabilities & accrued expenses	940	n/a	5	5	--
Interest rate cap and floor agreements	Other liabilities & accrued expenses	1,669	n/a	(19)	1	(20)
Financial futures contracts and options	Other liabilities & accrued expenses	n/a	270	--	--	--
Equity and index contracts						
Options and futures	Other liabilities & accrued expenses	n/a	15,316	(104)	--	(104)
Foreign currency contracts						
Foreign currency swap agreements	Other liabilities & accrued expenses	50	n/a	--	--	--
Foreign currency forwards and options	Other liabilities & accrued expenses	277	n/a	(2)	2	(4)
Embedded derivative financial instruments						
Guaranteed accumulation benefits	Contractholder funds	1,085	n/a	(62)	--	(62)
Guaranteed withdrawal benefits	Contractholder funds	737	n/a	(31)	--	(31)
Equity-indexed and forward starting options in life and annuity product contracts	Contractholder funds	4,432	n/a	(528)	--	(528)
Other embedded derivative financial instruments	Contractholder funds	85	n/a	(8)	--	(8)
Credit default contracts						
Credit default swaps buying protection	Other liabilities & accrued expenses	1,020	n/a	(10)	5	(15)
Credit default swaps selling protection	Other liabilities & accrued expenses	605	n/a	(54)	2	(56)
Total		\$ 13,379	15,586	\$ (798)	\$ 43	\$ (841)
Total liability derivatives		\$ 13,570	15,586	\$ (827)	\$ 43	\$ (870)
Total derivatives		\$ 24,724	41,540	\$ (536)		

(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)

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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 December 31, 2010.

(\$ in millions, except number of contracts)

	Balance sheet location	Asset derivatives				
		Notional amount	Number of contracts	Fair value, net	Gross asset	Gross liability
Volume (1)						
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	\$ 1,469	n/a	\$ 65	\$ 81	\$ (16)
Interest rate swaption agreements	Other investments	4,161	n/a	50	50	--
Interest rate cap and floor agreements	Other investments	226	n/a	(2)	1	(3)
Financial futures contracts and options	Other investments	n/a	8,000	3	3	--
Financial futures contracts and options	Other assets	n/a	1,420	--	--	--
Equity and index contracts						
Options, futures and warrants (2)	Other investments	64	38,451	359	359	--
Options, futures and warrants	Other assets	n/a	292	--	--	--
Foreign currency contracts						
Foreign currency swap agreements	Other investments	90	n/a	6	6	--
Foreign currency forwards and options	Other investments	257	n/a	6	7	(1)
Embedded derivative financial instruments						
Conversion options	Fixed income securities	820	n/a	236	238	(2)
Equity-indexed call options	Fixed income securities	300	n/a	47	47	--
Credit default swaps	Fixed income securities	181	n/a	(88)	--	(88)
Other embedded derivative financial instruments	Other investments	1,000	n/a	--	--	--
Credit default contracts						
Credit default swaps - buying protection	Other investments	299	n/a	(5)	2	(7)
Credit default swaps - selling protection	Other investments	150	n/a	(8)	2	(10)
Other contracts						
Other contracts	Other investments	13	n/a	--	--	--
Other contracts	Other assets	5	n/a	1	1	--
Total		\$ 9,035	48,163	\$ 670	\$ 797	\$ (127)
Total asset derivatives		\$ 9,255	48,163	\$ 654	\$ 800	\$ (146)

(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 2,768 stock rights and 1,379,932 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	\$ 4,543	n/a	\$ 29	\$ 97	\$ (68)
Interest rate swaption agreements	Other liabilities & accrued expenses	4,400	n/a	18	18	--
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	15,150	(1)	--	(1)
Equity and index contracts						
Options and futures	Other liabilities & accrued expenses	64	21,585	(168)	2	(170)
Foreign currency contracts						
Foreign currency forwards and options	Other liabilities & accrued expenses	316	n/a	1	2	(1)
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	1,127	n/a	(13)	6	(19)
Credit default swaps selling protection	Other liabilities & accrued expenses	482	n/a	(66)	1	(67)
Total		\$ 20,733	36,735	\$ (875)	\$ 127	\$ (1,002)
Total liability derivatives		\$ 24,651	36,735	\$ (1,012)	\$ 211	\$ (1,223)
Total derivatives		\$ 33,906	84,898	\$ (358)		

(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)

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The following table provides a summary of the impacts of the Company's foreign currency contracts in cash flow hedging relationships in the Condensed Consolidated Statements of Operations and the Condensed Consolidated Statements of Financial Position. Amortization of net losses from accumulated other comprehensive income related to cash flow hedges is expected to be \$7 million during the next twelve months.

(\$ in millions)	Three months ended		Six months ended	
	June 30,		June 30,	
	2011	2010	2011	2010
Effective portion				
(Loss) gain recognized in OCI on derivatives during the period	\$ (5)	\$ 22	\$ (13)	\$ 28
(Loss) gain recognized in OCI on derivatives during the term of the hedging relationship	(36)	2	(36)	2
Gain reclassified from AOCI into income (net investment income)	1	--	1	1
Gain reclassified from AOCI into income (realized capital gains and losses)	--	2	--	2
Ineffective portion and amount excluded from effectiveness				
Gain recognized in income on derivatives (realized capital gains and losses)	--	--	--	--

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

(\$ in millions)	Three months ended June 30, 2011						Total gain (loss) recognized in net income on derivatives
	Net investment income	Realized capital gains and losses	Life and annuity contract benefits	Interest credited to contractholder funds	Operating costs and expenses		
Derivatives in fair value accounting hedging relationships							
Interest rate contracts	\$ (2)	\$ --	\$ --	\$ --	\$ --	\$ (2)	
Subtotal	(2)	--	--	--	--	(2)	
Derivatives not designated as accounting hedging instruments							
Interest rate contracts	--	(53)	--	--	--	(53)	
Equity and index contracts	--	--	--	8	--	8	
Embedded derivative financial instruments	--	(3)	(8)	9	--	(2)	
Credit default contracts	--	3	--	--	--	3	
Other contracts	--	--	--	3	--	3	
Subtotal	--	(53)	(8)	20	--	(41)	
Total	\$ (2)	\$ (53)	\$ (8)	\$ 20	\$ --	\$ (43)	

Six months ended June 30, 2011

	Net investment income	Realized capital gains and losses	Life and annuity contract benefits	Interest credited to contractholder funds	Operating costs and expenses	Total gain (loss) recognized in net income on derivatives
Derivatives in fair value accounting hedging relationships						
Interest rate contracts	\$ (1)	\$ (8)	\$ --	\$ (5)	\$ --	\$ (14)
Foreign currency and interest rate contracts	--	--	--	(32)	--	(32)
Subtotal	(1)	(8)	--	(37)	--	(46)
Derivatives not designated as accounting hedging instruments						
Interest rate contracts	--	(104)	--	--	--	(104)
Equity and index contracts	--	(19)	--	46	7	34
Embedded derivative financial instruments	--	5	37	(13)	--	29
Foreign currency contracts	--	(5)	--	--	2	(3)
Credit default contracts	--	11	--	--	--	11
Other contracts	--	--	--	5	--	5
Subtotal	--	(112)	37	38	9	(28)
Total	\$ (1)	\$ (120)	\$ 37	\$ 1	\$ 9	\$ (74)

Three months ended June 30, 2010

	Net investment income	Realized capital gains and losses	Life and annuity contract benefits	Interest credited to contractholder funds	Operating costs and expenses	Total gain (loss) recognized in net income on derivatives
Derivatives in fair value accounting hedging relationships						
Interest rate contracts	\$ (72)	\$ 2	\$ --	\$ 13	\$ --	\$ (57)
Foreign currency and interest rate contracts	--	(1)	--	(16)	--	(17)
Subtotal	(72)	1	--	(3)	--	(74)
Derivatives not designated as accounting hedging instruments						
Interest rate contracts	--	(282)	--	--	--	(282)
Equity and index contracts	--	82	--	(70)	(14)	(2)
Embedded derivative financial instruments	--	(106)	(28)	112	--	(22)
Foreign currency contracts	--	3	--	--	(1)	2
Credit default contracts	--	(9)	--	--	--	(9)
Other contracts	--	1	--	2	--	3
Subtotal	--	(311)	(28)	44	(15)	(310)
Total	\$ (72)	\$ (310)	\$ (28)	\$ 41	\$ (15)	\$ (384)

Six months ended June 30, 2010

	Net investment income	Realized capital gains and losses	Life and annuity contract benefits	Interest credited to contractholder funds	Operating costs and expenses	Total gain (loss) recognized in net income on derivatives
Derivatives in fair value accounting hedging relationships						
Interest rate contracts	\$ (113)	\$ 2	\$ --	\$ 12	\$ --	\$ (99)
Foreign currency and interest rate contracts	--	(1)	--	(40)	--	(41)
Subtotal	(113)	1	--	(28)	--	(140)
Derivatives not designated as accounting hedging instruments						
Interest rate contracts	--	(438)	--	--	--	(438)
Equity and index contracts	--	43	--	(36)	(8)	(1)
Embedded derivative financial instruments	--	(119)	(8)	110	--	(17)
Foreign currency contracts	--	20	--	--	(6)	14
Credit default contracts	--	(3)	--	--	--	(3)
Other contracts	--	1	--	2	--	3
Subtotal	--	(496)	(8)	76	(14)	(442)
Total	\$ (113)	\$ (495)	\$ (8)	\$ 48	\$ (14)	\$ (582)

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

(\$ in millions)

Three months ended June 30, 2011

Location of gain or (loss) recognized in net income on derivatives	Gain (loss) on derivatives		Gain (loss) on hedged risk	
	Interest rate contracts	Foreign currency & interest rate contracts	Contractholder funds	Investments
Net investment income	\$ 2	\$ --	\$ --	\$ (2)
Realized capital gains and losses	--	--	--	--
Total	\$ 2	\$ --	\$ --	\$ (2)

Six months ended June 30, 2011

Location of gain or (loss) recognized in net income on derivatives	Gain (loss) on derivatives		Gain (loss) on hedged risk	
	Interest rate contracts	Foreign currency & interest rate contracts	Contractholder funds	Investments
Interest credited to contractholder funds	\$ (7)	\$ (34)	\$ 41	\$ --
Net investment income	23	--	--	(23)
Realized capital gains and losses	(8)	--	--	--
Total	\$ 8	\$ (34)	\$ 41	\$ (23)

Location of gain or (loss) recognized in net income on derivatives	Three months ended June 30, 2010			
	Gain (loss) on derivatives		Gain (loss) on hedged risk	
	Interest rate	Foreign currency & interest rate	Contractholder	
	contracts	contracts	funds	Investments
Interest credited to contractholder funds	\$ 9	\$ (24)	\$ 15	\$ --
Net investment income	(43)	--	--	43
Realized capital gains and losses	2	(1)	--	--
Total	\$ (32)	\$ (25)	\$ 15	\$ 43

Location of gain or (loss) recognized in net income on derivatives	Six months ended June 30, 2010			
	Gain (loss) on derivatives		Gain (loss) on hedged risk	
	Interest rate	Foreign currency & interest rate	Contractholder	
	contracts	contracts	funds	Investments
Interest credited to contractholder funds	\$ 8	\$ (57)	\$ 49	\$ --
Net investment income	(56)	--	--	56
Realized capital gains and losses	2	(1)	--	--
Total	\$ (46)	\$ (58)	\$ 49	\$ 56

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 June 30, 2011, counterparties pledged \$83 million in cash and securities to the Company, and the Company pledged \$107 million in securities to counterparties which includes \$48 million of collateral posted under MNAs for contracts containing credit-risk-contingent provisions that are in a liability position and \$59 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).

Rating (1)	Number of counterparties	June 30, 2011			December 31, 2010			
		Notional amount (2)	Credit exposure (2)	Exposure, net of collateral (2)	Number of counterparties	Notional amount (2)	Credit exposure (2)	Exposure, net of collateral (2)
AA-	1	\$ 567	\$ 16	\$ --	2	\$ 2,322	\$ 43	\$ 16
A+	3	5,140	28	8	5	3,189	16	10
A	4	4,161	50	4	3	3,479	17	17
A-	--	--	--	--	1	89	31	31
BBB+	1	5	35	35	--	--	--	--
Total	9	\$ 9,873	\$ 129	\$ 47	11	\$ 9,079	\$ 107	\$ 74

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- (1) Rating is the lower of S&P or Moody's ratings.
- (2) Only OTC derivatives with a net positive fair value are included for each counterparty.

Market risk is the risk that the Company will incur losses due to adverse changes in market rates and prices. Market risk exists for all of the derivative financial instruments the Company currently holds, as these instruments may become less valuable due to adverse changes in market conditions. To limit this risk, the Company's senior management has established risk control limits. In addition, changes in fair value of the derivative financial

instruments that the Company uses for risk management purposes are generally offset by the change in the fair value or cash flows of the hedged risk component of the related assets, liabilities or forecasted transactions.

Certain of the Company's derivative instruments contain credit-risk-contingent termination events, cross-default provisions and credit support annex agreements. Credit-risk-contingent termination events allow the counterparties to terminate the derivative on certain dates if AIC's, ALIC's or Allstate Life Insurance Company of New York's (ALNY) financial strength credit ratings by Moody's or S&P fall below a certain level or in the event AIC, ALIC or ALNY are no longer rated by 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 AIC's, ALIC's or ALNY's financial strength credit ratings by Moody's or S&P, or in the event AIC, ALIC or ALNY are no longer rated by 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)	June 30, 2011	December 31, 2010
Gross liability fair value of contracts containing credit-risk-contingent features	\$ 146	\$ 448
Gross asset fair value of contracts containing credit-risk-contingent features and subject to MNAs	(90)	(255)
Collateral posted under MNAs for contracts containing credit-risk-contingent features	(48)	(171)
Maximum amount of additional exposure for contracts with credit-risk-contingent features if all features were triggered concurrently	\$ 8	\$ 22

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 June 30, 2011:

(\$ in millions)	Notional amount				Total	Fair value
	AA	A	BBB	BB and lower		
Single name						
Investment grade corporate debt	\$ 50	\$ 138	\$ 130	\$ 45	\$ 363	\$ (1)
High yield debt	--	--	--	2	2	--
Municipal	135	--	--	--	135	(8)
Subtotal	185	138	130	47	500	(9)

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Baskets

Tranche

Investment grade corporate debt	--	--	--	65	65	(18)
First-to-default						
Municipal	--	100	--	--	100	(28)
Subtotal	--	100	--	65	165	(46)
Total	\$ 185	\$ 238	\$ 130	\$ 112	\$ 665	\$ (55)

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

(\$ in millions)	Notional amount				Total	Fair value
	AA	A	BBB	BB and lower		
Single name						
Investment grade corporate debt	\$ 50	\$ 148	\$ 103	\$ 25	\$ 326	\$ (4)
High yield debt	--	--	--	6	6	--
Municipal	135	--	--	--	135	(14)
Subtotal	185	148	103	31	467	(18)
Baskets						
Tranche						
Investment grade corporate debt	--	--	--	65	65	(19)
First-to-default						
Municipal	--	100	--	--	100	(37)
Subtotal	--	100	--	65	165	(56)
Total	\$ 185	\$ 248	\$ 103	\$ 96	\$ 632	\$ (74)

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. Reserve for Property-Liability Insurance Claims and Claims Expense

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The Company establishes reserves for claims and claims expense on reported and unreported claims of insured losses. The Company's reserving process takes into account known facts and interpretations of circumstances and factors including the Company's experience with similar cases, actual claims paid, historical trends involving claim payment patterns and pending levels of unpaid claims, loss management programs, product mix and contractual terms, changes in law and regulation, judicial decisions, and economic conditions. In the normal course of business, the Company may also supplement its claims processes by utilizing third party adjusters, appraisers, engineers, inspectors,

and other professionals and information sources to assess and settle catastrophe and non-catastrophe related claims. The effects of inflation are implicitly considered in the reserving process.

Because reserves are estimates of unpaid portions of losses that have occurred, including incurred but not reported losses, the establishment of appropriate reserves, including reserves for catastrophes, is an inherently uncertain and complex process. The ultimate cost of losses may vary materially from recorded amounts, which are based on management's best estimates. The highest degree of uncertainty is associated with reserves for losses incurred in the current reporting period as it contains the greatest proportion of losses that have not been reported or settled. The Company regularly updates its reserve estimates as new information becomes available and as events unfold that may affect the resolution of unsettled claims. Changes in prior year reserve estimates, which may be material, are reported in property-liability insurance claims and claims expense in the Condensed Consolidated Statements of Operations in the period such changes are determined.

Management believes that the reserve for property-liability insurance claims and claims expense, net of reinsurance recoverables, is appropriately established in the aggregate and adequate to cover the ultimate net cost of reported and unreported claims arising from losses which had occurred by the date of the Condensed Consolidated Statements of Financial Position based on available facts, technology, laws and regulations.

8. Reinsurance

Property-liability insurance premiums earned and life and annuity premiums and contract charges have been reduced by the reinsurance ceded amounts shown in the following table:

(\$ in millions)	Three months ended			Six months ended				
	June 30,			June 30,				
	2011		2010	2011		2010		
Property-liability insurance premiums earned	\$	274	\$	273	\$	544	\$	541
Life and annuity premiums and contract charges		185		202		378		393

Property-liability insurance claims and claims expense, life and annuity contract benefits and interest credited to contractholder funds have been reduced by the reinsurance ceded amounts shown in the following table.

(\$ in millions)	Three months ended			Six months ended				
	June 30,			June 30,				
	2011		2010	2011		2010		
Property-liability insurance claims and claims expense	\$	61	\$	111	\$	198	\$	191
Life and annuity contract benefits		52		219		136		349
Interest credited to contractholder funds		6		9		14		16

9. Company Restructuring

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The Company undertakes various programs to reduce expenses. These programs generally involve a reduction in staffing levels, and in certain cases, office closures. Restructuring and related charges include employee termination and relocation benefits, and post-exit rent expenses in connection with these programs, and non-cash charges resulting from pension benefit payments made to agents in connection with the 1999 reorganization of Allstate's multiple agency programs to a single exclusive agency program. In the six months ended June 30, 2011, restructuring programs primarily relate to Allstate Protection's field claim office consolidations and reorganization of technology shared services. The expenses related to these activities are included in the Condensed Consolidated Statements of Operations as restructuring and related charges, and totaled \$11 million and \$13 million during the three months ended June 30, 2011 and 2010, respectively, and \$20 million and \$24 million for the six months ended June 30, 2011 and 2010, respectively.

The following table presents changes in the restructuring liability during the six months ended June 30, 2011.

(\$ in millions)	Employee costs	Exit costs	Total liability
Balance as of December 31, 2010	\$ 13	\$ 3	16
Expense incurred	14	5	19
Adjustments to liability	(9)	--	(9)
Payments applied against liability	(9)	(2)	(11)
Balance as of June 30, 2011	\$ 9	\$ 6	15

The payments applied against the liability for employee costs primarily reflect severance costs, and the payments for exit costs generally consist of post-exit rent expenses and contract termination penalties. As of June 30, 2011, the cumulative amount incurred to date for active programs totaled \$103 million for employee costs and \$45 million for exit costs.

10. Guarantees and Contingent Liabilities

State facility assessments

The Company is required to participate in assigned risk plans, reinsurance facilities and joint underwriting associations in various states that provide insurance coverage to individuals or entities that otherwise are unable to purchase such coverage from private insurers. Underwriting results related to these arrangements, which tend to be adverse, have been immaterial to the Company's results of operations. Because of the Company's participation, it may be exposed to losses that surpass the capitalization of these facilities and/or assessments from these facilities.

Shared markets

As a condition of maintaining its licenses to write personal property and casualty insurance in various states, the Company is required to participate in assigned risk plans, reinsurance facilities and joint underwriting associations that provide various types of insurance coverage to individuals or entities that otherwise are unable to purchase such coverage from private insurers. Underwriting results related to these arrangements, which tend to be adverse, have been immaterial to the Company's results of operations.

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 June 30, 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 Allstate Financial's variable annuity business to Prudential in 2006, the Company and its consolidated subsidiaries, ALIC and ALNY, have agreed to indemnify Prudential for certain pre-closing contingent liabilities (including extra-contractual liabilities of ALIC and ALNY and liabilities specifically excluded from the transaction) that ALIC and ALNY have agreed to retain. In addition, the Company, ALIC and ALNY will each indemnify Prudential for certain post-closing liabilities that may arise from the acts of ALIC, ALNY and their agents, including in connection with ALIC's and ALNY's provision of transition services. The reinsurance agreements contain no limitations or indemnifications with regard to insurance risk transfer, and transferred all of the future risks and responsibilities for performance on the underlying variable annuity contracts to Prudential, including those related to benefit guarantees. Management does not believe this agreement will have a material adverse effect on results of operations, cash flows or financial position of the Company.

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The Company provides residual value guarantees on Company leased automobiles. If all outstanding leases were terminated effective June 30, 2011, the Company's maximum obligation pursuant to these guarantees, assuming the automobiles have no residual value, would be \$8 million as of June 30, 2011. The remaining term of each residual value guarantee is equal to the term of the underlying lease that ranges from less than one year to three years. Historically, the Company has not made any material payments pursuant to these guarantees.

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 June 30, 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 influence and restrict premium rates, require premium refunds to policyholders, require reinstatement of terminated policies, restrict the ability of insurers to cancel or non-renew policies, require insurers to continue to write new policies or limit their ability to write new policies, limit insurers' ability to change coverage terms or to impose underwriting standards, impose additional regulations regarding agent and broker compensation, regulate the nature of and amount of investments, and otherwise expand overall regulation of insurance products and the insurance industry. The Company has established procedures and policies to facilitate compliance with laws and regulations, to foster prudent business operations, and to support financial reporting. The Company routinely reviews its practices to validate compliance with laws and regulations and with internal procedures and policies. As a result of these reviews, from time to time the Company may decide to modify some of its procedures and policies. Such modifications, and the reviews that led to them, may be accompanied by payments being made and costs being incurred. The ultimate changes and eventual effects of these actions on the Company's business, if any, are uncertain.

Legal and regulatory proceedings and inquiries

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

Background

These matters raise difficult and complicated factual and legal issues and are subject to many uncertainties and complexities, including the underlying facts of each matter; novel legal issues; variations between jurisdictions in which matters are being litigated, heard, or investigated; differences in applicable laws and judicial interpretations; the length of time before many of these matters might be resolved by settlement, through litigation, or otherwise; the fact that some of the lawsuits are putative class actions in which a class has not been certified and in which the purported class may not be clearly defined; the fact that some of the lawsuits involve multi-state class actions in which the applicable law(s) for the claims at issue is in dispute and therefore unclear; and the current challenging legal environment faced by large corporations and insurance companies.

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

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

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

Accrual and disclosure policy

The Company reviews its lawsuits, regulatory inquiries, and other legal proceedings on an ongoing basis and follows appropriate accounting guidance when making accrual and disclosure decisions. The Company establishes accruals for such matters at management's best estimate when the Company assesses that it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated. The Company does not establish accruals for such matters when the Company does not believe both that it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated. The Company's assessment of whether a loss is reasonably possible or probable is based on its assessment of the ultimate outcome of the matter following all appeals.

The Company continues to monitor its lawsuits, regulatory inquiries, and other legal proceedings for further developments that would make the loss contingency both probable and estimable, and accordingly accruable, or that could affect the amount of accruals that have been previously established. There may continue to be exposure to loss in excess of any amount accrued. Disclosure of the nature and amount of an accrual is made when there have been sufficient legal and factual developments such that the Company's ability to resolve the matter would not be impaired by the disclosure of the amount of accrual.

When the Company assesses it is reasonably possible or probable that a loss has been incurred, it discloses the matter. When it is possible to estimate the reasonably possible loss or range of loss above the amount accrued, if any, for the matters disclosed, that estimate is aggregated and disclosed. Disclosure is not required when an estimate of the reasonably possible loss or range of loss cannot be made.

For certain of the matters described below in the *Claims related proceedings* and *Other proceedings* subsections, the Company is able to estimate the reasonably possible loss or range of loss above the amount accrued, if any. In determining whether it is possible to estimate the reasonably possible loss or range of loss, the Company reviews and evaluates the disclosed matters, in conjunction with counsel, in light of potentially relevant factual and legal developments.

These developments may include information learned through the discovery process, rulings on dispositive motions, settlement discussions, information obtained from other sources, experience from managing these and other matters, and other rulings by courts, arbitrators or others. When the Company possesses sufficient appropriate information to develop an estimate of the reasonably possible loss or range of loss above the amount accrued, if any, that estimate is aggregated and disclosed below. There may be other disclosed matters for which a loss is probable or reasonably possible but such an estimate is not possible. Disclosure of the estimate of the reasonably possible loss or range of loss above the amount accrued, if any, for any individual matter would only be considered when there have been sufficient legal and factual developments such that the Company's ability to resolve the matter would not be impaired by the disclosure of the individual estimate.

As of June 30, 2011, the Company estimates that the aggregate range of reasonably possible loss in excess of the amount accrued, if any, for the disclosed matters where such an estimate is possible is zero to \$855 million, pre-tax. This disclosure is not an indication of expected loss, if any. Under accounting guidance, an event is *reasonably possible* if the chance of the future event or events occurring is more than remote but less than likely and an event is *remote* if the chance of the future event or events occurring is slight. This estimate is based upon currently available information and is subject to significant judgment and a variety of assumptions, and known and unknown uncertainties. The matters underlying the estimate will change from time to time, and actual results may vary significantly from the current estimate. The estimate does not include matters or losses for which an estimate is not possible. Therefore, this estimate represents an estimate of possible loss only for certain matters meeting these criteria. It does not represent the Company's maximum possible loss exposure. Information is provided below regarding the nature of all of the disclosed matters and, where specified, the amount, if any, of plaintiff claims associated with these loss contingencies.

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

Claims related proceedings

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The Company is vigorously defending a number of matters in various stages of development filed in the aftermath of Hurricane Katrina, including individual lawsuits and a statewide putative class action in Louisiana. The Louisiana Attorney General filed a putative class action lawsuit in state court against Allstate and every other homeowner insurer doing business in the State of Louisiana, on behalf of the State, as assignee, and on behalf of a class of Road Home fund recipients (the Road Home Class Action) alleging that the insurers have failed to pay all damages owed under their policies. The insurers removed the matter to federal court. The district court denied plaintiffs' motion to remand the matter to state court and the U.S. Court of Appeals for the Fifth Circuit (Fifth Circuit) affirmed that ruling. The defendants filed a motion to dismiss and the plaintiffs filed a motion to remand the claims involving a Road Home subrogation agreement. In March 2009, the district court denied the State's request that its claims be remanded to state court. As for the defendant insurers' motion, the judge granted it in part and denied it in

part. Dismissal of all of the extra-contractual claims, including the bad faith and breach of fiduciary duty claims, was granted. Dismissal also was granted of all claims based on the Valued Policy Law and all flood loss claims based on the levee breaches finding that the insurers flood exclusions precluded coverage. The remaining claims are for breach of contract and for declaratory relief on the alleged underpayment of claims by the insurers. The judge did not dismiss the class action allegations. The defendants also had moved to dismiss the complaint on grounds that the State had no standing to bring the lawsuit as an assignee of insureds because of anti-assignment language in the insurers' policies. The judge denied the defendants' motion for reconsideration on the assignment issue but found the matter was ripe for consideration by the federal appellate court. The defendants filed a petition for permission to appeal to the Fifth Circuit. The Fifth Circuit accepted review. After the Fifth Circuit accepted review, plaintiffs filed a motion to remand the case to state court, asserting that the class claims on which federal jurisdiction was premised have now effectively been dismissed as a result of a ruling in a related case. The Fifth Circuit denied the motion for remand, without prejudice to plaintiffs' right to refile the motion for remand after the Fifth Circuit disposes of the pending appeal. On July 28, 2010, the Fifth Circuit issued an order stating that since there is no controlling Louisiana Supreme Court precedent on the issue of whether an insurance policy's anti-assignment clause prohibits post-loss assignments, the Fifth Circuit is certifying that issue to the Louisiana Supreme Court. On May 10, 2011, the Louisiana Supreme Court issued its ruling, holding that the contractual prohibition on post-loss assignments does not violate public policy, and that parties can contract to prohibit post-loss assignments. However, the Court went on to hold that the contract language must clearly and unambiguously express that the non-assignment clause applies to post-loss assignments. The Supreme Court refused to evaluate the language of the various policies before it. Rather, the Court stated that it is necessary for the federal court to evaluate the relevant anti-assignment clauses on a policy-by-policy basis to determine whether the language is sufficient to prohibit post-loss assignment. The case will now be sent back to the Fifth Circuit for a determination of whether each carrier's anti-assignment clause is sufficient to prohibit post-loss assignment.

The Company believes that its adjusting practices and processes in connection with Katrina homeowners claims were sound and in accordance with industry standards and state law. Each of the claims involved is fact-specific and requires independent analysis. There remain significant questions of Louisiana law that have yet to be decided, including the enforceability of the Company's anti-assignment clause and certain statute of limitation (prescription) issues. Based on recent rulings by the Louisiana Supreme Court, which have been construed to extend the time period within which Katrina actions can be filed, new individual cases continue to be filed. In addition, the State has yet to identify the specific claims that it contends are at issue in the Road Home Class Action, or the alleged deficiencies in adjusting those claims. There are many potential individual claims at issue in this litigation, each of which will require individual analysis, and a number of which may be subject to individual defenses, including release, accord and satisfaction, prescription, waiver and estoppel. There has been no factual development or discovery in connection with the Road Home Class Action. The motions to dismiss have been pending since the inception of the case. No answers have been filed, and the case remains stayed until the current appeal is concluded. Moreover, the State has indicated that it intends to drop its class allegations and seek a remand to state court, which is considered to be a less favorable forum, but the dismissal of the class allegations and prosecution by the State solely on its own behalf as assignee, may on the other hand adversely impact the State's ability to recover exemplary damages or penalties that might otherwise be sought on the underlying claim. In the Company's judgment a loss is not probable.

The Company has settled on a 48-state basis a nationwide class action alleging that it failed to properly pay general contractors overhead and profit on many homeowners structural loss claims. General contractors' overhead and profit is an amount that is added to payments on claims where the services of a general contractor are reasonably likely to be required. To a large degree, this lawsuit mirrored similar lawsuits filed against other carriers in the industry, some of which have settled. A class was certified for settlement purposes only, and the settlement received preliminary approval from the court on December 6, 2010 and final approval on May 6, 2011. No appeal was taken from the final approval order and the settlement is now final. Processing of class members' claims made as part of this settlement is underway. The \$75 million settlement was accrued as a prior year reserve reestimate in property-liability insurance claims and claims expense in 2010.

Allstate has been vigorously defending a lawsuit in regards to certain claims employees involving worker classification issues. This lawsuit is a certified class action challenging a state wage and hour law. In this case, plaintiffs sought actual damages in an amount to be proven at trial, liquidated damages in an amount equal to an unspecified percentage of the aggregate underpayment of wages to be proven at trial, as well as attorneys' fees and costs. Plaintiffs have not made a settlement demand nor have they alleged the amount of damages with any specificity. The case was bifurcated between liability and damages and is currently focused only on liability issues. No discovery has taken place regarding plaintiffs' alleged damages. In December 2009, the liability phase of the case was tried, and, on July 6, 2010, the court issued its decision finding in favor of Allstate on all claims. The plaintiffs have appealed the

decision in favor of Allstate to the first level appellate court. After concluding the current appeal, the parties may seek a subsequent appeal to the Illinois Supreme Court. Only liability issues are being addressed on appeal and no damages may be awarded at this stage of the proceedings. In the event the trial court's order were to be overturned, however, the parties would need to conduct damages discovery, and a trial on damages would have to take place, before any damages could be awarded. In the Company's judgment a loss is not probable.

Other proceedings

The Company is defending certain matters relating to the Company's agency program reorganization announced in 1999. Although these cases have been pending for many years, they currently are in the early stages of litigation because of appellate court proceedings and threshold procedural issues.

- These matters include a lawsuit filed in 2001 by the U.S. Equal Employment Opportunity Commission (EEOC) alleging retaliation under federal civil rights laws (EEOC I) and a class action filed in 2001 by former employee agents alleging retaliation and age discrimination under the Age Discrimination in Employment Act (ADEA), breach of contract and ERISA violations (Romero I). In 2004, in the consolidated EEOC I and Romero I litigation, the trial court issued a memorandum and order that, among other things, certified classes of agents, including a mandatory class of agents who had signed a release, for purposes of effecting the court's declaratory judgment that the release was voidable at the option of the release signer. The court also ordered that an agent who voided the release must return to Allstate any and all benefits received by the [agent] in exchange for signing the release. The court also stated that, on the undisputed facts of record, there is no basis for claims of age discrimination. The EEOC and plaintiffs asked the court to clarify and/or reconsider its memorandum and order and in January 2007, the judge denied their request. In June 2007, the court reversed its prior ruling that the release was voidable and granted the Company's motions for summary judgment, ruling that the asserted claims were barred by the release signed by most plaintiffs. Plaintiffs filed a notice of appeal with the U.S. Court of Appeals for the Third Circuit (Third Circuit). In July 2009, the Third Circuit vacated the trial court's entry of summary judgment in the Company's favor and remanded the cases to the trial court for additional discovery, including additional discovery related to the validity of the release and waiver. In its opinion, the Third Circuit held that if the release and waiver is held to be valid, then all of the claims in Romero I and EEOC I are barred. Thus, if the waiver and release is upheld, then only the claims in Romero I asserted by the small group of employee agents who did not sign the release and waiver would remain for adjudication. In January 2010, following the remand, the cases were assigned to a new judge for further proceedings in the trial court. Plaintiffs filed their Second Amended Complaint on July 28, 2010. Plaintiffs seek broad but unspecified make whole relief, including back pay, compensatory and punitive damages, liquidated damages, lost investment capital, attorneys' fees and costs, and equitable relief, including reinstatement to employee agent status with all attendant benefits for up to approximately 6,500 former employee agents. Despite the length of time that these matters have been pending, to date only limited discovery has occurred related to the damages claimed by individual plaintiffs, and no damages discovery has occurred related to the claims of the putative class. Nor have plaintiffs provided any calculations of the putative class's alleged back pay or the alleged liquidated, compensatory or punitive damages, instead asserting that such calculations will be provided at a later stage during expert discovery. Damage claims are subject to reduction by amounts and benefits received by plaintiffs and putative class members subsequent to their employment termination. Little to no discovery has occurred with respect to amounts earned or received by plaintiffs and putative class members in mitigation of their alleged losses. Alleged damage amounts and lost benefits of the approximately 6,500 putative class members also are subject to individual variation and determination dependent upon retirement dates, participation in employee benefit programs, and years of service. Discovery limited to the validity of the waiver and release is in process. At present, no class is certified. Summary judgment proceedings on the validity of the waiver and release are expected to occur in early 2012.

- A putative nationwide class action has also been filed by former employee agents alleging various violations of ERISA, including a worker classification issue (Romero II). These plaintiffs are challenging certain amendments to the Agents Pension Plan and are seeking to have exclusive agent independent contractors treated as employees for benefit purposes. Romero II was dismissed with prejudice by the trial court, was the subject of further proceedings on appeal, and was reversed and remanded to the trial court in 2005. In June 2007, the court granted the Company's motion to dismiss the case. Plaintiffs filed a notice of appeal with the Third Circuit. In July 2009, the Third Circuit vacated the

district court's dismissal of the case and remanded the case to the trial court for additional discovery, and directed that the case be reassigned to another trial court judge. In its opinion, the Third Circuit held that if the release and waiver is held to be valid, then one of plaintiffs' three claims asserted in Romero II is barred. The Third Circuit directed the district court to consider on remand whether the other two claims asserted in Romero II are barred by the release and waiver. In January 2010, following the remand, the case was assigned to a new judge (the same judge for the Romero I and EEOC I cases) for further proceedings in the trial court. On April 23, 2010, plaintiffs filed their First Amended Complaint. Plaintiffs seek broad but unspecified "make whole" or other equitable relief, including losses of income and benefits as a result of their decision to retire from the Company between November 1, 1999 and December 31, 2000. They also seek repeal of the challenged amendments to the Agents Pension Plan with all attendant benefits revised and recalculated for thousands of former employee agents, and attorneys' fees and costs. Despite the length of time that this matter has been pending, to date only limited discovery has occurred related to the damages claimed by individual plaintiffs, and no damages discovery has occurred related to the claims of the putative class. Nor have plaintiffs provided any calculations of the putative class's alleged losses, instead asserting that such calculations will be provided at a later stage during expert discovery. Damage claims are subject to reduction by amounts and benefits received by plaintiffs and putative class members subsequent to their employment termination. Little to no discovery has occurred with respect to amounts earned or received by plaintiffs and putative class members in mitigation of their alleged losses. Alleged damage amounts and lost benefits of the approximately 6,500 putative class members also are subject to individual variation and determination dependent upon retirement dates, participation in employee benefit programs, and years of service. As in Romero I and EEOC I, discovery at this time is limited to issues relating to the validity of the waiver and release. Class certification has not been decided. Summary judgment proceedings on the validity of the waiver and release are expected to occur in early 2012.

In these agency program reorganization matters, the threshold issue of the validity and scope of the waiver and release is yet to be decided and, if decided in favor of the Company, would preclude any damages being awarded in Romero I and EEOC I and may also preclude damages from being awarded in Romero II. In the Company's judgment a loss is not probable. Allstate has been vigorously defending these lawsuits and other matters related to its agency program reorganization.

Other Matters

Various other legal, governmental, and regulatory actions, including state market conduct exams, and other governmental and regulatory inquiries are currently pending 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; however it is not likely, they will have a material effect on the consolidated financial statements of the Company.

Asbestos and environmental

Allstate's reserves for asbestos claims were \$1.09 billion and \$1.10 billion, net of reinsurance recoverables of \$529 million and \$555 million, as of June 30, 2011 and December 31, 2010, respectively. Reserves for environmental claims were \$192 million and \$201 million, net of reinsurance recoverables of \$44 million and \$47 million, as of June 30, 2011 and December 31, 2010, respectively. Approximately 61% and 60% of the total net asbestos and environmental reserves as of June 30, 2011 and December 31, 2010, respectively, were for incurred but not reported estimated losses.

Management believes its net loss reserves for asbestos, environmental and other discontinued lines exposures are appropriately established based on available facts, technology, laws and regulations. However, establishing net loss reserves for asbestos, environmental and other discontinued lines claims is subject to uncertainties that are much greater than those presented by other types of claims. The ultimate cost of losses may vary

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materially from recorded amounts, which are based on management's best estimate. Among the complications are lack of historical data, long reporting delays, uncertainty as to the number and identity of insureds with potential exposure and unresolved legal issues regarding policy coverage; unresolved legal issues regarding the determination, availability and timing of exhaustion of policy limits; plaintiffs' evolving and expanding theories of liability; availability and collectability of recoveries from reinsurance; retrospectively determined premiums and other contractual agreements; estimates of

the extent and timing of any contractual liability; the impact of bankruptcy protection sought by various asbestos producers and other asbestos defendants; and other uncertainties. There are also complex legal issues concerning the interpretation of various insurance policy provisions and whether those losses are covered, or were ever intended to be covered, and could be recoverable through retrospectively determined premium, reinsurance or other contractual agreements. Courts have reached different and sometimes inconsistent conclusions as to when losses are deemed to have occurred and which policies provide coverage; what types of losses are covered; whether there is an insurer obligation to defend; how policy limits are determined; how policy exclusions and conditions are applied and interpreted; and whether clean-up costs represent insured property damage. Management believes these issues are not likely to be resolved in the near future, and the ultimate costs may vary materially from the amounts currently recorded resulting in material changes in loss reserves. In addition, while the Company believes that improved actuarial techniques and databases have assisted in its ability to estimate asbestos, environmental, and other discontinued lines net loss reserves, these refinements may subsequently prove to be inadequate indicators of the extent of probable losses. Due to the uncertainties and factors described above, management believes it is not practicable to develop a meaningful range for any such additional net loss reserves that may be required.

11. Components of Net Periodic Pension and Postretirement Benefit Costs

The components of net periodic cost for the Company's pension and postretirement benefit plans are as follows:

(\$ in millions)	Three months ended		Six months ended	
	June 30,		June 30,	
	2011	2010	2011	2010
Pension benefits				
Service cost	\$ 38	\$ 37	\$ 76	\$ 75
Interest cost	80	80	161	160
Expected return on plan assets	(92)	(82)	(184)	(165)
Amortization of:				
Prior service credit	(1)	--	(1)	(1)
Net actuarial loss	39	39	77	79
Settlement loss	8	13	17	26
Net periodic pension cost	\$ 72	\$ 87	\$ 146	\$ 174
Postretirement benefits				
Service cost	\$ 3	\$ 3	\$ 6	\$ 6
Interest cost	9	10	18	20
Amortization of:				
Prior service credit	(5)	(5)	(11)	(11)
Net actuarial gain	(8)	(6)	(15)	(11)
Net periodic postretirement benefit cost	\$ (1)	\$ 2	\$ (2)	\$ 4

12. Business Segments

Summarized revenue data for each of the Company's business segments are as follows:

(\$ in millions)	Three months ended		Six months ended	
	2011	June 30, 2010	2011	June 30, 2010
Revenues				
<i>Property-Liability</i>				
Property-liability insurance premiums				
Standard auto	\$ 4,093	\$ 4,154	\$ 8,181	\$ 8,291
Non-standard auto	206	230	417	464
Total auto	4,299	4,384	8,598	8,755
Homeowners	1,548	1,512	3,087	3,028
Other personal lines	610	617	1,221	1,233
Allstate Protection	6,457	6,513	12,906	13,016
Discontinued Lines and Coverages	--	--	(1)	--
Total property-liability insurance premiums	6,457	6,513	12,905	13,016
Net investment income	310	310	594	614
Realized capital gains and losses	(8)	(106)	49	(296)
Total Property-Liability	6,759	6,717	13,548	13,334
<i>Allstate Financial</i>				
Life and annuity premiums and contract charges				
Traditional life insurance	109	104	217	210
Immediate annuities with life contingencies	15	31	58	58
Accident and health insurance	162	151	323	307
Total life and annuity premiums	286	286	598	575
Interest-sensitive life insurance	253	249	501	491
Fixed annuities	8	10	17	23
Total contract charges	261	259	518	514
Total life and annuity premiums and contract charges	547	545	1,116	1,089
Net investment income	694	723	1,378	1,454
Realized capital gains and losses	62	(353)	101	(515)
Total Allstate Financial	1,303	915	2,595	2,028
<i>Corporate and Other</i>				
Service fees	2	3	4	6
Net investment income	16	16	30	31
Realized capital gains and losses	3	8	3	12
Total Corporate and Other before reclassification of service fees	21	27	37	49
Reclassification of service fees (1)	(2)	(3)	(4)	(6)
Total Corporate and Other	19	24	33	43
Consolidated revenues	\$ 8,081	\$ 7,656	\$ 16,176	\$ 15,405

(1) For presentation in the Condensed Consolidated Statements of Operations, service fees of the Corporate and Other segment are reclassified to operating costs and expenses.

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Summarized financial performance data for each of the Company's reportable segments are as follows:

(\$ in millions)	Three months ended		Six months ended	
	2011	June 30, 2010	2011	June 30, 2010
Net income				
<i>Property-Liability</i>				
Underwriting (loss) income				
Allstate Protection	\$ (1,498)	\$ 209	\$ (1,165)	\$ 284
Discontinued Lines and Coverages	(4)	(2)	(10)	(6)
Total underwriting (loss) income	(1,502)	207	(1,175)	278
Net investment income	310	310	594	614
Income tax benefit (expense) on operations	460	(149)	279	(237)
Realized capital gains and losses, after-tax	(6)	(69)	32	(192)
Property-Liability net (loss) income	(738)	299	(270)	463
<i>Allstate Financial</i>				
Life and annuity premiums and contract charges	547	545	1,116	1,089
Net investment income	694	723	1,378	1,454
Periodic settlements and accruals on non-hedge derivative financial instruments	19	11	36	28
Contract benefits and interest credited to contractholder funds	(834)	(935)	(1,713)	(1,840)
Operating costs and expenses and amortization of deferred policy acquisition costs	(213)	(157)	(435)	(335)
Restructuring and related charges	--	1	2	1
Income tax expense on operations	(72)	(63)	(127)	(133)
Operating income	141	125	257	264
Realized capital gains and losses, after-tax	40	(230)	65	(335)
Valuation changes on embedded derivatives that are not hedged, after-tax	(3)	--	5	--
DAC and DSI (amortization) accretion related to realized capital gains and losses and valuation changes on embedded derivatives that are not hedged, after-tax	(5)	4	(31)	2
DAC and DSI unlocking related to realized capital gains and losses, after-tax	--	--	1	(18)
Reclassification of periodic settlements and accruals on non-hedge financial instruments, after-tax	(11)	(7)	(23)	(18)
Gain (loss) on disposition of operations, after-tax	4	1	(11)	2
Allstate Financial net income (loss)	166	(107)	263	(103)
<i>Corporate and Other</i>				
Service fees (1)	2	3	4	6
Net investment income	16	16	30	31
Operating costs and expenses (1)	(100)	(104)	(193)	(204)
Income tax benefit on operations	32	33	63	65
Operating loss	(50)	(52)	(96)	(102)
Realized capital gains and losses, after-tax	2	5	2	7
Corporate and Other net loss	(48)	(47)	(94)	(95)
Consolidated net (loss) income	\$ (620)	\$ 145	\$ (101)	\$ 265

(1) For presentation in the Condensed Consolidated Statements of Operations, service fees of the Corporate and Other segment are reclassified to operating costs and expenses.

13. Other Comprehensive Income

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

(\$ in millions)	2011		Three months ended June 30,		2010		After-tax
	Pre-tax	Tax	After-tax	Pre-tax	Tax	After-tax	
Unrealized net holding gains and losses arising during the period, net of related offsets	\$ 676	\$ (237)	\$ 439	\$ 492	\$ (172)	\$ 320	
Less: reclassification adjustment of realized capital gains and losses	111	(39)	72	(142)	50	(92)	
Unrealized net capital gains and losses	565	(198)	367	634	(222)	412	
Unrealized foreign currency translation adjustments	7	(3)	4	(27)	10	(17)	
Unrecognized pension and other postretirement benefit cost	24	(7)	17	31	(10)	21	
Other comprehensive income	\$ 596	\$ (208)	388	\$ 638	\$ (222)	416	
Net (loss) income			(620)			145	
Comprehensive (loss) income			\$ (232)			\$ 561	
			Six months ended June 30,				
	2011		2010				
	Pre-tax	Tax	After-tax	Pre-tax	Tax	After-tax	
Unrealized net holding gains and losses arising during the period, net of related offsets	\$ 1,044	\$ (366)	\$ 678	\$ 1,574	\$ (550)	\$ 1,024	
Less: reclassification adjustment of realized capital gains and losses	257	(90)	167	(268)	94	(174)	
Unrealized net capital gains and losses	787	(276)	511	1,842	(644)	1,198	
Unrealized foreign currency translation adjustments	22	(8)	14	(5)	2	(3)	
Unrecognized pension and other postretirement benefit cost	47	(15)	32	57	(19)	38	
Other comprehensive income	\$ 856	\$ (299)	557	\$ 1,894	\$ (661)	1,233	
Net (loss) income			(101)			265	
Comprehensive income			\$ 456			\$ 1,498	

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of

The Allstate Corporation

Northbrook, IL 60062

We have reviewed the accompanying condensed consolidated statement of financial position of The Allstate Corporation and subsidiaries (the Company) as of June 30, 2011, and the related condensed consolidated statements of operations for the three-month and six-month periods ended June 30, 2011 and 2010, and the condensed consolidated statements of cash flows for the six-month periods ended June 30, 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 The Allstate Corporation and subsidiaries as of December 31, 2010, and the related consolidated statements of operations, comprehensive income, shareholders' equity, and cash flows for the year then ended (not presented herein); and in our report dated February 24, 2011, which report includes an explanatory paragraph relating to a change in the Company's recognition and presentation for other-than-temporary impairments of debt securities in 2009, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated statement of financial position as of December 31, 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
July 29, 2011

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE THREE-MONTH AND SIX-MONTH PERIODS ENDED JUNE 30, 2011 AND 2010

OVERVIEW

The following discussion highlights significant factors influencing the consolidated financial position and results of operations of The Allstate Corporation (referred to in this document as we, our, us, the Company or Allstate). It should be read in conjunction with the condensed consolidated financial statements and notes thereto found under Part I. Item 1. contained herein, and with the discussion, analysis, consolidated financial statements and notes thereto in Part I. Item 1. and Part II. Item 7. and Item 8. of The Allstate Corporation Annual Report on Form 10-K for 2010. Further analysis of our insurance segments is provided in the Property-Liability Operations (which includes the Allstate Protection and the Discontinued Lines and Coverages segments) and in the Allstate Financial Segment sections of Management's Discussion and Analysis (MD&A). The segments are consistent with the way in which we use financial information to evaluate business performance and to determine the allocation of resources.

Allstate is focused on three priorities:

- improve our operating results;
- grow our businesses profitably; and
- differentiate ourselves from the competition by reinventing our business.

HIGHLIGHTS

- Consolidated net loss was \$620 million in the second quarter of 2011 compared to net income of \$145 million in the second quarter of 2010, and net loss was \$101 million in the first six months of 2011 compared to net income of \$265 million in the first six months of 2010. Net loss per diluted share was \$1.19 in the second quarter of 2011 compared to net income per diluted share of \$0.27 in the second quarter of 2010, and net loss per diluted share was \$0.19 in the first six months of 2011 compared to net income per diluted share of \$0.49 in the first six months of 2010.
- Property-Liability net loss was \$738 million in the second quarter of 2011 compared to net income of \$299 million in the second quarter of 2010, and net loss was \$270 million in the first six months of 2011 compared to net income of \$463 million in the first six months of 2010.
- The Property-Liability combined ratio was 123.3 in the second quarter of 2011 compared to 96.8 in the second quarter of 2010, and 109.1 in the first six months of 2011 compared to 97.9 in the first six months of 2010.
- Allstate Financial had net income of \$166 million in the second quarter of 2011 compared to a net loss of \$107 million in the second quarter of 2010, and net income of \$263 million in the first six months of 2011 compared to a net loss of \$103 million in the first six months of 2010.

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- Total revenues were \$8.08 billion in the second quarter of 2011 compared to \$7.66 billion in the second quarter of 2010, and \$16.18 billion in the first six months of 2011 compared to \$15.41 billion in the first six months of 2010.
- Property-Liability premiums earned in the second quarter of 2011 totaled \$6.46 billion, a decrease of 0.9% from \$6.51 billion in the second quarter of 2010, and \$12.91 billion in the first six months of 2011, a decrease of 0.9% from \$13.02 billion in the first six months of 2010.
- Net realized capital gains were \$57 million in the second quarter of 2011 compared to net realized capital losses of \$451 million in the second quarter of 2010, and net realized capital gains were \$153 million in the first six months of 2011 compared to net realized capital losses of \$799 million in the first six months of 2010.
- Investments as of June 30, 2011 totaled \$99.29 billion, a decrease of 1.2% from \$100.48 billion as of December 31, 2010. Net investment income in the second quarter of 2011 was \$1.02 billion, a decrease of 2.8% from \$1.05 billion in the second quarter of 2010, and \$2.00 billion in the first six months of 2011, a decrease of 4.6% from \$2.10 billion in the first six months of 2010.
- Book value per diluted share (ratio of shareholders' equity to total shares outstanding and dilutive potential shares outstanding) was \$35.95 as of June 30, 2011, an increase of 8.2% from \$33.24 as of June 30, 2010 and an increase of 1.8% from \$35.32 as of December 31, 2010.
- For the twelve months ended June 30, 2011, return on the average of beginning and ending period shareholders' equity was 3.1%, a decrease of 3.0 points from 6.1% for the twelve months ended June 30, 2010.
- As of June 30, 2011, we had \$18.76 billion in shareholders' equity. This total included \$3.49 billion in deployable invested assets at the parent holding company level.

- On May 17, 2011, we entered into a definitive agreement with White Mountains Insurance Group, Ltd. to purchase certain entities making up the Esurance and Answer Financial groups of companies for \$700 million plus the tangible book value of the entities acquired at close. The total price is expected to be about \$1 billion. The transaction is expected to close in the fall of 2011. The transaction is subject to regulatory approvals and other customary closing conditions, including review by antitrust authorities and state regulators.

CONSOLIDATED NET (LOSS) INCOME

(\$ in millions)	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
Revenues				
Property-liability insurance premiums	\$ 6,457	\$ 6,513	\$ 12,905	\$ 13,016
Life and annuity premiums and contract charges	547	545	1,116	1,089
Net investment income	1,020	1,049	2,002	2,099
Realized capital gains and losses:				
Total other-than-temporary impairment losses	(82)	(288)	(238)	(538)
Portion of loss recognized in other comprehensive income	(4)	(18)	(31)	(23)
Net other-than-temporary impairment losses recognized in earnings	(86)	(306)	(269)	(561)
Sales and other realized capital gains and losses	143	(145)	422	(238)
Total realized capital gains and losses	57	(451)	153	(799)
Total revenues	8,081	7,656	16,176	15,405
Costs and expenses				
Property-liability insurance claims and claims expense	(6,355)	(4,714)	(10,831)	(9,506)
Life and annuity contract benefits	(422)	(485)	(876)	(927)
Interest credited to contractholder funds	(417)	(450)	(835)	(913)
Amortization of deferred policy acquisition costs	(1,018)	(949)	(2,069)	(1,963)
Operating costs and expenses	(802)	(789)	(1,640)	(1,618)
Restructuring and related charges	(11)	(13)	(20)	(24)
Interest expense	(91)	(92)	(183)	(184)
Total costs and expenses	(9,116)	(7,492)	(16,454)	(15,135)
Gain (loss) on disposition of operations	6	2	(17)	3
Income tax benefit (expense)	409	(21)	194	(8)
Net (loss) income	\$ (620)	\$ 145	\$ (101)	\$ 265
Property-Liability	\$ (738)	\$ 299	\$ (270)	\$ 463
Allstate Financial	166	(107)	263	(103)
Corporate and Other	(48)	(47)	(94)	(95)
Net (loss) income	\$ (620)	\$ 145	\$ (101)	\$ 265

PROPERTY-LIABILITY HIGHLIGHTS

- Premiums written, an operating measure that is defined and reconciled to premiums earned in the Property-Liability Operations section of the MD&A, decreased 0.4% to \$6.61 billion in the second quarter of 2011 from \$6.64 billion in the second quarter of 2010, and decreased 0.6% to \$12.83 billion in the first six months of 2011 from \$12.90 billion in the first six months of 2010.

Allstate brand standard auto premiums written decreased 0.9% to \$3.91 billion in the second quarter of 2011 from \$3.95 billion in the second quarter of 2010, and 1.0% to \$7.90 billion in the first six months of 2011 from \$7.97 billion in the first six months of 2010.

Allstate brand homeowners premiums written increased 2.6% to \$1.61 billion in the second quarter of 2011 from \$1.57 billion in the second quarter of 2010, and increased 2.8% to \$2.83 billion in the first six months of 2011 from \$2.75 billion in the first six months of 2010.

Encompass brand premiums written decreased 5.2% to \$273 million in the second quarter of 2011 from \$288 million in the second quarter of 2010, and 6.0% to \$518 million in the first six months of 2011 from \$551 million in the first six months of 2010.

- Premium operating measures and statistics contributing to overall Allstate brand standard auto premiums written decrease were the following:

0.6% decrease in policies in force (PIF) as of June 30, 2011 compared to June 30, 2010

0.5% decrease in the six month policy term average gross premium before reinsurance to \$442 in the second quarter of 2011 from \$444 in the second quarter of 2010, and 0.7% decrease in the six month policy term average gross premium before reinsurance to \$441 in the first six months of 2011 from \$444 in the first six months of 2010

0.2 point increase in the six month renewal ratio to 89.2% in the second quarter of 2011 compared to 89.0% in the second quarter of 2010, and a 0.1 point increase in the six month renewal ratio to 89.0% in the first six months of 2011 compared to 88.9% in the first six months of 2010

5.2% decrease and 3.0% increase in new issued applications in the second quarter and first six months of 2011, respectively, compared to the same periods of 2010

- Premium operating measures and statistics contributing to overall Allstate brand homeowners premiums written increase were the following:

3.9% decrease in PIF as of June 30, 2011 compared to June 30, 2010

6.0% increase in the twelve month policy term average gross premium before reinsurance to \$989 in the second quarter of 2011 from \$933 in the second quarter of 2010, and 6.0% increase in the twelve month policy term average gross premium before reinsurance to \$983 in the first six months of 2011 from \$927 in the first six months of 2010

0.1 point increase in the twelve month renewal ratio to 88.4% in the second quarter of 2011 compared to 88.3% in the second quarter of 2010, and 0.1 increase in the twelve month renewal ratio to 88.3% in the first six months of 2011 compared to 88.2% in the first six months of 2010

18.5% and 12.2% decrease in new issued applications in the second quarter and first six months of 2011, respectively, compared to the same periods of 2010

\$9 million decrease in catastrophe reinsurance costs to \$127 million in the second quarter of 2011 from \$136 million in the second quarter of 2010, and \$20 million decrease in catastrophe reinsurance costs to \$251 million in the first six months of 2011 from \$271 million in the first six months of 2010

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- Factors comprising the Allstate brand standard auto loss ratio increase of 3.1 points to 73.2 in the second quarter of 2011 from 70.1 in the second quarter of 2010, and an increase of 1.9 points to 71.7 in the first six months of 2011 from 69.8 in the first six months of 2010 were the following:

4.7 point and 2.3 point increase in the effect of catastrophe losses in the second quarter and first six months of 2011, respectively, compared to the same periods of 2010

3.9% and 1.4% decrease in standard auto claim frequency (rate of claim occurrence per policy in force) for property damage in the second quarter and first six months of 2011, respectively, compared to the same periods of 2010

2.3% decrease and 0.3% increase in standard auto claim frequency for bodily injury in the second quarter and first six months of 2011, respectively, compared to the same periods of 2010

1.1% and 1.0% increase in auto paid claim severities (average cost per claim) for property damage in the second quarter and first six months of 2011, respectively, compared to the same periods of 2010

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0.4% and 2.0% increase in auto paid claim severities for bodily injury in the second quarter and first six months of 2011, respectively, compared to the same periods of 2010

- Factors comprising the Allstate brand homeowners loss ratio, which includes catastrophes, increase of 88.5 points to 171.1 in the second quarter of 2011 from 82.6 in the second quarter of 2010, and a increase of 34.7 points to 119.7 in the first six months of 2011 from 85.0 in the first six months of 2010 were the following:

88.5 point increase in the effect of catastrophe losses to 123.2 points in the second quarter of 2011 compared to 34.7 points in the second quarter of 2010, and 34.7 point increase in the effect of catastrophe losses to 70.6 points in the first six months of 2011 compared to 35.9 points in the first six months of 2010

0.8% decrease and 0.4% increase in homeowner claim frequency, excluding catastrophes, in the second quarter and first six months of 2011, respectively, compared to the same periods of 2010

3.4% and 3.5% increase in paid claim severity, excluding catastrophes, in the second quarter and first six months of 2011, respectively, compared to the same periods of 2010

- Factors comprising the \$1.70 billion increase in catastrophe losses to \$2.34 billion in the second quarter of 2011 compared to \$636 million in the second quarter of 2010, and \$1.39 billion increase to \$2.67 billion in the first six months of 2011 compared to \$1.28 billion in the first six months of 2010 were the following:

33 events with losses of \$2.34 billion in the second quarter of 2011 compared to 30 events with losses of \$758 million in the second quarter of 2010, and 49 events with losses of \$2.72 billion in the first six months of 2011 compared to 41 events with losses of \$1.38 billion in the first six months of 2010

\$17 million favorable prior year reserve reestimates in the second quarter of 2011 compared to \$83 million favorable reserve reestimates in the second quarter of 2010, and \$51 million favorable reserve reestimates in the first six months of 2011 compared to \$98 million favorable reserve reestimates in the first six months of 2010

- Factors comprising prior year reserve reestimates of \$47 million favorable in the second quarter of 2011 compared to \$150 million favorable in the second quarter of 2010, and prior year reserve reestimates of \$88 million favorable in the first six months of 2011 compared to \$173 million favorable in the first six months of 2010 included:

prior year reserve reestimates related to auto, homeowners and other personal lines in the second quarter of 2011 contributed \$90 million favorable, \$3 million unfavorable and \$36 million unfavorable, respectively, compared to prior year reserve reestimates in the second quarter of 2010 of \$85 million favorable, \$61 million favorable and \$5 million favorable, respectively, and prior year reserve reestimates related to auto, homeowners and other personal lines in the first six months of 2011 contributed \$109 million favorable, \$35 million favorable and \$49 million unfavorable, respectively, compared to prior year reserve reestimates in the first six months of 2010 of \$80 million favorable, \$69 million favorable and \$27 million favorable, respectively

prior year reestimates in the second quarter and first six months of 2011 and 2010 are largely attributable to prior year catastrophes and severity development that was better than expected.

- Property-Liability underwriting loss was \$1.50 billion in the second quarter of 2011 compared to underwriting income of \$207 million in the second quarter of 2010, and Property-Liability underwriting loss was \$1.18 billion in the first six months of 2011 compared to underwriting income of \$278 million in the first six months of 2010. Underwriting income (loss), a measure not based on accounting principles generally accepted in the United States of America (GAAP), is defined below.

- Net realized capital losses were \$8 million in the second quarter of 2011 compared to net realized capital losses of \$106 million in the second quarter of 2010, and net realized capital gains were \$49 million in the first six months of 2011 compared to net realized capital losses of \$296 million in the first six months of 2010.

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- Property-Liability investments as of June 30, 2011 were \$36.12 billion, an increase of 3.1% from \$35.05 billion as of December 31, 2010. Net investment income of \$310 million in the second quarter of 2011 was comparable to the second quarter of 2010. Net investment income was \$594 million in the first six months of 2011, a decrease of 3.3% from \$614 million in the first six months of 2010.

PROPERTY-LIABILITY OPERATIONS

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

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

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

- Claims and claims expense (loss) ratio - the ratio of claims and claims expense to premiums earned. Loss ratios include the impact of catastrophe losses.
- Expense ratio - the ratio of amortization of DAC, operating costs and expenses, and restructuring and related charges to premiums earned.
- Combined ratio - the ratio of claims and claims expense, amortization of DAC, operating costs and expenses, and restructuring and related charges to premiums earned. The combined ratio is the sum of the loss ratio and the expense ratio. The difference between 100% and the combined ratio represents underwriting income (loss) as a percentage of premiums earned, or underwriting margin.

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

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

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

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

(\$ in millions, except ratios)	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
Premiums written	\$ 6,611	\$ 6,640	\$ 12,826	\$ 12,898
Revenues				
Premiums earned	\$ 6,457	\$ 6,513	\$ 12,905	\$ 13,016
Net investment income	310	310	594	614
Realized capital gains and losses	(8)	(106)	49	(296)
Total revenues	6,759	6,717	13,548	13,334
Costs and expenses				
Claims and claims expense	(6,355)	(4,714)	(10,831)	(9,506)
Amortization of DAC	(908)	(914)	(1,812)	(1,839)
Operating costs and expenses	(685)	(664)	(1,415)	(1,368)
Restructuring and related charges	(11)	(14)	(22)	(25)
Total costs and expenses	(7,959)	(6,306)	(14,080)	(12,738)
Income tax benefit (expense)	462	(112)	262	(133)
Net (loss) income	\$ (738)	\$ 299	\$ (270)	\$ 463
Underwriting (loss) income				
Net investment income	310	310	594	614
Income tax benefit (expense) on operations	460	(149)	279	(237)
Realized capital gains and losses, after-tax	(6)	(69)	32	(192)
Net (loss) income	\$ (738)	\$ 299	\$ (270)	\$ 463
Catastrophe losses (1)	\$ 2,339	\$ 636	\$ 2,672	\$ 1,284
GAAP operating ratios				
Claims and claims expense ratio	98.4	72.4	83.9	73.1
Expense ratio	24.9	24.4	25.2	24.8
Combined ratio	123.3	96.8	109.1	97.9
Effect of catastrophe losses on combined ratio (1)	36.2	9.8	20.7	9.9
Effect of prior year reserve reestimates on combined ratio (1)	(0.7)	(2.3)	(0.7)	(1.3)
Effect of restructuring and related charges on combined ratio	0.2	0.2	0.2	0.2
Effect of Discontinued Lines and Coverages on combined ratio	0.1	--	0.1	0.1

(1) Prior year reserve reestimates included in catastrophe losses totaled \$17 million and \$51 million favorable in the three months and six months ended June 30, 2011, respectively, compared to \$83 million and \$98 million favorable in the three months and six months ended June 30, 2010, respectively.

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

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

(\$ in millions)	Three months ended		Six months ended	
	June 30,		June 30,	
	2011	2010	2011	2010
Premiums written:				
Allstate Protection	\$ 6,611	\$ 6,640	\$ 12,827	\$ 12,898
Discontinued Lines and Coverages	--	--	(1)	--
Property-Liability premiums written	6,611	6,640	12,826	12,898
(Increase) decrease in unearned premiums	(165)	(110)	69	135
Other	11	(17)	10	(17)
Property-Liability premiums earned	\$ 6,457	\$ 6,513	\$ 12,905	\$ 13,016
Premiums earned:				
Allstate Protection	\$ 6,457	\$ 6,513	\$ 12,906	\$ 13,016
Discontinued Lines and Coverages	--	--	(1)	--
Property-Liability	\$ 6,457	\$ 6,513	\$ 12,905	\$ 13,016

ALLSTATE PROTECTION SEGMENT

Premiums written by brand are shown in the following table.

(\$ in millions)	Three months ended June 30,					
	Allstate brand		Encompass brand		Allstate Protection	
	2011	2010	2011	2010	2011	2010
Standard auto	\$ 3,911	\$ 3,948	\$ 154	\$ 169	\$ 4,065	\$ 4,117
Non-standard auto	197	220	--	1	197	221
Homeowners	1,606	1,565	94	94	1,700	1,659
Other personal lines (1)	624	619	25	24	649	643
Total	\$ 6,338	\$ 6,352	\$ 273	\$ 288	\$ 6,611	\$ 6,640
Six months ended June 30,						
	Allstate brand		Encompass brand		Allstate Protection	
	2011	2010	2011	2010	2011	2010
Standard auto	\$ 7,895	\$ 7,971	\$ 298	\$ 329	\$ 8,193	\$ 8,300
Non-standard auto	407	457	1	4	408	461
Homeowners	2,831	2,754	173	174	3,004	2,928
Other personal lines (1)	1,176	1,165	46	44	1,222	1,209
Total	\$ 12,309	\$ 12,347	\$ 518	\$ 551	\$ 12,827	\$ 12,898

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

Allstate brand premiums written by the direct channel, excluding Allstate Canada, increased 10.5% to \$200 million in the second quarter of 2011 from \$181 million in the second quarter of 2010, and 10.9% to \$406 million in the first six months of 2011 from \$366 million in the first six months of 2010, reflecting an impact by profitability management actions taken in New York and Florida. The direct channel includes call

centers and the internet.

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Premiums earned by brand are shown in the following table.

(\$ in millions)	Three months ended June 30,					
	Allstate brand		Encompass brand		Allstate Protection	
	2011	2010	2011	2010	2011	2010
Standard auto	\$ 3,938	\$ 3,969	\$ 155	\$ 185	\$ 4,093	\$ 4,154
Non-standard auto	205	228	1	2	206	230
Homeowners	1,457	1,416	91	96	1,548	1,512
Other personal lines	587	592	23	25	610	617
Total	\$ 6,187	\$ 6,205	\$ 270	\$ 308	\$ 6,457	\$ 6,513

(\$ in millions)	Six months ended June 30,					
	Allstate brand		Encompass brand		Allstate Protection	
	2011	2010	2011	2010	2011	2010
Standard auto	\$ 7,866	\$ 7,912	\$ 315	\$ 379	\$ 8,181	\$ 8,291
Non-standard auto	415	458	2	6	417	464
Homeowners	2,905	2,832	182	196	3,087	3,028
Other personal lines	1,175	1,184	46	49	1,221	1,233
Total	\$ 12,361	\$ 12,386	\$ 545	\$ 630	\$ 12,906	\$ 13,016

Premium operating measures and statistics that are used to analyze the business are calculated and described below. Measures and statistics presented for Allstate brand exclude Allstate Canada, loan protection and specialty auto.

- PIF: Policy counts are based on items rather than customers. A multi-car customer would generate multiple item (policy) counts, even if all cars were insured under one policy.
- Average premium-gross written: Gross premiums written divided by issued item count. Gross premiums written include the impacts from discounts and surcharges, and exclude the impacts from mid-term premium adjustments, ceded reinsurance premiums, and premium refund accruals. Allstate brand average gross premiums represent the appropriate policy term for each line, which is 6 months for standard and non-standard auto and 12 months for homeowners. Encompass brand average gross premiums represent the appropriate policy term for each line, which is 12 months for standard auto and homeowners and 6 months for non-standard auto.
- Renewal ratio: Renewal policies issued during the period, based on contract effective dates, divided by the total policies issued 6 months prior for standard and non-standard auto (12 months prior for Encompass brand standard auto) or 12 months prior for homeowners.
- New issued applications: Item counts of automobiles or homeowners insurance applications for insurance policies that were issued during the period. Does not include automobiles that are added by existing customers.

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Standard auto premiums written totaled \$4.07 billion in the second quarter of 2011, a decrease of 1.3% from \$4.12 billion in the second quarter of 2010, and \$8.19 billion in the first six months of 2011, a decrease of 1.3% from \$8.30 billion in the first six months of 2010.

<u>Standard Auto</u>	Allstate brand		Encompass brand	
	2011	2010	2011	2010
Three months ended June 30,				
PIF (thousands)	17,420	17,529	672	750
Average premium-gross written (1)	\$ 442	\$ 444	\$ 938	\$ 989
Renewal ratio (%) (1)	89.2	89.0	70.2	66.9
Approved rate changes (2):				
# of states	18(8)	32(6) (7)	3	10
Countrywide (%) (3)	1.9	0.2	0.3	(0.1)
State specific (%) (4) (5)	5.3	0.5	4.0	(0.5)
Six months ended June 30,				
PIF (thousands)	17,420	17,529	672	750
Average premium-gross written (1)	\$ 441	\$ 444	\$ 945	\$ 993
Renewal ratio (%) (1)	89.0	88.9	70.7	67.8
Approved rate changes (2):				
# of states (6)	24(8)	34 (7)	6	14
Countrywide (%) (3)	3.1	0.5	0.9	1.4
State specific (%) (4) (5)	5.8	1.1	4.6	3.2

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

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

(3) Represents the impact in the states where rate changes were approved during the three months and six months ended June 30, 2011 and 2010, respectively, as a percentage of total countrywide prior year-end premiums written.

(4) Represents the impact in the states where rate changes were approved during the three months and six months ended June 30, 2011 and 2010, respectively, as a percentage of its respective total prior year-end premiums written in those states.

(5) Based on historical premiums written in those states, rate changes approved for standard auto totaled \$298 million and \$474 million in the three months and six months ended June 30, 2011, respectively, compared to \$23 million and \$82 million in the three months and six months ended June 30, 2010, respectively.

(6) Allstate Brand includes targeted rate decreases in certain markets to improve our competitive position for target customers.

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(7) Includes Washington D.C.

(8) Three months ended June 30, 2011 includes the impact of Florida rate increases of 20.0% and 6.0%, and a New York rate increase of 3.7%. Six months ended June 30, 2011 includes the impact of Florida rate increases of 20.9%, 20.0%, 6.0% and 2.3%, and New York rate increases of 12.0% and 3.7%.

Allstate brand standard auto premiums written totaled \$3.91 billion in the second quarter of 2011, a decrease of 0.9% from \$3.95 billion in the second quarter of 2010, and \$7.90 billion in the first six months of 2011, a decrease of 1.0% from \$7.97 billion in the first six months of 2010. Contributing to the Allstate brand standard auto premiums written decrease in the second quarter and first six months of 2011 compared to the same periods of 2010 were the following:

decrease in PIF of 0.6% as of June 30, 2011 compared to June 30, 2010, due to fewer policies available to renew and a slight decrease in net items added to existing policies. Excluding Florida and New York, PIF increased 0.2% as of June 30, 2011 compared to June 30, 2010.

5.2% decrease in new issued applications on a countrywide basis to 472 thousand in the second quarter of 2011 from 498 thousand in the second quarter of 2010, and 3.0% increase to 991 thousand in the first six months of 2011 from 962 thousand in the first six months of 2010. Excluding Florida and New York (impacted by actions to improve profitability), new issued applications on a countrywide basis increased 2.4% to 422 thousand in the second quarter of 2011 from 412 thousand in the second quarter of 2010, and increased 9.3% to

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871 thousand in the first six months of 2011 from 797 thousand in the first six months of 2010. New issued applications have increased in 34 states in 2011 compared to 2010.

decreased average gross premium in the second quarter and first six months of 2011 compared to the same periods of 2010. The decrease in average gross premium is primarily due to rate decreases taken from the second half of 2010 through the first quarter of 2011 to improve competitive position, as well as customers electing lower coverage levels on their policies. State mix is also having an unfavorable impact on average gross premium, as we have been writing less business in Florida and New York, which have premiums higher than the countrywide average, and are writing more business in states with lower average premiums.

0.2 point and 0.1 point increase in the renewal ratio in the second quarter and first six months of 2011, respectively, compared to the same periods of 2010. 25 states are showing favorable comparisons to same period of prior year.

Non-standard auto premiums written totaled \$197 million in the second quarter of 2011, a decrease of 10.9% from \$221 million in the second quarter of 2010, and \$408 million in the first six months of 2011, a decrease of 11.5% from \$461 million in the first six months of 2010.

<u>Non-Standard Auto</u>	Allstate brand		Encompass brand	
	2011	2010	2011	2010
Three months ended June 30,				
PIF (thousands)	599	706	3	10
Average premium-gross written (6 months)	\$ 620	\$ 619	\$ 418	\$ 429
Renewal ratio (%) (6 months)	70.8	72.5	42.8	40.2
Approved rate changes:				
# of states	3	5(2)	--	--
Countrywide (%)	0.4	2.7	--	--
State specific (%) (1)	6.1	10.9	--	--
Six months ended June 30,				
PIF (thousands)	599	706	3	10
Average premium-gross written (6 months)	\$ 620	\$ 619	\$ 407	\$ 436
Renewal ratio (%) (6 months)	70.6	72.1	56.7	45.3
Approved rate changes:				
# of states	6	6(2)	--	--
Countrywide (%)	4.0	3.6	--	--
State specific (%) (1)	15.3	12.5	--	--

(1) Based on historical premiums written in those states, rate changes approved for non-standard auto totaled \$3 million and \$33 million in the three months and six months ended June 30, 2011, respectively, compared to \$24 million and \$32 million in the three months and six months ended June 30, 2010, respectively.

(2) Includes Washington D.C.

Allstate brand non-standard auto premiums written totaled \$197 million in the second quarter of 2011, a decrease of 10.5% from \$220 million in the second quarter of 2010, and \$407 million in the first six months of 2011, a decrease of 10.9% from \$457 million in the first six months of 2010. Contributing to the Allstate brand non-standard auto premiums written decrease in the second quarter and first six months of 2011 compared to the same periods of 2010 were the following:

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decrease in PIF as of June 30, 2011 compared to June 30, 2010, due to a decline in the number of policies available to renew, a lower retention rate and fewer new issued applications

23.4% decrease in new issued applications to 59 thousand in the second quarter of 2011 from 77 thousand in the second quarter of 2010, and 22.2% decrease to 137 thousand in the first six months of 2011 from 176 thousand in the first six months of 2010

increase in average gross premium in the second quarter and first six months of 2011 compared to the same periods of 2010

1.7 point and 1.5 point decrease in the renewal ratio in the second quarter and first six months of 2011, respectively, compared to the same periods of 2010

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Homeowners premiums written totaled \$1.70 billion in the second quarter of 2011, an increase of 2.5% from \$1.66 billion in the second quarter of 2010, and \$3.00 billion in the first six months of 2011, an increase of 2.6% from \$2.93 billion in the first six months of 2010. Excluding the cost of catastrophe reinsurance, premiums written increased 1.8% in both the second quarter and first six months of 2011 compared to the same periods of 2010.

<u>Homeowners</u>	Allstate brand		Encompass brand	
	2011	2010	2011	2010
Three months ended June 30,				
PIF (thousands)	6,555	6,821	307	336
Average premium-gross written (12 months)	\$ 989	\$ 933	\$ 1,298	\$ 1,301
Renewal ratio (%) (12 months)	88.4	88.3	80.9	76.5
Approved rate changes (1):				
# of states	18	14(3)	11(3)	7
Countrywide (%)	1.5	2.0	0.3	--
State specific (%) (2)	6.0	11.3	2.6	(0.3)
Six months ended June 30,				
PIF (thousands)	6,555	6,821	307	336
Average premium-gross written (12 months)	\$ 983	\$ 927	\$ 1,298	\$ 1,300
Renewal ratio (%) (12 months)	88.3	88.2	81.6	76.9
Approved rate changes (1):				
# of states	27(3)	19(3)	16(3)	11
Countrywide (%)	3.4	2.9	1.6	0.6
State specific (%) (2)	8.2	9.7	4.1	2.5

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

(2) Based on historical premiums written in those states, rate changes approved for homeowners totaled \$94 million and \$210 million in the three months and six months ended June 30, 2011, respectively, compared to \$120 million and \$174 million in the three months and six months ended June 30, 2010, respectively.

(3) Includes Washington D.C.

Allstate brand homeowners premiums written totaled \$1.61 billion in the second quarter of 2011, an increase of 2.6% from \$1.57 billion in the second quarter of 2010, and \$2.83 billion in the first six months of 2011, an increase of 2.8% from \$2.75 billion in the first six months of 2010. Contributing to the Allstate brand homeowners premiums written increase in the second quarter and first six months of 2011 compared to the same periods of 2010 were the following:

decrease in PIF of 3.9% as of June 30, 2011 compared to June 30, 2010, due to fewer policies available to renew and fewer new issued applications

18.5% decrease in new issued applications to 123 thousand in the second quarter of 2011 from 151 thousand in the second quarter of 2010, and 12.2% decrease to 237 thousand in the first six months of 2011 from 270 thousand in the first six months of 2010. During the second quarter of 2011, our Castle Key Indemnity Company subsidiary completed a 2008 regulatory consent decree to sell 50,000 new homeowners policies in Florida by November 2011.

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increase in average gross premium in the second quarter and first six months of 2011 compared to the same periods of 2010, primarily due to rate changes

0.1 point increase in the renewal ratio in both the second quarter and first six months of 2011 compared to the same periods of 2010

decrease in the cost of our catastrophe reinsurance program in the second quarter and first six months of 2011 compared to the same periods of 2010

Underwriting results are shown in the following table.

(\$ in millions)	Three months ended			Six months ended		
	June 30,			June 30,		
	2011	2010		2011	2010	
Premiums written	\$ 6,611	\$ 6,640	\$	12,827	\$ 12,898	\$
Premiums earned	\$ 6,457	\$ 6,513	\$	12,906	\$ 13,016	\$
Claims and claims expense	(6,352)	(4,713)		(10,824)	(9,503)	
Amortization of DAC	(908)	(914)		(1,812)	(1,839)	
Other costs and expenses	(684)	(663)		(1,413)	(1,365)	
Restructuring and related charges	(11)	(14)		(22)	(25)	
Underwriting (loss) income	\$ (1,498)	\$ 209	\$	(1,165)	\$ 284	\$
Catastrophe losses	\$ 2,339	\$ 636	\$	2,672	\$ 1,284	\$
Underwriting (loss) income by line of business						
Standard auto	\$ 59	\$ 217	\$	247	\$ 430	\$
Non-standard auto	15	10		40	25	
Homeowners	(1,397)	(57)		(1,270)	(249)	
Other personal lines	(175)	39		(182)	78	
Underwriting (loss) income	\$ (1,498)	\$ 209	\$	(1,165)	\$ 284	\$
Underwriting (loss) income by brand						
Allstate brand	\$ (1,444)	\$ 201	\$	(1,110)	\$ 319	\$
Encompass brand	(54)	8		(55)	(35)	
Underwriting (loss) income	\$ (1,498)	\$ 209	\$	(1,165)	\$ 284	\$

Allstate Protection experienced an underwriting loss of \$1.50 billion in the second quarter of 2011 compared to underwriting income of \$209 million in the same period of 2010, and an underwriting loss of \$1.17 billion in the first six months of 2011 compared to underwriting income of \$284 million in the same period of 2010. The decrease in both periods was primarily due to decreases in homeowners, other personal lines and standard auto underwriting income. Homeowners underwriting income decreased \$1.34 billion to an underwriting loss of \$1.40 billion in the second quarter of 2011 from an underwriting loss of \$57 million in the second quarter of 2010, and decreased \$1.02 billion to an underwriting loss of \$1.27 billion in the first six months of 2011 from an underwriting loss of \$249 million in the first six months of 2010. The decrease in both periods was primarily due to increases in catastrophe losses, including prior year reestimates for catastrophes. Other personal lines underwriting income decreased \$214 million to an underwriting loss of \$175 million in the second quarter of 2011 from an underwriting income of \$39 million in the second quarter of 2010, and decreased \$260 million to an underwriting loss of \$182 million in the first six months of 2011 from an underwriting income of \$78 million in the first six months of 2010. The decrease in both periods was primarily due to increases in catastrophe losses and unfavorable reserve reestimates. Standard auto underwriting income decreased \$158 million to an underwriting income of \$59 million in the second quarter of 2011 from an underwriting income of \$217 million in the second quarter of 2010, and decreased \$183 million to an underwriting income of \$247 million in the first six months of 2011 from an underwriting income of \$430 million in the first six months of 2010. The decrease in both periods was primarily due to increases in catastrophe losses, partially offset by improved claim frequency.

Catastrophe losses in the second quarter and first six months of 2011 were \$2.34 billion and \$2.67 billion, respectively, as detailed in the table below. This compares to catastrophe losses in the second quarter and first six months of 2010 of \$636 million and \$1.28 billion, respectively.

We define a catastrophe as an event that produces pre-tax losses before reinsurance in excess of \$1 million and involves multiple first party policyholders, or an event that produces a number of claims in excess of a preset, per-event threshold of average claims in a specific area, occurring within a certain amount of time following the event. Catastrophes are caused by various natural events including high winds, winter storms, tornadoes, hailstorms, wildfires, tropical storms, hurricanes, earthquakes and volcanoes. We are also exposed to man-made catastrophic events, such as

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certain acts of terrorism or industrial accidents. The nature and level of catastrophes in any future period cannot be reliably predicted.

Catastrophe losses related to events that occurred by the size of the event are shown in the following table.

(\$ in millions)

Size of catastrophe	Number of events	Three months ended June 30, 2011		Claims and claims expense	Combined ratio impact	Average catastrophe loss per event	
Greater than \$250 million	3	9.1%	\$	1,172	50.1%	18.1 \$	391
\$101 million to \$250 million	3	9.1		470	20.1	7.3	157
\$50 million to \$100 million	6	18.2		443	18.9	6.9	74
Less than \$50 million	21	63.6		250	10.7	3.9	12
Total	33	100.0%		2,335	99.8	36.2	71
Prior year reserve reestimates				(17)	(0.7)	(0.3)	
Prior quarter reserve reestimates				21	0.9	0.3	
Total catastrophe losses			\$	2,339	100.0%	36.2	

(\$ in millions)

Size of catastrophe	Number of events	Six months ended June 30, 2011		Claims and claims expense	Combined ratio impact	Average catastrophe loss per event	
Greater than \$250 million	3	6.1%	\$	1,172	43.8%	9.1 \$	391
\$101 million to \$250 million	3	6.1		470	17.6	3.6	157
\$50 million to \$100 million	8	16.3		609	22.8	4.7	76
Less than \$50 million	35	71.5		472	17.7	3.7	13
Total	49	100.0%		2,723	101.9	21.1	56
Prior year reserve reestimates				(51)	(1.9)	(0.4)	
Total catastrophe losses			\$	2,672	100.0%	20.7	

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

(\$ in millions)

	2011	Three months ended June 30,		Number of events	2011	Six months ended June 30,		Number of events
		Number of events	2010			Number of events	2010	
Tornadoes	\$ 1,326	5	\$ 141	5	\$ 1,340	6	\$ 141	5
Wind/Hail	995	25	616	24	1,192	35	979	30
Wildfires	14	3	--	--	19	5	--	--
Other events	--	--	1	1	172	3	262	6
	(17)		(83)		(51)		(98)	

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Prior year reserve reestimates												
Prior quarter reserve reestimates		21		(39)		--		--				
Total catastrophe losses	\$	2,339	33	\$	636	30	\$	2,672	49	\$	1,284	41

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Combined ratio Loss ratios are a measure of profitability. Loss ratios by product, and expense and combined ratios by brand, are shown in the following table. These ratios are defined in the Property-Liability Operations section of the MD&A.

	Three months ended						Six months ended					
	June 30,		June 30,		Effect of		June 30,		Effect of		Effect of	
	Loss ratio (1)		Effect of catastrophe losses on the loss ratio		pre-tax reserve reestimates on the combined ratio		Loss ratio (1)		Effect of catastrophe losses on the loss ratio		pre-tax reserve reestimates on the combined ratio	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Allstate brand loss ratio:												
Standard auto	73.2	70.1	6.7	2.0	(2.2)	(1.9)	71.7	69.8	3.6	1.3	(1.3)	(1.0)
Non-standard auto	69.3	68.9	3.9	0.4	(1.0)	(4.8)	67.0	68.8	1.9	0.4	(2.2)	(3.1)
Homeowners	171.1	82.6	123.2	34.7	0.3	(4.2)	119.7	85.0	70.6	35.9	(1.2)	(2.3)
Other personal lines	100.5	65.7	35.3	8.3	6.1	(0.7)	83.9	64.6	21.1	7.8	4.3	(2.3)
Total Allstate brand loss ratio	98.7	72.5	36.8	10.0	(0.8)	(2.4)	84.0	72.7	21.0	9.8	(0.8)	(1.5)
Allstate brand expense ratio	24.6	24.3					25.0	24.7				
Allstate brand combined ratio	123.3	96.8					109.0	97.4				
Encompass brand loss ratio:												
Standard auto	78.7	73.0	3.2	0.5	--	1.6	77.1	74.9	1.6	0.8	1.6	3.4
Non-standard auto	100.0	100.0	--	--	(100.0)	--	100.0	100.0	--	--	(50.0)	--
Homeowners	107.7	64.6	61.5	15.6	(1.1)	(1.0)	86.8	84.2	39.0	31.1	--	(1.5)
Other personal lines	104.3	64.0	17.4	--	--	(4.0)	84.8	77.6	13.0	6.1	(4.3)	--
Total Encompass brand loss ratio	90.7	69.8	24.1	5.2	(0.7)	0.3	81.1	78.3	15.0	10.6	0.4	1.6
Encompass brand expense ratio	29.3	27.6					29.0	27.3				
Encompass brand combined ratio	120.0	97.4					110.1	105.6				
Allstate Protection loss ratio	98.4	72.4	36.2	9.8	(0.8)	(2.3)	83.9	73.0	20.7	9.9	(0.7)	(1.4)
Allstate Protection expense ratio	24.8	24.4					25.1	24.8				
Allstate Protection combined ratio	123.2	96.8					109.0	97.8				

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

Standard auto loss ratio for the Allstate brand increased 3.1 points and 1.9 points in the second quarter and first six months of 2011, respectively, compared to the same periods of 2010 due to higher catastrophe losses, partially offset by improved claim frequency. Excluding the impact of catastrophe losses, the Allstate brand standard auto loss ratio improved 1.6 points and 0.4 points in the second quarter and first six months of 2011, respectively, compared to the same periods of 2010. Florida and New York continue to have loss ratios higher than the countrywide average in the first six months of 2011 and results in these two key states have improved for three straight quarters, reducing the pressure on countrywide results. We continue to pursue profitability management actions in Florida and New York, including rate increases, underwriting restrictions, increased claims staffing and review, and continued advocacy for legislative reform. In the second quarter of 2011, claim frequencies in the bodily injury and physical damage coverages have decreased compared to the same period of 2010. Through the first six months of 2011, claim frequencies in the physical damage coverages are lower than the same period of 2010. In the first six months of 2011, bodily injury claim frequencies remain slightly above 2010 levels but remain within historical norms. Bodily injury and physical damage coverages severity results increased in line with historical Consumer Price Index (CPI) trends.

Homeowners loss ratio for the Allstate brand increased 88.5 points to 171.1 in the second quarter of 2011 from 82.6 in the second quarter of 2010, and 34.7 points to 119.7 in the first six months of 2011 from 85.0 in the first six months of 2010 due to higher catastrophe losses including prior year reserve reestimates for catastrophes. Excluding

the impact of catastrophe losses, homeowners loss ratio for the Allstate brand in the second quarter and first six months of 2011 were comparable to the same periods of 2010.

Expense ratio for Allstate Protection increased 0.4 points and 0.3 points in the second quarter and first six months of 2011, respectively, compared to the same periods of 2010. The increase in both periods was driven by marketing costs and lower premiums earned, partially offset by improved operational efficiencies. Restructuring costs in the second quarter and first six months of 2011 were comparable to the same periods of 2010.

The impact of specific costs and expenses on the expense ratio are included in the following table.

	Three months ended June 30,					
	Allstate brand		Encompass brand		Allstate Protection	
	2011	2010	2011	2010	2011	2010
Amortization of DAC	13.9	13.9	18.1	18.2	14.0	14.0
Other costs and expenses	10.6	10.2	11.2	9.1	10.6	10.2
Restructuring and related charges	0.1	0.2	--	0.3	0.2	0.2
Total expense ratio	24.6	24.3	29.3	27.6	24.8	24.4

	Six months ended June 30,					
	Allstate brand		Encompass brand		Allstate Protection	
	2011	2010	2011	2010	2011	2010
Amortization of DAC	13.9	13.9	18.0	18.3	14.0	14.1
Other costs and expenses	10.9	10.6	11.0	8.4	10.9	10.5
Restructuring and related charges	0.2	0.2	--	0.6	0.2	0.2
Total expense ratio	25.0	24.7	29.0	27.3	25.1	24.8

Allstate Protection Reinsurance

Our catastrophe reinsurance program was designed, utilizing our risk management methodology, to address our exposure to catastrophes nationwide. Our program provides reinsurance protection for catastrophes including storms named or numbered by the National Weather Service, fires following earthquakes, earthquakes and wildfires including California wildfires. These reinsurance agreements are part of our catastrophe management strategy, which is intended to provide our shareholders an acceptable return on the risks assumed in our property business, and to reduce variability of earnings, while providing protection to our customers.

During the second quarter of 2011, we placed the Florida component of our reinsurance program. The Florida component of our reinsurance program is designed separately from the other components of the program to address the distinct needs of our separately capitalized legal entities in that state. It comprises multiple contracts reinsuring Castle Key Insurance Company and its subsidiaries (Castle Key Group) for personal property excess catastrophe losses in Florida for multiple perils including hurricanes, windstorms, hail, tornados, earthquakes, fire following earthquakes, riots, freeze and wildfires. The agreement, effective June 1, 2011 for a one year term, incorporates coverage placed with the Florida Hurricane Catastrophe Fund (FHCF) for hurricane losses including both the mandatory FHCF coverage and the Castle Key Group s elected participation in the optional temporary increase in coverage limit (TICL). The FHCF coverage includes an estimated maximum provisional limit of 90% of \$422.4 million or \$380.2 million (comprising 90% of the mandatory FHCF coverage layer of \$312.2 million plus

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90% of the TICL layer of \$110.2 million), in excess of a provisional retention of \$121.7 million, and also includes reimbursement of eligible loss adjustment expenses at 5%. The limits and retentions for the FHCF and TICL coverage are subject to re-measurement based on June 30th exposure data. The FHCF's retention is subject to adjustment upward or downward to an actual retention based on submitted exposures to the FHCF by all participants. For each of the two largest hurricanes the provisional retention is \$121.7 million and a retention equal to one third of that amount, or approximately \$40.6 million, is applicable to all other hurricanes for the season beginning June 1, 2011. The agreements are listed and described below.

- Below FHCF provides coverage on \$91.7 million of losses in excess of \$30 million and after \$10 million in losses otherwise recoverable and is 100% placed, with one prepaid reinstatement of limit. Losses from multiple qualifying occurrences can apply to the \$10 million threshold.

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- Third Limit Below FHCF provides coverage on \$91.7 million of losses in excess of \$30 million after the exhaustion of the two limits (\$183.4 million) provided by the Below FHCF contract with no reinstatement of limit.
- Mandatory FHCF provides 90% of \$312.2 million excess of \$121.7 million with no reinstatement of limit.
- FHCF Sliver provides coverage on 10% co-participation of the mandatory FHCF coverage payout up to \$31.2 million, and is 100% placed with no reinstatement of limit.
- Optional TICL provides 90% of \$110.2 million excess of \$433.9 million with no reinstatement of limit.
- TICL Sliver provides coverage on 10% co-participation of the TICL coverage payout up to \$11 million, and is 100% placed with no reinstatement of limit.
- Excess provides coverage of \$372.6 million of losses in excess of \$121.7 million (the FHCF Retention), and in excess of an estimated \$422.4 million equivalent to \$312.2 million (the mandatory FHCF coverage and FHCF Sliver payouts) and \$110.2 million (the TICL and TICL Sliver payouts). This contract is 100% placed with one prepaid reinstatement of limit.

We estimate that the total annualized cost of all catastrophe reinsurance programs for the year beginning June 1, 2011 will be approximately \$564 million or \$141 million per quarter compared to \$560 million annualized cost for the year beginning June 1, 2010. The total cost of our catastrophe reinsurance programs during 2010 was \$150 million in the first quarter, \$151 million in the second quarter, \$141 million in the third quarter and \$151 million in the fourth quarter. The total cost of our property catastrophe reinsurance programs during the first and second quarter of 2011 was \$138 million and \$142 million, respectively. These quarterly costs reflect premium re-measurements recognized in the quarter. We continue to attempt to capture our reinsurance cost in premium rates as allowed by state regulatory authorities.

Reserve reestimates The tables below show Allstate Protection net reserves representing the estimated cost of outstanding claims as they were recorded at the beginning of years 2011 and 2010, and the effect of reestimates in each year.

(\$ in millions)	January 1 reserves	
	2011	2010
Auto	\$ 11,034	\$ 10,606
Homeowners	2,442	2,399
Other personal lines	2,141	2,145
Total Allstate Protection	\$ 15,617	\$ 15,150

(\$ in millions, except ratios)	Three months ended				Six months ended			
	Reserve		Effect on		Reserve		Effect on	
	reestimates (1) (2)		combined ratio (2)		reestimates (1) (2)		combined ratio (2)	
	2011	2010	2011	2010	2011	2010	2011	2010
Auto	\$ (90)	\$ (85)	(1.4)	(1.3)	\$ (109)	\$ (80)	(0.8)	(0.6)
Homeowners	3	(61)	--	(0.9)	(35)	(69)	(0.3)	(0.6)
Other personal lines	36	(5)	0.6	(0.1)	49	(27)	0.4	(0.2)
Total Allstate Protection (3)	\$ (51)	\$ (151)	(0.8)	(2.3)	\$ (95)	\$ (176)	(0.7)	(1.4)