ALLSTATE CORP
Form 10-K
February 20, 2013

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Item 7A. Quantitative and Qualitative Disclosures About Market Risk
Part IV

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

FORM 10-K

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

For the fiscal year ended December 31, 2012

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from __________ to __________

Commission file number 1-11840

THE ALLSTATE CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**36-3871531**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

2775 Sanders Road, Northbrook, Illinois 60062
(Address of principal executive offices) (Zip Code)
Registrant's telephone number, including area code: (847) 402-5000

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	**Name of each exchange on which registered**
Common Stock, par value $0.01 per share	New York Stock Exchange Chicago Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes _X_ No____

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes ____ No X

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

Yes X No____

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

Yes X No____

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. X

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 X

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 X

The aggregate market value of the common stock held by non-affiliates of the registrant, computed by reference to the closing price as of the last business day of the registrant's most recently completed second fiscal quarter, June 30, 2012, was approximately $16.88 billion.

As of February 1, 2013, the registrant had 477,446,258 shares of common stock outstanding.

Documents Incorporated By Reference

Portions of the following documents are incorporated herein by reference as follows:

Part III of this Form 10-K incorporates by reference certain information from the registrant's definitive proxy statement for its annual stockholders meeting to be held on May 21, 2013 (the "Proxy Statement") to be filed not later than 120 days after the end of the fiscal year covered by this Form 10-K.

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Part I

Item 1. Business

The Allstate Corporation was incorporated under the laws of the State of Delaware on November 5, 1992 to serve as the holding company for Allstate Insurance Company. Its business is conducted principally through Allstate Insurance Company, Allstate Life Insurance Company and their affiliates (collectively, including The Allstate Corporation, "Allstate"). Allstate is primarily engaged in the personal property and casualty insurance business and the life insurance, retirement and investment products business. It conducts its business primarily in the United States.

The Allstate Corporation is the largest publicly held personal lines insurer in the United States. Widely known through the "You're In Good Hands With Allstate®" slogan, Allstate is reinventing protection and retirement to help individuals in approximately 16 million households protect what they have today and better prepare for tomorrow. Customers can access Allstate products and services such as auto and homeowners insurance through 11,200 exclusive Allstate agencies and financial representatives in the United States and Canada, as well as through independent agencies, call centers and the internet. Allstate is the 2nd largest personal property and casualty insurer in the United States on the basis of 2011 statutory direct premiums earned. In addition, according to A.M. Best, it is the nation's 16th largest issuer of life insurance business on the basis of 2011 ordinary life insurance in force and 23rd largest on the basis of 2011 statutory admitted assets.

Allstate has four business segments:

Allstate Protection	Discontinued Lines and Coverages
Allstate Financial	Corporate and Other

To achieve its goals in 2013, Allstate is focused on the following priorities:

- grow insurance premiums;
- maintain auto profitability;
- raise returns in homeowners and annuity businesses;
- proactively manage investments; and
- reduce our cost structure.

In this annual report on Form 10-K, we occasionally refer to statutory financial information. All domestic United States insurance companies are required to prepare statutory-basis financial statements. As a result, industry data is available that enables comparisons between insurance companies, including competitors that are not subject to the requirement to prepare financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP"). We frequently use industry publications containing statutory financial information to assess our competitive position.

ALLSTATE PROTECTION SEGMENT

Products and Distribution

Total Allstate Protection premiums written were $27.03 billion in 2012. Our Allstate Protection segment accounted for 92% of Allstate's 2012 consolidated insurance premiums and contract charges. In this segment, we principally sell private passenger auto and homeowners insurance through agencies and directly through call centers and the internet. These products are marketed under the Allstate®, Encompass®, and Esurance® brand names.

Our Unique Strategy

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Allstate serves four different consumer segments with distinct interaction preferences (advice and assistance versus self-directed) and brand preferences (brand-neutral versus brand-sensitive).

Allstate brand auto and homeowners insurance products are sold primarily through Allstate exclusive agencies and serve customers who prefer local personal advice and service and are brand-sensitive. Allstate brand sales and service are supported through call centers and the internet. In 2012, the Allstate brand represented 92% of the Allstate Protection segment's written premium. In the U.S., we offer these Allstate brand products through approximately 9,300 Allstate exclusive agencies in approximately 9,000 locations. We also offer these products through approximately 1,800 independent agencies in primarily rural areas in the U.S. In Canada we offer Allstate brand products through approximately 670 producers working in five provinces across the country (Ontario, Quebec, Alberta, New Brunswick and Nova Scotia).

Encompass brand auto and homeowners insurance products, largely sold in the form of a package policy, are sold through independent agencies and serve customers who prefer personal service and support primarily from an independent agent and are brand-neutral. In 2012, the Encompass brand represented 4% of the Allstate Protection segment's written premium. In the U.S., we sell Encompass brand products through approximately 2,800 independent agencies. Encompass is among the top 15 largest providers of personal property and casualty insurance products through independent agencies in the United States, based on statutory written premium information provided by A.M. Best for 2011.

Esurance brand auto insurance products are sold directly to consumers online, through call centers and through select agents, including Answer Financial, and serve self-directed, brand-sensitive customers. In 2012, the Esurance brand represented 4% of the Allstate Protection segment's written premium.

Answer Financial, an independent personal lines insurance agency, serves self-directed, brand-neutral consumers who want a choice between insurance carriers and offers comparison quotes for auto and homeowners insurance from approximately 20 insurance companies through its website and over the phone and receives fee income for this service.

The Allstate Protection segment also produces and sells specialty auto products including motorcycle, trailer, motor home and off-road vehicle insurance policies; specialty property products including renter, landlord, boat, umbrella, manufactured home and condominium insurance policies; roadside assistance products; guaranteed automobile protection and vehicle service products sold primarily through auto dealers; and commercial products for small business owners. We also participate in the involuntary or shared private passenger auto insurance business in order to maintain our licenses to do business in many states.

Through arrangements made with other companies, agencies, and brokers, the Allstate Protection segment offers non-proprietary products to consumers when an Allstate product is not available. As of December 31, 2012, Allstate agencies had approximately $1.2 billion of non-proprietary personal insurance premiums under management, primarily related to property business in hurricane exposed areas, and approximately $140 million of non-proprietary commercial insurance premiums under management. In addition, Esurance had $26 million of non-proprietary premiums written in 2012, primarily related to homeowners and motorcycle insurance that Esurance does not currently offer and renters insurance that Esurance does not offer in all states. Answer Financial had $442 million of non-proprietary premiums written in 2012.

Competition

The markets for personal private passenger auto and homeowners insurance are highly competitive. The following charts provide the market shares of our principal competitors in the U.S. by direct written premium for the year ended December 31, 2011 (the most recent date such competitive information is available) according to A.M. Best.

Private Passenger Auto Insurance		Homeowners Insurance	
Insurer	**Market Share**	**Insurer**	**Market Share**
State Farm	18.1%	State Farm	20.4%
Allstate	10.5	Allstate	9.1
GEICO	9.2	Farmers	6.0
Progressive	8.1	Liberty Mutual	5.4
Farmers	6.0	Travelers	4.7
USAA	4.6	USAA	4.5
Liberty Mutual	4.6	Nationwide	3.9
Nationwide	4.1		

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In the personal property and casualty insurance market, we compete principally on the basis of the recognition of our brands, the scope of our distribution system, price, the breadth of our product offerings, product features, customer service, claim handling, and use of technology. In addition, our proprietary database of underwriting and pricing experience enables Allstate to use sophisticated pricing to more accurately price risks and to cross sell products within our customer base.

Our sophisticated pricing and related underwriting and marketing programs use a number of risk evaluation factors. For auto insurance, these factors can include but are not limited to vehicle make, model and year; driver age and marital status; territory; years licensed; loss history; years insured with prior carrier; prior liability limits; prior lapse in coverage; and insurance scoring based on credit report information. For property insurance, these factors can include but are not limited to amount of insurance purchased; geographic location of the property; loss history; age, condition and construction characteristics of the property; and insurance scoring based on credit report information.

Our primary focus in using sophisticated pricing methods has been on acquiring and retaining profitable business. The aim has been to enhance Allstate's competitive position with respect to "target" market segments while maintaining or improving profitability. "Target customers" generally refers to consumers who want to purchase multiple products from one insurance provider including auto, homeowners and financial products, who have better retention and potentially present more favorable prospects for profitability over the course of their relationships with us. We provide and continue to enhance a range of discounts to attract more target customers. For example, we discount auto insurance to attract and retain target customers. In many states, we discount homeowners insurance for customers who insure their automobiles with Allstate.

Allstate differentiates itself from competitors by offering a comprehensive range of innovative product options and features. Allstate's Your Choice Auto® insurance allows qualified customers to choose from a variety of options, such as accident forgiveness, safe driving deductible rewards and a safe driving bonus. We believe that Your Choice Auto insurance promotes increased growth and increased retention. We also offer a Claim Satisfaction Guarantee^{sm} that promises a return of premium to Allstate brand standard auto insurance customers dissatisfied with their claims experience. Allstate House and Home® insurance is our new homeowners product that provides options of coverage for roof damage including graduated coverage and pricing based on roof type and age. Good Hands® Roadside Assistance is a new service that provides pay on demand access to roadside services.

Geographic Markets

The principal geographic markets for our auto, homeowners, and other personal property and casualty products are in the United States. Through various subsidiaries, we are authorized to sell various types of personal property and casualty insurance products in all 50 states, the District of Columbia and Puerto Rico. We also sell personal property and casualty insurance products in Canada.

The following table reflects, in percentages, the principal geographic distribution of premiums earned for the Allstate Protection segment for 2012, based on information contained in statements filed with state insurance departments. No other jurisdiction accounted for more than 5 percent of the premiums earned for the segment.

New York	10.2%
California	9.9
Texas	9.5
Florida	8.0
Pennsylvania	5.4

We continue to take actions to support earning an acceptable return on the risks assumed in our property business and to reduce variability in our earnings. Accordingly, we expect to continue to adjust underwriting practices with respect to our property business in markets with significant catastrophe risk exposure.

Additional Information

Information regarding the last three years' revenues and income from operations attributable to the Allstate Protection segment is contained in Note 19 of the consolidated financial statements. Note 19 also includes information regarding the last three years' identifiable assets attributable to our property-liability operations, which includes our Allstate Protection segment and our Discontinued Lines and Coverages segment. Note 19 is incorporated in this Part I, Item 1 by reference.

Information regarding the amount of premium earned for Allstate Protection segment products for the last three years is set forth in Part II, Item 7 Management's Discussion and Analysis of Financial Condition and Results of

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Operations, in the table regarding premiums earned by brand. That table is incorporated in this Part I, Item 1 by reference.

ALLSTATE FINANCIAL SEGMENT

Products and Distribution

Our Allstate Financial segment provides life insurance, voluntary accident and health insurance, and retirement and investment products. Our principal products are interest-sensitive, traditional and variable life insurance; voluntary accident and health insurance; and fixed annuities including deferred and immediate. Our institutional products, which we most recently offered in 2008, consist of funding agreements sold to unaffiliated trusts that use them to back medium-term notes issued to institutional and individual investors. The table below lists our major distribution channels for this segment, with the associated products and targeted customers.

As the table indicates, we sell Allstate Financial products to individuals through multiple intermediary distribution channels, including Allstate exclusive agencies and approximately 1,230 exclusive financial specialists, workplace enrolling independent agents and independent master brokerage agencies, specialized structured settlement brokers, and directly through call centers and the internet.

Allstate Financial Distribution Channels, Products and Target Customers

Distribution Channel	Proprietary Products	Target Customers
Allstate exclusive agencies (Allstate Exclusive Agents and Allstate Exclusive Financial Specialists)	Term life insurance Whole life insurance Interest-sensitive life insurance Variable life insurance Deferred fixed annuities (including indexed and market value adjusted "MVA") Immediate fixed annuities Workplace life and voluntary accident and health insurance[4]	Middle market[1], emerging affluent[2] and mass affluent consumers[3] with retirement and family financial protection needs
Independent agents (as workplace enrolling agents)	Workplace life and voluntary accident and health insurance[4]	Middle market consumers with family financial protection needs employed by small, medium, and large size firms
Independent agents (through master brokerage agencies)	Term life insurance Interest-sensitive life insurance Variable life insurance Deferred fixed annuities (including indexed and MVA) Immediate fixed annuities	Emerging affluent and mass affluent consumers with retirement and family financial protection needs
Structured settlement annuity brokers	Structured settlement annuities	Typically used to fund or annuitize large claims or litigation settlements
Broker-dealers (Funding agreements)	Funding agreements backing medium-term notes	Institutional and individual investors
Direct (includes call centers and the internet)[5]	Term life insurance Whole life insurance Interest-sensitive life insurance	Middle market[1], emerging affluent[2] and mass affluent consumers[3] with family financial protection needs

(1)

Consumers with $35,000-$75,000 in household income.

(2)

Consumers with $75,000-$150,000 in household income.

(3)

Consumers with greater than $150,000 in household income.

(4)

Interest-sensitive and term life insurance; disability income insurance; cancer, accident, critical illness and heart/stroke insurance; hospital indemnity; limited benefit medical insurance; and dental insurance.

(5)

Internet sales are not available in all states.

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Allstate exclusive agencies and exclusive financial specialists also sell the following non-proprietary products in addition to Allstate Financial products: mutual funds, fixed and variable annuities, disability insurance, and long-term care insurance. As of December 31, 2012, Allstate agencies have approximately $8.5 billion of non-proprietary mutual funds and fixed and variable annuity account balances under management.

Competition

We compete on a wide variety of factors, including the type and level of service provided by distribution systems, product offerings, the positioning of brands, financial strength and ratings, prices and the level of customer service. With regard to funding agreements, which we most recently offered in 2008, we compete principally on the basis of our financial strength and ratings.

The market for life insurance, retirement and investment products continues to be highly fragmented and competitive. As of December 31, 2012, there were approximately 430 groups of life insurance companies in the United States, most of which offered one or more similar products. According to A.M. Best, as of December 31, 2011, the Allstate Financial segment is the nation's 16th largest issuer of life insurance and related business on the basis of 2011 ordinary life insurance in force and 23rd largest on the basis of 2011 statutory admitted assets. In addition, because many of these products include a savings or investment component, our competition includes domestic and foreign securities firms, investment advisors, mutual funds, banks and other financial institutions. Competitive pressure continues to grow due to several factors, including cross marketing alliances between unaffiliated businesses, as well as consolidation activity in the financial services industry.

Geographic Markets

We sell life insurance, voluntary accident and health insurance, and retirement and investment products throughout the United States. Through subsidiaries, we are authorized to sell various types of these products in all 50 states, the District of Columbia, Puerto Rico, the U.S. Virgin Islands and Guam. We also have sold funding agreements in the United States.

The following table reflects, in percentages, the principal geographic distribution of statutory premiums and annuity considerations for the Allstate Financial segment for 2012, based on information contained in statements filed with state insurance departments. No other jurisdiction accounted for more than 5 percent of the statutory premiums and annuity considerations.

California	11.2%
Texas	8.5
Florida	8.3

Additional Information

Information regarding the last three years' revenues and income from operations attributable to the Allstate Financial segment is contained in Note 19 of the consolidated financial statements. Note 19 also includes information regarding the last three years' identifiable assets attributable to the Allstate Financial segment. Note 19 is incorporated in this Part I, Item 1 by reference.

Information regarding premiums and contract charges for Allstate Financial segment products for the last three years is set forth in Part II, Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations, in the table that summarizes premiums and contract charges by product. That table is incorporated in this Part I, Item 1 by reference.

ALLSTATE EXCLUSIVE AGENCIES

As described above, Allstate exclusive agencies offer for sale products related to both the Allstate Protection and Allstate Financial segments. They offer Allstate brand auto and homeowners insurance policies; specialty auto products including motorcycle, trailer, motor home and off-road vehicle insurance policies; specialty property products including renter, landlord, boat, umbrella, manufactured home and condominium insurance policies; roadside assistance products; and commercial products for small business owners. Allstate exclusive agencies and exclusive financial specialists offer various life insurance and annuity products, as well as voluntary accident and health insurance products. In addition, arrangements made with other companies, agencies, and brokers allow Allstate exclusive agencies the ability to make available non-proprietary products to consumers when an Allstate product is not available.

In the U.S., we sell these Allstate brand products through approximately 9,300 Allstate exclusive agencies in approximately 9,000 locations. In addition, these agencies employ approximately 20,000 licensed sales professionals

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who are licensed to sell our products. We have strategies to assist agency owners of all sizes and tenure be successful. We are planning to grow the number of exclusive agencies following several years of decline primarily resulting from agency consolidations and mergers, consistent with our prior plans. We pursue opportunities for growing Allstate brand exclusive agency distribution based on demographic shifts and market conditions.

We support exclusive agencies in a variety of ways to facilitate customer service and Allstate's overall growth strategy. For example, we offer assistance to Allstate exclusive agencies with sales and business processes and we provide education and other resources to help them acquire more business and retain more customers. Our programs to support our exclusive agencies and help them grow larger include offering financing to agents to acquire other agencies and awarding additional resources to better performing agencies. We support our relationship with Allstate exclusive agencies through several national and regional working groups:

- The Agency Executive Council, led by Allstate's senior leadership, engages exclusive agencies on our customer service and growth strategy. Membership includes 20 Allstate exclusive agency owners selected on the basis of performance, thought leadership and credibility among their peer group.

- The National Advisory Board brings together Allstate's senior leadership and a cross section of Allstate exclusive agents and exclusive financial specialists from around the country to address national business issues and develop solutions.

- Regional Advisory Boards support Allstate exclusive agency owner engagement within each of Allstate's regional offices in the U.S. and within Canada.

Allstate's strategy is to help improve individual agency success, new business sales, customer satisfaction, retention and productivity. Allstate is striving to help develop stronger, more valuable exclusive agencies with resources to build stronger customer relationships, provide differentiating levels of service by focusing on more complex customer needs, and support technology that enables customer self-service for simpler needs.

Over a two-year period that began in 2012, Allstate is transitioning to a new compensation structure for Allstate exclusive agencies. The structure rewards agencies for delivering high value to our customers and achieving certain business outcomes such as product profitability, net growth and a diverse product mix. This cost neutral change will include a shift to a higher proportion of variable compensation and bonus. In 2012, base commission rates remained unchanged, and the annual bonus was based on portfolio growth and household cross-sales. In 2013, a portion of base commission will become variable compensation, focused on agency success factors and customer experience. Other elements of exclusive agency compensation and support include start-up agency bonuses, marketing support payments, technology and data allowances, regional promotions and recognition trips based on achievement.

Since Allstate brand customers prefer personal advice and assistance, beginning in 2013 all Allstate brand customers who purchased their policies directly through call centers and the internet will be assigned an Allstate exclusive agency relationship. We believe this will more effectively address customer needs while not significantly increasing costs.

OTHER BUSINESS SEGMENTS

Our Corporate and Other segment is comprised of holding company activities and certain non-insurance operations. Note 19 of the consolidated financial statements contains information regarding the revenues, income from operations, and identifiable assets attributable to our Corporate and Other segment over the last three years.

Our Discontinued Lines and Coverages segment includes results from insurance coverage that we no longer write and results for certain commercial and other businesses in run-off. Our exposure to asbestos, environmental and other discontinued lines claims is presented in this segment. Note 19 of the consolidated financial statements contains information for the last three years regarding revenues, income from operations, and identifiable assets attributable to our property-liability operations, which includes both our Allstate Protection segment and our Discontinued Lines and Coverages segment. Note 19 is incorporated in this Part I, Item 1 by reference.

RESERVE FOR PROPERTY-LIABILITY CLAIMS AND CLAIMS EXPENSE

The following information regarding reserves applies to all of our property-liability operations, encompassing both the Allstate Protection segment and the Discontinued Lines and Coverages segment.

Reconciliation of Claims Reserves

The following tables are summary reconciliations of the beginning and ending property-liability insurance claims and claims expense reserves, displayed individually for each of the last three years. The first table presents reserves on a gross (before reinsurance) basis. The end of year gross reserve balances are reflected in the Consolidated Statements of

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Financial Position. The second table presents reserves on a net (after reinsurance) basis. The total net property-liability insurance claims and claims expense amounts are reflected in the Consolidated Statements of Operations.

Gross

($ in millions)	Year ended December 31,		
	2012	2011	2010
Gross reserve for property-liability claims and claims expense, beginning of year	$ 20,375	$ 19,468	$ 19,167
Esurance acquisition on October 7, 2011	(13)[2]	487	
Total gross reserve adjusted	20,362	19,955	19,167
Incurred claims and claims expense			
Provision attributable to the current year	20,356	20,914	19,327
Change in provision attributable to prior years	179	174	(105)
Total claims and claims expense	20,535	21,088	19,222
Claim payments			
Claims and claims expense attributable to current year	12,936	14,105	12,087
Claims and claims expense attributable to prior years	6,673	6,563	6,834
Total payments	19,609	20,668	18,921
Gross reserve for property-liability claims and claims expense, end of year as shown on the Loss Reserve Reestimates table	$ 21,288	$ 20,375	$ 19,468

Net	Year ended December 31,		
	2012	2011	2010
Net reserve for property-liability claims and claims expense, beginning of year	$ 17,787	$ 17,396	$ 17,028
Esurance acquisition on October 7, 2011	(13)[2]	425	
Total net reserve adjusted	17,774	17,821	17,028
Incurred claims and claims expense			
Provision attributable to the current year	19,149	20,496	19,110
Change in provision attributable to prior years	(665)	(335)	(159)
Total claims and claims expense	18,484	20,161	18,951
Claim payments			
Claims and claims expense attributable to current year	12,545	13,893	12,012
Claims and claims expense attributable to prior years	6,435	6,302	6,571
Total payments	18,980	20,195	18,583
Net reserve for property-liability claims and claims expense, end of year as shown on the Loss Reserve Reestimates table[1]	$ 17,278	$ 17,787	$ 17,396

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(1) Reserves for claims and claims expense are net of reinsurance of $4.01 billion, $2.59 billion and $2.07 billion as of December 31, 2012, 2011 and 2010, respectively.

(2)

The Esurance opening balance sheet reserves were reestimated in 2012 resulting in a reduction in reserves due to lower severity. The adjustment was recorded as a reduction in goodwill and an increase in payables to the seller under the terms of the purchase agreement and therefore had no impact on claims expense or the loss ratio.

The year-end 2012 gross reserves of $21.29 billion for property-liability insurance claims and claims expense, as determined under GAAP, were $5.31 billion more than the net reserve balance of $15.98 billion recorded on the basis of statutory accounting practices for reports provided to state regulatory authorities. The principal differences are reinsurance recoverables from third parties totaling $4.01 billion that reduce reserves for statutory reporting but are recorded as assets for GAAP reporting, and a liability for the reserves of the Canadian subsidiaries for $1.09 billion. Remaining differences are due to variations in requirements between GAAP and statutory reporting.

As the tables above illustrate, Allstate's net reserve for property-liability insurance claims and claims expense at the end of 2011 decreased in 2012 by $665 million, compared to reestimates of the gross reserves of an increase of $179 million. Net reserve reestimates in 2012, 2011 and 2010 were more favorable than the gross reserve reestimates due to reinsurance cessions.

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Loss Reserve Reestimates

The following Loss Reserve Reestimates table illustrates the change over time of the net reserves established for property-liability insurance claims and claims expense at the end of the last eleven calendar years. The first section shows the reserves as originally reported at the end of the stated year. The second section, reading down, shows the cumulative amounts paid as of the end of successive years with respect to that reserve liability. The third section, reading down, shows retroactive reestimates of the original recorded reserve as of the end of each successive year which is the result of Allstate's expanded awareness of additional facts and circumstances that pertain to the unsettled claims. The last section compares the latest reestimated reserve to the reserve originally established, and indicates whether the original reserve was adequate to cover the estimated costs of unsettled claims. The table also presents the gross reestimated liability as of the end of the latest reestimation period, with separate disclosure of the related reestimated reinsurance recoverable.

The Loss Reserve Reestimates table is cumulative and, therefore, ending balances should not be added since the amount at the end of each calendar year includes activity for both the current and prior years. Unfavorable reserve reestimates are shown in this table in parentheses.

Loss Reserve Reestimates

illions)	**December 31,**										
	2002 & prior	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2**
eserves for claims and Expense	$ 16,690	$ 17,714	$ 19,338	$ 22,117	$ 18,866	$ 18,865	$ 19,456	$ 19,167	$ 19,468	$ 20,375	$2
rance rable	1,672	1,734	2,577	3,186	2,256	2,205	2,274	2,139	2,072	2,588	
e for claims and expense umulative)	15,018	15,980	16,761	18,931	16,610	16,660	17,182	17,028	17,396	17,787	1
ar later	6,275	6,073	6,665	7,952	6,684	6,884	6,995	6,571	6,302	6,435	
ears later	9,241	9,098	9,587	11,293	9,957	9,852	10,069	9,491	9,396		
years later	11,165	10,936	11,455	13,431	11,837	11,761	11,915	11,402			
ears later	12,304	12,088	12,678	14,608	12,990	12,902	13,071				
ars later	13,032	12,866	13,374	15,325	13,723	13,628					
rs later	13,583	13,326	13,866	15,839	14,239						
years later	13,928	13,703	14,303	16,249							
ears later	14,243	14,082	14,642								
ears later	14,588	14,390									
ars later	14,874										
e ated as of:											
year	15,018	15,980	16,761	18,931	16,610	16,660	17,182	17,028	17,396	17,787	1
ar later	15,419	15,750	16,293	17,960	16,438	16,830	17,070	16,869	17,061	17,122	
ears later	15,757	15,677	16,033	17,876	16,633	17,174	17,035	16,903	16,906		
years later	15,949	15,721	16,213	18,162	17,135	17,185	17,217	16,909			
ears later	16,051	15,915	16,337	18,805	17,238	17,393	17,260				
ars later	16,234	16,027	16,895	19,014	17,447	17,477					
rs later	16,351	16,496	17,149	19,215	17,542						
years later	16,778	16,763	17,344	19,300							
ears later	17,062	16,950	17,477								
ears later	17,224	17,093									

ars later	17,377									
reserve in of (less eestimated :										
t of ate	(2,359)	(1,113)	(716)	(369)	(932)	(817)	(78)	119	490	665
:	(15.7)%	(7.0)%	(4.3)%	(1.9)%	(5.6)%	(4.9)%	(0.5)%	0.7%	2.8%	3.7%
eestimated -latest	21,442	21,017	21,676	24,035	21,240	21,074	20,886	20,299	20,288	20,554
nated rable-latest	4,065	3,924	4,199	4,735	3,698	3,597	3,626	3,390	3,382	3,432
stimated -latest	17,377	17,093	17,477	19,300	17,542	17,477	17,260	16,909	16,906	17,122
cumulative ate se) e	$ (4,752)	$ (3,303)	$ (2,338)	$ (1,918)	$ (2,374)	$ (2,209)	$ (1,430)	$ (1,132)	$ (820)	$ (179)

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($ in millions)	Amount of reestimates for each segment December 31,									
	2002 & prior	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
Net Discontinued Lines and Coverages reestimate	$ (1,697)	$ (1,123)	$ (488)	$ (321)	$ (189)	$ (142)	$ (124)	$ (100)	$ (72)	$ (51)
Net Allstate Protection reestimate	(662)	10	(228)	(48)	(743)	(675)	46	219	562	716
Amount of reestimate (net)	$ (2,359)	$ (1,113)	$ (716)	$ (369)	$ (932)	$ (817)	$ (78)	$ 119	$ 490	$ 665

As shown in the above table, the subsequent cumulative increase in the net reserves established up to December 31, 2004, in general, reflect additions to reserves in the Discontinued Lines and Coverages Segment, primarily for asbestos and environmental liabilities, which offset the effects of favorable severity trends experienced by Allstate Protection, as discussed more fully below. The cumulative increases in reserves established as of December 31, 2006 and 2007 are due to the shift of reserves to older accident years attributable to a reallocation of reserves related to employee postretirement benefits to more accident years, litigation settlements, reclassification of injury and non-injury reserves to older years along with reserve strengthening as discussed below.

The following table is derived from the Loss Reserve Reestimates table and summarizes the effect of reserve reestimates, net of reinsurance, on calendar year operations for the ten-year period ended December 31, 2012. The total of each column details the amount of reserve reestimates made in the indicated calendar year and shows the accident years to which the reestimates are applicable. The amounts in the total accident year column on the far right represent the cumulative reserve reestimates for the indicated accident year(s). Favorable reserve reestimates are shown in this table in parentheses. Since December 31, 2003, the changes in total have generally been favorable other than 2008 which was adversely impacted due to litigation filed in conjunction with a Louisiana deadline for filing suits related to Hurricane Katrina, as shown and discussed more fully below.

($ in millions)	Effect of net reserve reestimates on calendar year operations									
	2003	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**Total**
BY ACCIDENT YEAR											
2002 & prior	$ 401	$ 338	$ 192	$ 102	$ 184	$ 116	$ 426	$ 284	$ 162	$ 153	$ 2,358
2003		(568)	(265)	(58)	11	(4)	43	(17)	25	(10)	(843)
2004			(395)	(304)	(14)	12	90	(13)	8	(10)	(626)
2005				(711)	(264)	162	84	(45)	6	(48)	(816)
2006					(89)	(91)	(141)	(106)	8	10	(409)
2007						(25)	(158)	(92)	(1)	(11)	(287)
2008							(456)	(46)	(26)	(41)	(569)
2009								(124)	(148)	(37)	(309)
2010									(369)	(161)	(530)
2011										(510)	(510)
TOTAL	$ 401	$ (230)	$ (468)	$ (971)	$ (172)	$ 170	$ (112)	$ (159)	$ (335)	$ (665)	$ (2,541)

In 2012, favorable prior year reserve reestimates were primarily due to catastrophe losses and auto severity development that was less than anticipated in previous estimates. The increased reserves in accident years 2002 & prior is due to a reclassification of injury reserves to older years and reserve strengthening.

In 2011, favorable prior year reserve reestimates were primarily due to auto severity development that was less than anticipated in previous estimates and catastrophe losses. The increased reserves in accident years 2001 & prior is due to a reclassification of injury reserves to older years and reserve strengthening.

In 2010, favorable prior year reserve reestimates were primarily due to Allstate Protection catastrophe losses and auto severity development that was less than anticipated in previous estimates, partially offset by litigation settlements. The increased reserves in accident years 2000 & prior is due to the litigation settlements of $100 million, a reclassification of injury reserves to older years and reserve strengthening.

In 2009, favorable prior year reserve reestimates were primarily due to Allstate Protection catastrophe losses that were less than anticipated in previous estimates. The shift of reserves to older accident years is attributable to a reallocation of reserves related to employee postretirement benefits to more accident years, and a reclassification of injury and 2008 non-injury reserves to older years.

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In 2008, unfavorable prior year reserve reestimates were primarily due to Allstate Protection catastrophe losses that were more than anticipated in previous estimates.

In 2007, favorable prior year reserve reestimates were primarily due to Allstate Protection auto severity development that was less than what was anticipated in previous estimates. Decreased reserve reestimates for Allstate Protection more than offset increased reestimates of losses primarily related to environmental liabilities reported by the Discontinued Lines and Coverages segment.

In 2006, 2005 and 2004, favorable prior year reserve reestimates were primarily due to Allstate Protection auto injury severity and late reported loss development that was less than what was anticipated in previous reserve estimates and in 2006, also by catastrophe losses that were less than anticipated in previous estimates. Decreased reserve reestimates for Allstate Protection more than offset increased reestimates of losses primarily related to asbestos liabilities reported by the Discontinued Lines and Coverages segment.

In 2003, unfavorable prior year reserve reestimates were due to increases primarily related to asbestos and other discontinued lines, partially offset by favorable Allstate Protection auto injury severity and late reported loss development that was better than previous estimates.

For additional information regarding reserves, see "Management's Discussion and Analysis of Financial Condition and Results of Operations   Property-Liability Claims and Claims Expense Reserves."

REGULATION

Allstate is subject to extensive regulation, primarily at the state level. The method, extent, and substance of such regulation varies by state but generally has its source in statutes that establish standards and requirements for conducting the business of insurance and that delegate regulatory authority to a state agency. In general, such regulation is intended for the protection of those who purchase or use insurance products. These rules have a substantial effect on our business and relate to a wide variety of matters, including insurer solvency, reserve adequacy, insurance company licensing and examination, agent and adjuster licensing, policy forms, rate setting, the nature and amount of investments, claims practices, participation in shared markets and guaranty funds, transactions with affiliates, the payment of dividends, underwriting standards, statutory accounting methods, trade practices, and corporate governance. Some of these matters are discussed in more detail below. For a discussion of statutory financial information, see Note 16 of the consolidated financial statements. For a discussion of regulatory contingencies, see Note 14 of the consolidated financial statements. Notes 14 and 16 are incorporated in this Part I, Item 1 by reference.

In recent years, the state insurance regulatory framework has come under increased federal scrutiny. As part of an effort to strengthen the regulation of the financial services market, the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank") was enacted in 2010. Hundreds of regulations required pursuant to this law must still be finalized, and we cannot predict what the final regulations will require but do not expect a material impact on Allstate's operations. The law also created the Federal Insurance Office ("FIO") within the Treasury Department. The FIO monitors the insurance industry, provides advice to the Financial Stability Oversight Council ("FSOC"), represents the U.S. on international insurance matters and studies the current regulatory system, and is expected to submit a report to Congress in 2013. In addition, state legislators and insurance regulators continue to examine the appropriate nature and scope of state insurance regulation. We cannot predict whether any specific state or federal measures will be adopted to change the nature or scope of the regulation of insurance or what effect any such measures would have on Allstate. We are working for changes in the regulatory environment, including recognizing the need for better catastrophe preparedness, improving appropriate risk based pricing and promoting the creation of government sponsored, privately funded solutions for mega-catastrophes that will make insurance more available and affordable. We have also taken actions to reduce the catastrophe exposure in our property business and to consider the impact of these actions on our ability to market our auto lines.

Agent and Broker Compensation. In recent years, several states considered new legislation or regulations regarding the compensation of agents and brokers by insurance companies. The proposals ranged in nature from new disclosure requirements to new duties on insurance agents and brokers in dealing with customers. Agents and brokers in New York are required to disclose certain information concerning compensation.

Limitations on Dividends By Insurance Subsidiaries. As a holding company with no significant business operations of its own, The Allstate Corporation relies on dividends from Allstate Insurance Company as one of the principal sources of cash to pay dividends and to meet its obligations, including the payment of principal and interest on debt. Allstate Insurance Company is regulated as an insurance company in Illinois and its ability to pay dividends is restricted by Illinois law. For additional information regarding those restrictions, see Part II, Item 5 of this report. The laws of the other

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jurisdictions that generally govern our other insurance subsidiaries contain similar limitations on the payment of dividends and in some jurisdictions the laws may be more restrictive.

Insurance Holding Company Regulation. The Allstate Corporation and Allstate Insurance Company are insurance holding companies subject to regulation in the jurisdictions in which their insurance subsidiaries do business. In the U.S., these subsidiaries are organized under the insurance codes of California, Florida, Illinois, Massachusetts, Nebraska, New York, Texas, and Wisconsin, and some of these subsidiaries are considered commercially domiciled in California, Florida, and Utah. Generally, the insurance codes in these states provide that the acquisition or change of "control" of a domestic or commercially domiciled insurer or of any person that controls such an insurer cannot be consummated without the prior approval of the relevant insurance regulator. In general, a presumption of "control" arises from the ownership, control, possession with the power to vote, or possession of proxies with respect to, ten percent or more of the voting securities of an insurer or of a person that controls an insurer. In addition, certain state insurance laws require pre-acquisition notification to state agencies of a change in control with respect to a non-domestic insurance company licensed to do business in that state. While such pre-acquisition notification statutes do not authorize the state agency to disapprove the change of control, such statutes do authorize certain remedies, including the issuance of a cease and desist order with respect to the non-domestic insurer if certain conditions exist, such as undue market concentration. Thus, any transaction involving the acquisition of ten percent or more of The Allstate Corporation's common stock would generally require prior approval by the state insurance departments in California, Illinois, Massachusetts, Nebraska, New York, Texas, Utah, and Wisconsin. The prior approval of the Florida insurance department would be necessary for the acquisition of five percent or more. Moreover, notification would be required in those other states that have adopted pre-acquisition notification provisions and where the insurance subsidiaries are admitted to transact business. Such approval requirements may deter, delay, or prevent certain transactions affecting the ownership of The Allstate Corporation's common stock.

Rate Regulation. Nearly all states have insurance laws requiring personal property and casualty insurers to file rating plans, policy or coverage forms, and other information with the state's regulatory authority. In many cases, such rating plans, policy forms, or both must be approved prior to use.

The speed with which an insurer can change rates in response to competition or in response to increasing costs depends, in part, on whether the rating laws are (i) prior approval, (ii) file-and-use, or (iii) use-and-file laws. In states having prior approval laws, the regulator must approve a rate before the insurer may use it. In states having file-and-use laws, the insurer does not have to wait for the regulator's approval to use a rate, but the rate must be filed with the regulatory authority prior to being used. A use-and-file law requires an insurer to file rates within a certain period of time after the insurer begins using them. Eighteen states, including California and New York, have prior approval laws. Under all three types of rating laws, the regulator has the authority to disapprove a rate filing.

An insurer's ability to adjust its rates in response to competition or to changing costs is often dependent on an insurer's ability to demonstrate to the regulator that its rates or proposed rating plan meets the requirements of the rating laws. In those states that significantly restrict an insurer's discretion in selecting the business that it wants to underwrite, an insurer can manage its risk of loss by charging a rate that reflects the cost and expense of providing the insurance. In those states that significantly restrict an insurer's ability to charge a rate that reflects the cost and expense of providing the insurance, the insurer can manage its risk of loss by being more selective in the type of business it underwrites. When a state significantly restricts both underwriting and pricing, it becomes more difficult for an insurer to maintain its profitability.

From time to time, the private passenger auto insurance industry comes under pressure from state regulators, legislators, and special interest groups to reduce, freeze, or set rates at levels that do not correspond with our analysis of underlying costs and expenses. Homeowners insurance can come under similar pressure, particularly in states subject to significant increases in loss costs from high levels of catastrophe losses. We expect this kind of pressure to persist. In addition, our use of insurance scoring based on credit report information for underwriting and rating has been the subject of challenges and investigations by regulators, legislators, and special interest groups. The result could be legislation or regulation that adversely affects the profitability of the Allstate Protection segment. We cannot predict the impact on our business of possible future legislative and regulatory measures regarding rating.

Involuntary Markets. As a condition of maintaining our licenses to write personal property and casualty insurance in various states, we are 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 our results of operations.

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Michigan Catastrophic Claim Association. The Michigan Catastrophic Claim Association ("MCCA") is a mandatory insurance coverage and reinsurance reimbursement mechanism for personal injury protection losses that provides indemnification for losses over a retention level that increases every other MCCA fiscal year. The retention level is $500 thousand per claim for the fiscal years ending June 30, 2013 and 2012. It operates similar to a reinsurance program and is funded through a portion of insurance premiums but may not be funded on an actuarial basis and can accumulate unfunded claims liabilities. As required for a member company, we report covered paid and unpaid claims to the MCCA, when estimates of loss for a reported claim exceed the retention. The MCCA reimburses members as claims are paid and billed by members to the MCCA. Because of the nature of the coverage, losses may be paid over the lifetime of an insured, accordingly, significant levels of incurred but not reported claims reserves ("IBNR") are recorded by member companies as well as offsetting reinsurance recoverables. By statute, the MCCA is funded by assessments from member companies who, in turn, can recover assessments from policyholders. The MCCA has unfunded claims liabilities with a reimbursement payable to its members. We do not anticipate any material adverse financial impact from this entity on Allstate.

Guaranty Funds. Under state insurance guaranty fund laws, insurers doing business in a state can be assessed, up to prescribed limits, in order to cover certain obligations of insolvent insurance companies.

National Flood Insurance Program. We voluntarily participate as a Write Your Own carrier in the National Flood Insurance Program ("NFIP"). The NFIP is administered and regulated by the Federal Emergency Management Agency. We operate in a fiduciary capacity as a fiscal agent of the federal government in the issuing and administering of the Standard Flood Insurance Policy. This involves the collection of premiums belonging to the federal government and the paying of covered claims by directly drawing on funds of the United States Treasury. We receive expense allowances from the NFIP for underwriting administration, claims management, commissions and adjuster fees. The federal government is obligated to pay all claims that fall under the arrangement.

Investment Regulation. Our insurance subsidiaries are subject to regulations that require investment portfolio diversification and that limit the amount of investment in certain categories. Failure to comply with these rules leads to the treatment of non-conforming investments as non-admitted assets for purposes of measuring statutory surplus. Further, in some instances, these rules require divestiture of non-conforming investments.

Exiting Geographic Markets; Canceling and Non-Renewing Policies. Most states regulate an insurer's ability to exit a market. For example, states may limit, to varying degrees, an insurer's ability to cancel and non-renew policies. Some states restrict or prohibit an insurer from withdrawing one or more types of insurance business from the state, except pursuant to a plan that is approved by the state insurance department. Regulations that limit cancellation and non-renewal and that subject withdrawal plans to prior approval requirements may restrict an insurer's ability to exit unprofitable markets.

Variable Life Insurance and Registered Fixed Annuities. The sale and administration of variable life insurance and registered fixed annuities with market value adjustment features are subject to extensive regulatory oversight at the federal and state level, including regulation and supervision by the Securities and Exchange Commission ("SEC") and the Financial Industry Regulatory Authority ("FINRA").

Broker-Dealers, Investment Advisors, and Investment Companies. The Allstate entities that operate as broker-dealers, registered investment advisors, and investment companies are subject to regulation and supervision by the SEC, FINRA and/or, in some cases, state securities administrators.

Privacy Regulation. Federal law and the laws of many states require financial institutions to protect the security and confidentiality of customer information and to notify customers about their policies and practices relating to collection and disclosure of customer information and their policies relating to protecting the security and confidentiality of that information. Federal law and the laws of many states also regulate disclosures and disposal of customer information. Congress, state legislatures, and regulatory authorities are expected to consider additional regulation relating to privacy and other aspects of customer information.

Asbestos. Congress has considered legislation to address asbestos claims and litigation in the past, but unified support among various defendant and insurer groups considered essential to any possible reform has been lacking. We cannot predict the impact on our business of possible future legislative measures regarding asbestos.

Environmental. Environmental pollution and clean-up of polluted waste sites is the subject of both federal and state regulation. The Comprehensive Environmental Response Compensation and Liability Act of 1980 ("Superfund") and comparable state statutes ("mini-Superfund") govern the clean-up and restoration of waste sites by Potentially Responsible Parties ("PRPs"). Superfund and the mini-Superfunds (Environmental Clean-up Laws or "ECLs") establish a

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mechanism to assign liability to PRPs or to fund the clean-up of waste sites if PRPs fail to do so. The extent of liability to be allocated to a PRP is dependent on a variety of factors. By some estimates, there are thousands of potential waste sites subject to clean-up, but the exact number is unknown. The extent of clean-up necessary and the process of assigning liability remain in dispute. The insurance industry is involved in extensive litigation regarding coverage issues arising out of the clean-up of waste sites by insured PRPs and the insured parties' alleged liability to third parties responsible for the clean-up. The insurance industry, including Allstate, has disputed and is disputing many such claims. Key coverage issues include whether Superfund response, investigation, and clean-up costs are considered damages under the policies; trigger of coverage; the applicability of several types of pollution exclusions; proper notice of claims; whether administrative liability triggers the duty to defend; appropriate allocation of liability among triggered insurers; and whether the liability in question falls within the definition of an "occurrence." Identical coverage issues exist for clean-up and waste sites not covered under Superfund. To date, courts have been inconsistent in their rulings on these issues. Allstate's exposure to liability with regard to its insureds that have been, or may be, named as PRPs is uncertain. While comprehensive Superfund reform proposals have been introduced in Congress, only modest reform measures have been enacted.

INTERNET WEBSITE

Our Internet website address is allstate.com. The Allstate Corporation's annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to such reports that we file or furnish pursuant to Section 13(a) of the Securities Exchange Act of 1934 are available through our Internet website, free of charge, as soon as reasonably practicable after they are electronically filed or furnished to the SEC. In addition, our corporate governance guidelines, our code of ethics, and the charters of our Audit Committee, Compensation and Succession Committee, Executive Committee, and Nominating and Governance Committee are available on our website and in print to any stockholder who requests copies by contacting Investor Relations, The Allstate Corporation, 2775 Sanders Road, Northbrook, Illinois 60062-6127, 1-800-416-8803.

OTHER INFORMATION ABOUT ALLSTATE

As of December 31, 2012, Allstate had approximately 38,000 full-time employees and 600 part-time employees.

Information regarding revenues generated outside of the United States is incorporated in this Part I, Item 1 by reference to Note 19 of the consolidated financial statements.

Allstate's four business segments use shared services, including human resources, investment, finance, information technology and legal services, provided by Allstate Insurance Company and other affiliates.

Although the insurance business generally is not seasonal, claims and claims expense for the Allstate Protection segment tend to be higher for periods of severe or inclement weather.

"Allstate" is one of the most recognized brand names in the United States. We use the names "Allstate," "Encompass," "Esurance" and "Lincoln Benefit Life®" extensively in our business, along with related service marks, logos, and slogans, such as "Good Hands®." Our rights in the United States to these names, service marks, logos, and slogans continue so long as we continue to use them in commerce. These service marks and many others used by Allstate are the subject of renewable U.S. and/or foreign service mark registrations. We believe that these service marks are important to our business and we intend to maintain our rights to them through continued use.

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Executive Officers of the Registrant

The following table sets forth the names of our executive officers, their ages as of February 1, 2013, their positions, and the years of their first election as officers. "AIC" refers to Allstate Insurance Company.

Name	Age	Position/Offices	Year First Elected Officer
Thomas J. Wilson	55	Chairman of the Board, President, and Chief Executive Officer of The Allstate Corporation and of AIC.	1995
Donald J. Bailey	47	President Emerging Businesses.	2010
Don Civgin	51	President and Chief Executive Officer Allstate Financial.	2008
James D. DeVries	49	Executive Vice President and Chief Administrative Officer of AIC (Human Resources).	2008
Judith P. Greffin	52	Executive Vice President and Chief Investment Officer of AIC.	2002
Sanjay Gupta	44	Executive Vice President and Chief Marketing Officer of AIC.	2012
Suren Gupta	51	Executive Vice President of AIC (Technology and Operations).	2011
Susan L. Lees	55	Executive Vice President and General Counsel of The Allstate Corporation and of AIC (Chief Legal Officer).	2008
Samuel H. Pilch	66	Senior Group Vice President and Controller of The Allstate Corporation and of AIC.	1996
Steven E. Shebik	56	Executive Vice President and Chief Financial Officer of The Allstate Corporation and of AIC.	1999
Steven C. Verney	54	Executive Vice President and Chief Risk Officer of AIC.	1999
Matthew E. Winter	56	President Allstate Auto, Home, and Agencies.	2009

Each of the officers named above may be removed from office at any time, with or without cause, by the board of directors of the relevant company.

Messrs. Wilson, Pilch, Shebik and Verney, and Mmes. Greffin and Lees have held the listed positions for at least the last five years or have served Allstate in various executive or administrative capacities for at least five years.

Prior to joining Allstate in 2010, Mr. Bailey served as Chairman and Chief Executive Officer of Willis North America from 2006 to 2010.

Prior to joining Allstate in 2008, Mr. Civgin was Executive Vice President and Chief Financial Officer of OfficeMax, Incorporated and served in that position from 2005 to 2008.

Prior to joining Allstate in 2008, Mr. DeVries served as Senior Vice President of Human Resources at Principal Financial Group from 2000 to 2008.

Prior to joining Allstate in 2012, Mr. Sanjay Gupta served as Chief Marketing Officer of Ally Financial from 2008 to 2012 and Senior Vice President of Global Consumer and Small Business Marketing at Bank of America from 2001 to 2008.

Prior to joining Allstate in 2011, Mr. Suren Gupta served as Executive Vice President of Wells Fargo from 2003 to 2011.

Prior to joining Allstate in 2009, Mr. Winter served as Vice Chairman of American International Group ("AIG") in 2009 and President and Chief Executive Officer of AIG American General Domestic Life Companies from 2006 to 2009.

Item 1A. Risk Factors

This document contains "forward-looking statements" that anticipate results based on our estimates, assumptions and plans that are subject to uncertainty. These statements are made subject to the safe-harbor provisions of the Private

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Securities Litigation Reform Act of 1995. We assume no obligation to update any forward-looking statements as a result of new information or future events or developments.

These forward-looking statements do not relate strictly to historical or current facts and may be identified by their use of words like "plans," "seeks," "expects," "will," "should," "anticipates," "estimates," "intends," "believes," "likely," "targets" and other words with similar meanings. These statements may address, among other things, our strategy for growth, catastrophe exposure management, product development, investment results, regulatory approvals, market position, expenses, financial results, litigation and reserves. We believe that these statements are based on reasonable estimates, assumptions and plans. However, if the estimates, assumptions or plans underlying the forward-looking statements prove inaccurate or if other risks or uncertainties arise, actual results could differ materially from those communicated in these forward-looking statements.

In addition to the normal risks of business, we are subject to significant risks and uncertainties, including those listed below, which apply to us as an insurer and a provider of other products and financial services. These risks constitute our cautionary statements under the Private Securities Litigation Reform Act of 1995 and readers should carefully review such cautionary statements as they identify certain important factors that could cause actual results to differ materially from those in the forward-looking statements and historical trends. These cautionary statements are not exclusive and are in addition to other factors discussed elsewhere in this document, in our filings with the SEC or in materials incorporated therein by reference.

Risks Relating to the Property-Liability business

As a property and casualty insurer, we may face significant losses from catastrophes and severe weather events

Because of the exposure of our property and casualty business to catastrophic events, our operating results and financial condition may vary significantly from one period to the next. Catastrophes can be caused by various natural and man-made events, including earthquakes, volcanic eruptions, wildfires, tornadoes, tsunamis, hurricanes, tropical storms and certain types of terrorism or industrial accidents. We may incur catastrophe losses in our auto and property business in excess of: (1) those experienced in prior years, (2) the average expected level used in pricing, (3) our current reinsurance coverage limits, or (4) estimate of loss from external hurricane and earthquake models at various levels of probability. Despite our catastrophe management programs, we are exposed to catastrophes that could have a material effect on operating results and financial condition. For example, our historical catastrophe experience includes losses relating to Hurricane Katrina in 2005 totaling $3.6 billion, the Northridge earthquake of 1994 totaling $2.1 billion and Hurricane Andrew in 1992 totaling $2.3 billion. We are also exposed to assessments from the California Earthquake Authority and various state-created insurance facilities, and to losses that could surpass the capitalization of these facilities. Our liquidity could be constrained by a catastrophe, or multiple catastrophes, which result in extraordinary losses or a downgrade of our debt or financial strength ratings.

In addition, we are subject to claims arising from weather events such as winter storms, rain, hail and high winds. The incidence and severity of weather conditions are largely unpredictable. There is generally an increase in the frequency and severity of auto and property claims when severe weather conditions occur.

The nature and level of catastrophes in any period cannot be predicted and could be material to our operating results and financial condition

Along with others in the insurance industry, we use models developed by third party vendors as well as our own historic data in assessing our property insurance exposure to catastrophe losses. These models assume various conditions and probability scenarios. Such models do not necessarily accurately predict future losses or accurately measure losses currently incurred. Catastrophe models, which have been evolving since the early 1990s, use historical information and scientific research about hurricanes and earthquakes and also utilize detailed information about our in-force business. While we use this information in connection with our pricing and risk management activities, there are limitations with respect to its usefulness in predicting losses in any reporting period as actual catastrophic events vary considerably. Other limitations are evident in significant variations in estimates between models, material increases and decreases in results due to model changes and refinements of the underlying data elements and actual conditions that are not yet well understood or may not be properly incorporated into the models.

Impacts of catastrophes and our catastrophe management strategy may adversely affect premium growth

Due to our catastrophe risk management efforts, the size of our homeowners business has been negatively impacted and may continue to be negatively impacted if we take further actions. Homeowners premium growth rates and retention could be more adversely impacted than we expect by adjustments to our business structure, size and underwriting practices in markets with significant catastrophe risk exposure. In addition, due to the diminished potential

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for cross-selling opportunities that cannot be fully replaced by our brokering arrangement to allow our agents to write property products with other carriers, new business growth in our auto lines could be lower than expected.

A regulatory environment that limits rate increases and requires us to underwrite business and participate in loss sharing arrangements may adversely affect our operating results and financial condition

From time to time, political events and positions affect the insurance market, including efforts to suppress rates to a level that may not allow us to reach targeted levels of profitability. For example, if Allstate Protection's loss ratio compares favorably to that of the industry, state regulatory authorities may impose rate rollbacks, require us to pay premium refunds to policyholders, or resist or delay our efforts to raise rates even if the property and casualty industry generally is not experiencing regulatory resistance to rate increases. Such resistance affects our ability, in all product lines, to obtain approval for rate changes that may be required to achieve targeted levels of profitability and returns on equity. Our ability to afford reinsurance required to reduce our catastrophe risk in designated areas may be dependent upon the ability to adjust rates for its cost.

In addition to regulating rates, certain states have enacted laws that require a property-liability insurer conducting business in that state to participate in assigned risk plans, reinsurance facilities and joint underwriting associations or require the insurer to offer coverage to all consumers, often restricting an insurer's ability to charge the price it might otherwise charge. In these markets, we may be compelled to underwrite significant amounts of business at lower than desired rates, possibly leading to an unacceptable return on equity, or as the facilities recognize a financial deficit, they may in turn have the ability to assess participating insurers, adversely affecting our results of operations and financial condition. Laws and regulations of many states also limit an insurer's ability to withdraw from one or more lines of insurance in the state, except pursuant to a plan that is approved by the state insurance department. Additionally, certain states require insurers to participate in guaranty funds for impaired or insolvent insurance companies. These funds periodically assess losses against all insurance companies doing business in the state. Our operating results and financial condition could be adversely affected by any of these factors.

The potential benefits of our sophisticated risk segmentation process may not be fully realized

We believe that sophisticated pricing and underwriting (which, in some situations, considers information that is obtained from credit reports among other factors) has allowed us to be more competitive and operate more profitably. However, because many of our competitors have adopted underwriting criteria and sophisticated pricing models similar to those we use and because other competitors may follow suit, our competitive advantage could decline or be lost. Further, the use of insurance scoring from information that is obtained from credit reports as a factor in underwriting and pricing has at times been challenged by regulators, legislators, litigants and special interest groups in various states. Competitive pressures could also force us to modify our sophisticated pricing models. Furthermore, we cannot be assured that these sophisticated pricing models will accurately reflect the level of losses that we will ultimately incur.

Allstate Protection's operating results and financial condition may be adversely affected by the cyclical nature of the property and casualty business

The property and casualty market is cyclical and has experienced periods characterized by relatively high levels of price competition, less restrictive underwriting standards and relatively low premium rates, followed by periods of relatively lower levels of competition, more selective underwriting standards and relatively high premium rates. A downturn in the profitability cycle of the property and casualty business could have a material effect on our operating results and financial condition.

Unexpected increases in the severity or frequency of claims may adversely affect our operating results and financial condition

Unexpected changes in the severity or frequency of claims may affect the profitability of our Allstate Protection segment. Changes in bodily injury claim severity are driven primarily by inflation in the medical sector of the economy and litigation. Changes in auto physical damage claim severity are driven primarily by inflation in auto repair costs, auto parts prices and used car prices. Changes in homeowners claim severity are driven by inflation in the construction industry, in building materials and in home furnishings, and by other economic and environmental factors, including increased demand for services and supplies in areas affected by catastrophes. However, changes in the level of the severity of claims are not limited to the effects of inflation and demand surge in these various sectors of the economy. Increases in claim severity can arise from unexpected events that are inherently difficult to predict. Although we pursue various loss management initiatives in the Allstate Protection segment in order to mitigate future increases in claim severity, there can be no assurances that these initiatives will successfully identify or reduce the effect of future increases in claim severity.

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Our Allstate Protection segment may experience volatility in claim frequency from time to time, and short-term trends may not continue over the longer term. A significant increase in claim frequency could have an adverse effect on our operating results and financial condition.

Actual claims incurred may exceed current reserves established for claims and may adversely affect our operating results and financial condition

Recorded claim reserves in the Property-Liability business are based on our best estimates of losses, both reported and IBNR, after considering known facts and interpretations of circumstances. Internal factors are considered including our experience with similar cases, actual claims paid, historical trends involving claim payment patterns, pending levels of unpaid claims, loss management programs, product mix and contractual terms. External factors are also considered which include, but are not limited to, law changes, court decisions, changes to regulatory requirements and economic conditions. Because reserves are estimates of the unpaid portion of losses that have occurred, including IBNR 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 reserves and such variance may adversely affect our operating results and financial condition.

Predicting claim expense relating to asbestos, environmental and other discontinued lines is inherently uncertain and may have a material effect on our operating results and financial condition

The process of estimating asbestos, environmental and other discontinued lines liabilities is complicated by complex legal issues concerning, among other things, the interpretation of various insurance policy provisions and whether losses are covered, or were ever intended to be covered, and whether losses could be recoverable through retrospectively determined premium, reinsurance or other contractual agreements. Asbestos-related bankruptcies and other asbestos litigation are complex, lengthy proceedings that involve substantial uncertainty for insurers. Actuarial techniques and databases used in estimating asbestos, environmental and other discontinued lines net loss reserves may prove to be inadequate indicators of the extent of probable loss. Ultimate net losses from these discontinued lines could materially exceed established loss reserves and expected recoveries and have a material effect on our operating results and financial condition.

Risks Relating to the Allstate Financial Segment

Changes in underwriting and actual experience could materially affect profitability and financial condition

Our product pricing includes long-term assumptions regarding investment returns, mortality, morbidity, persistency and operating costs and expenses of the business. We establish target returns for each product based upon these factors and the average amount of capital that we must hold to support in-force contracts taking into account rating agencies and regulatory requirements. We monitor and manage our pricing and overall sales mix to achieve target new business returns on a portfolio basis, which could result in the discontinuation or de-emphasis of products or distribution relationships and a decline in sales. Profitability from new business emerges over a period of years depending on the nature and life of the product and is subject to variability as actual results may differ from pricing assumptions. Additionally, many of our products have fixed or guaranteed terms that limit our ability to increase revenues or reduce benefits, including credited interest, once the product has been issued.

Our profitability in this segment depends on the adequacy of investment spreads, the management of market and credit risks associated with investments, the sufficiency of premiums and contract charges to cover mortality and morbidity benefits, the persistency of policies to ensure recovery of acquisition expenses, and the management of operating costs and expenses within anticipated pricing allowances. Legislation and regulation of the insurance marketplace and products could also affect our profitability and financial condition.

Changes in reserve estimates may adversely affect our operating results

The reserve for life-contingent contract benefits is computed on the basis of long-term actuarial assumptions of future investment yields, mortality, morbidity, persistency and expenses. We periodically review the adequacy of these reserves on an aggregate basis and if future experience differs significantly from assumptions, adjustments to reserves and amortization of deferred policy acquisition costs ("DAC") may be required which could have a material effect on our operating results.

Changes in market interest rates may lead to a significant decrease in the sales and profitability of spread-based products

Our ability to manage the Allstate Financial spread-based products, such as fixed annuities and institutional products, is dependent upon maintaining profitable spreads between investment yields and interest crediting rates.

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When market interest rates decrease or remain at relatively low levels, proceeds from investments that have matured or have been prepaid or sold may be reinvested at lower yields, reducing investment spread. Lowering interest crediting rates on some products in such an environment can partially offset decreases in investment yield. However, these changes could be limited by market conditions, regulatory minimum rates or contractual minimum rate guarantees on many contracts and may not match the timing or magnitude of changes in investment yields. Decreases in the interest crediting rates offered on products in the Allstate Financial segment could make those products less attractive, leading to lower sales and/or changes in the level of policy loans, surrenders and withdrawals. Non-parallel shifts in interest rates, such as increases in short-term rates without accompanying increases in medium- and long-term rates, can influence customer demand for fixed annuities, which could impact the level and profitability of new customer deposits. Increases in market interest rates can also have negative effects on Allstate Financial, for example by increasing the attractiveness of other investments to our customers, which can lead to increased surrenders at a time when the segment's fixed income investment asset values are lower as a result of the increase in interest rates. This could lead to the sale of fixed income securities at a loss. For certain products, principally fixed annuity and interest-sensitive life products, the earned rate on assets could lag behind rising market yields. We may react to market conditions by increasing crediting rates, which could narrow spreads and reduce profitability. Unanticipated surrenders could result in accelerated amortization of DAC or affect the recoverability of DAC and thereby increase expenses and reduce profitability. In addition, changes in market interest rates impact the valuation of derivatives embedded in equity-indexed annuity contracts that are not hedged, which could lead to volatility in net income.

Changes in estimates of profitability on interest-sensitive life, fixed annuities and other investment products may adversely affect our profitability and financial condition through the amortization of DAC

DAC related to interest-sensitive life, fixed annuities and other investment contracts is amortized in proportion to actual historical gross profits and estimated future gross profits ("EGP") over the estimated lives of the contracts. The principal assumptions for determining the amount of EGP are mortality, persistency, expenses, investment returns, including capital gains and losses on assets supporting contract liabilities, interest crediting rates to contractholders, and the effects of any hedges. Updates to these assumptions (commonly referred to as "DAC unlocking") could adversely affect our profitability and financial condition.

Reducing our concentration in spread-based business may adversely affect reported results

We have been reducing our concentration in spread-based business. Lower new sales of these products could negatively impact investment portfolio levels, complicate settlement of expiring contracts including forced sales of assets with unrealized capital losses, and affect goodwill impairment testing and insurance reserves deficiency testing.

Changes in tax laws may decrease sales and profitability of products and adversely affect our financial condition

Under current federal and state income tax law, certain products we offer, primarily life insurance and annuities, receive favorable tax treatment. This favorable treatment may give certain of our products a competitive advantage over noninsurance products. Congress and various state legislatures from time to time consider legislation that would reduce or eliminate the favorable policyholder tax treatment currently applicable to life insurance and annuities. Congress and various state legislatures also consider proposals to reduce the taxation of certain products or investments that may compete with life insurance or annuities. Legislation that increases the taxation on insurance products or reduces the taxation on competing products could lessen the advantage or create a disadvantage for certain of our products making them less competitive. Such proposals, if adopted, could have a material effect on our profitability and financial condition or ability to sell such products and could result in the surrender of some existing contracts and policies. In addition, changes in the federal estate tax laws could negatively affect the demand for the types of life insurance used in estate planning.

We may not be able to mitigate the capital impact associated with statutory reserving requirements, potentially resulting in a need to increase prices, reduce sales of term or universal life products, and/or a return on equity below priced levels

To support statutory reserves for certain term and universal life insurance products with secondary guarantees, we currently utilize reinsurance and capital markets solutions for financing a portion of our statutory reserve requirements deemed to be non-economic. As we continue to underwrite term and universal life business, we expect to have additional financing needs to mitigate the impact of these reserve requirements. If we do not obtain additional financing as a result of market conditions or otherwise, this could require us to increase prices, reduce our sales of term or universal life products, and/or result in a return on equity below priced levels.

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Risks Relating to Investments

We are subject to market risk and declines in credit quality which may adversely affect investment income and cause realized and unrealized losses

Although we continually reevaluate our investment management strategies, we remain subject to the risk that we will incur losses due to adverse changes in interest rates, credit spreads, equity prices or currency exchange rates. Adverse changes to these rates, spreads and prices may occur due to changes in fiscal policy and the economic climate, the liquidity of a market or market segment, insolvency or financial distress of key market makers or participants, or changes in market perceptions of credit worthiness and/or risk tolerance.

We are subject to risks associated with potential declines in credit quality related to specific issuers or specific industries and a general weakening in the economy, which are typically reflected through credit spreads. Credit spread is the additional yield on fixed income securities above the risk-free rate (typically referenced as the yield on U.S. Treasury securities) that market participants require to compensate them for assuming credit, liquidity and/or prepayment risks. Credit spreads vary (i.e. increase or decrease) in response to the market's perception of risk and liquidity in a specific issuer or specific sector and are influenced by the credit ratings, and the reliability of those ratings, published by external rating agencies. Although we have the ability to use derivative financial instruments to manage these risks, the effectiveness of such instruments is subject to the same risks. A decline in the quality of our investment portfolio as a result of adverse economic conditions or otherwise could cause additional realized and unrealized losses on securities, including realized and unrealized losses relating to equity and derivative strategies.

A decline in market interest rates or credit spreads could have an adverse effect on our investment income as we invest cash in new investments that may earn less than the portfolio's average yield. In a declining interest rate environment, borrowers may prepay or redeem securities more quickly than expected as they seek to refinance at lower rates. A decline could also lead us to purchase longer-term or riskier assets in order to obtain adequate investment yields resulting in a duration gap when compared to the duration of liabilities. Alternatively, longer-term assets may be sold and reinvested in shorter-term assets in anticipation of rising interest rates. An increase in market interest rates or credit spreads could have an adverse effect on the value of our investment portfolio by decreasing the fair values of the fixed income securities that comprise a substantial majority of our investment portfolio. Declining equity markets could also cause the investments in our pension plans to decrease and decreasing interest rates could cause the funding target and the projected benefit obligation of our pension plans or the accumulated benefit obligation of our other postretirement benefit plans to increase, either or both resulting in a decrease in the funded status of the pension plans and a reduction in the accumulated other comprehensive income component of shareholders' equity, increases in pension and other postretirement benefit expense and increases in required contributions to the pension plans.

Deteriorating financial performance impacting securities collateralized by residential and commercial mortgage loans, collateralized corporate loans, and commercial mortgage loans may lead to write-downs and impact our results of operations and financial condition

Changes in residential or commercial mortgage delinquencies, loss severities or recovery rates, declining residential or commercial real estate prices, corporate loan delinquencies or recovery rates, changes in credit or bond insurer strength ratings and the quality of service provided by service providers on securities in our portfolios could lead us to determine that write-downs are necessary in the future.

The impact of our investment strategies may be adversely affected by developments in the financial markets

The impact of our investment management strategies may be adversely affected by unexpected developments in the financial markets. For example, derivative contracts may result in coverage that is not as effective as intended thereby leading to the recognition of losses without the recognition of gains expected to mitigate the losses.

Concentration of our investment portfolios in any particular segment of the economy may have adverse effects on our operating results and financial condition

The concentration of our investment portfolios in any particular industry, collateral type, group of related industries, geographic sector or risk type could have an adverse effect on our investment portfolios and consequently on our results of operations and financial condition. Events or developments that have a negative impact on any particular industry, group of related industries or geographic region may have a greater adverse effect on the investment portfolios to the extent that the portfolios are concentrated rather than diversified.

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The determination of the amount of realized capital losses recorded for impairments of our investments is subjective and could materially impact our operating results and financial condition

The determination of the amount of realized capital losses recorded for impairments vary by investment type and is based upon our ongoing evaluation and assessment of known and inherent risks associated with the respective asset class. Such evaluations and assessments are revised as conditions change and new information becomes available. We update our evaluations regularly and reflect changes in other-than-temporary impairments in our results of operations. The assessment of whether other-than-temporary impairments have occurred is based on our case-by-case evaluation of the underlying reasons for the decline in fair value. Our conclusions on such assessments are judgmental and include assumptions and projections of future cash flows which may ultimately prove to be incorrect as assumptions, facts and circumstances change. Furthermore, historical trends may not be indicative of future impairments and additional impairments may need to be recorded in the future.

The determination of the fair value of our fixed income and equity securities is subjective and could materially impact our operating results and financial condition

In determining fair values we principally use the market approach which utilizes market transaction data for the same or similar instruments. The degree of management judgment involved in determining fair values is inversely related to the availability of market observable information. The fair value of assets may differ from the actual amount received upon sale of an asset in an orderly transaction between market participants at the measurement date. Moreover, the use of different valuation assumptions may have a material effect on the assets' fair values. The difference between amortized cost or cost and fair value, net of deferred income taxes, certain life and annuity DAC, certain deferred sales inducement costs, and certain reserves for life-contingent contract benefits, is reflected as a component of accumulated other comprehensive income in shareholders' equity. Changing market conditions could materially affect the determination of the fair value of securities and unrealized net capital gains and losses could vary significantly.

Risks Relating to the Insurance Industry

Our future growth and profitability are dependent in part on our ability to successfully operate in an insurance industry that is highly competitive

The insurance industry is highly competitive. Our competitors include other insurers and, because some of our products include a savings or investment component, securities firms, investment advisers, mutual funds, banks and other financial institutions. Many of our competitors have well-established national reputations and market similar products.

We have invested in growth strategies through the recent addition of the Esurance brand, our differentiated Encompass package policy and our distinctive advertising campaigns. If we are unsuccessful in generating new business and retaining a sufficient number of our customers, our ability to increase premiums written could be impacted. In addition, if we experience unexpected increases in our underlying costs (such as the frequency or severity of claims costs) generated by our new business, it could result in decreases in our profitability and lead to price increases which could impair our ability to compete effectively for insurance business.

Because of the competitive nature of the insurance industry, there can be no assurance that we will continue to effectively compete with our industry rivals, or that competitive pressures will not have a material effect on our business, operating results or financial condition. This includes competition for producers such as exclusive and independent agents and their licensed sales professionals. In the event we are unable to attract and retain these producers or they are unable to attract and retain customers for our products, growth and retention could be materially affected. Furthermore, certain competitors operate using a mutual insurance company structure and therefore may have dissimilar profitability and return targets. Our ability to successfully operate may also be impaired if we are not effective in filling critical leadership positions, in developing the talent and skills of our human resources, in assimilating new executive talent into our organization, or in deploying human resource talent consistently with our business goals.

Difficult conditions in the global economy and capital markets generally could adversely affect our business and operating results and these conditions may not improve in the near future

As with most businesses, we believe difficult conditions in the global economy and capital markets, such as significant negative macroeconomic trends, including relatively high and sustained unemployment, reduced consumer spending, lower residential and commercial real estate prices, substantial increases in delinquencies on consumer debt, including defaults on home mortgages, and the relatively low availability of credit could have an adverse effect on our business and operating results.

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Stressed conditions, volatility and disruptions in global capital markets, particular markets or financial asset classes could adversely affect our investment portfolio. Disruptions in one market or asset class can also spread to other markets or asset classes. Although the disruption in the global financial markets has moderated, not all global financial markets are functioning normally, and the rate of recovery from the U.S. recession has been below historic averages. Several governments around the world have announced austerity actions to address their budget deficits that may lead to a decline in economic activity. While European policy makers have developed mechanisms to address funding concerns, risks to the European economy and financial markets remain.

General economic conditions could adversely affect us in the form of consumer behavior and pressure investment results. Consumer behavior changes could include decreased demand for our products. For example, as consumers purchase fewer automobiles, our sales of auto insurance may decline. Also, as consumers become more cost conscious, they may choose lower levels of auto and homeowners insurance. In addition, holders of some of our interest-sensitive life insurance and annuity products may engage in an elevated level of discretionary withdrawals of contractholder funds. Our investment results could be adversely affected as deteriorating financial and business conditions affect the issuers of the securities in our investment portfolio.

There can be no assurance that actions of the U.S. federal government, Federal Reserve and other regulatory bodies for the purpose of stabilizing the financial markets and stimulating the economy will achieve the intended effect

In response to the financial crises affecting the banking system, the financial markets and the broader economy in recent years, the U.S. federal government, the Federal Reserve and other regulatory bodies have taken actions such as purchasing mortgage-backed and other securities from financial institutions, investing directly in banks, thrifts and bank and savings and loan holding companies and increasing federal spending to stimulate the economy. There can be no assurance as to the long term impact such actions will have on the financial markets or on economic conditions, including potential inflationary effects. Continued volatility and any further economic deterioration could materially and adversely affect our business, financial condition and results of operations.

Losses from legal and regulatory actions may be material to our operating results, cash flows and financial condition

As is typical for a large company, we are involved in various legal actions, including class action litigation challenging a range of company practices and coverage provided by our insurance products, some of which involve claims for substantial or indeterminate amounts. We are also involved in various regulatory actions and inquiries, including market conduct exams by state insurance regulatory agencies. 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 and may be material to our operating results or cash flows for a particular quarter or annual period and to our financial condition. The aggregate estimate of the range of reasonably possible loss in excess of the amount accrued, if any, disclosed in Note 14 of the consolidated financial statements is not an indication of expected loss, if any. Actual results may vary significantly from the current estimate.

We are subject to extensive regulation and potential further restrictive regulation may increase our operating costs and limit our growth

As insurance companies, broker-dealers, investment advisers and/or investment companies, many of our subsidiaries are subject to extensive laws and regulations. These laws and regulations are complex and subject to change. Changes may sometimes lead to additional expenses, increased legal exposure, and additional limits on our ability to grow or to achieve targeted profitability. Moreover, laws and regulations are administered and enforced by a number of different governmental authorities, each of which exercises a degree of interpretive latitude, including state insurance regulators; state securities administrators; state attorneys general and federal agencies including the SEC, the FINRA and the U.S. Department of Justice. Consequently, we are subject to the risk that compliance with any particular regulator's or enforcement authority's interpretation of a legal issue may not result in compliance with another's interpretation of the same issue, particularly when compliance is judged in hindsight. In addition, there is risk that any particular regulator's or enforcement authority's interpretation of a legal issue may change over time to our detriment, or that changes in the overall legal environment may, even absent any particular regulator's or enforcement authority's interpretation of a legal issue changing, cause us to change our views regarding the actions we need to take from a legal risk management perspective, thus necessitating changes to our practices that may, in some cases, limit our ability to grow or to improve the profitability of our business. Furthermore, in some cases, these laws and regulations are designed to protect or benefit the interests of a specific constituency rather than a range of constituencies. For example, state insurance laws and regulations are generally intended to protect or benefit purchasers or users of insurance products,

not holders of securities, which is generally the jurisdiction of the SEC, issued by The Allstate Corporation. In many respects, these laws and regulations limit our ability to grow or to improve the profitability of our business.

Regulatory reforms, and the more stringent application of existing regulations, may make it more expensive for us to conduct our business

The federal government has enacted comprehensive regulatory reforms for financial services entities. As part of a larger effort to strengthen the regulation of the financial services market, certain reforms are applicable to the insurance industry, including the FIO established within the Treasury Department.

In recent years, the state insurance regulatory framework has come under public scrutiny, members of Congress have discussed proposals to provide for federal chartering of insurance companies, and the FIO and FSOC were established. In the future, if the FSOC were to determine that Allstate is a "systemically important" nonbank financial company, Allstate would be subject to regulation by the Federal Reserve Board. We can make no assurances regarding the potential impact of state or federal measures that may change the nature or scope of insurance and financial regulation.

These regulatory reforms and any additional legislative change or regulatory requirements imposed upon us in connection with the federal government's regulatory reform of the financial services industry or arising from reform related to the international regulatory capital framework for financial services firms, and any more stringent enforcement of existing regulations by federal authorities, may make it more expensive for us to conduct our business, or limit our ability to grow or to achieve profitability.

Reinsurance may be unavailable at current levels and prices, which may limit our ability to write new business

Our personal lines catastrophe reinsurance program was designed, utilizing our risk management methodology, to address our exposure to catastrophes nationwide. Market conditions beyond our control impact the availability and cost of the reinsurance we purchase. No assurances can be made that reinsurance will remain continuously available to us to the same extent and on the same terms and rates as is currently available. For example, our ability to afford reinsurance to reduce our catastrophe risk in designated areas may be dependent upon our ability to adjust premium rates for its cost, and there are no assurances that the terms and rates for our current reinsurance program will continue to be available in future years. If we were unable to maintain our current level of reinsurance or purchase new reinsurance protection in amounts that we consider sufficient and at prices that we consider acceptable, we would have to either accept an increase in our catastrophe exposure, reduce our insurance writings, or develop or seek other alternatives.

Reinsurance subjects us to the credit risk of our reinsurers and may not be adequate to protect us against losses arising from ceded insurance, which could have a material effect on our operating results and financial condition

The collectability of reinsurance recoverables is subject to uncertainty arising from a number of factors, including changes in market conditions, whether insured losses meet the qualifying conditions of the reinsurance contract and whether reinsurers, or their affiliates, have the financial capacity and willingness to make payments under the terms of a reinsurance treaty or contract. We also have credit risk exposure associated with the Michigan Catastrophic Claims Association ("MCCA"), a mandatory insurance coverage and reinsurance reimbursement mechanism for personal injury protection losses that provides indemnification for losses over a retention level that increases every other MCCA fiscal year, which is operating with an increasing deficit. Our reinsurance recoverable from the MCCA was $2.59 billion as of December 31, 2012. Our inability to collect a material recovery from a reinsurer could have a material effect on our operating results and financial condition.

A large scale pandemic, the continued threat of terrorism or military actions may have an adverse effect on the level of claim losses we incur, the value of our investment portfolio, our competitive position, marketability of product offerings, liquidity and operating results

A large scale pandemic, the continued threat of terrorism, within the United States and abroad, or military and other actions, and heightened security measures in response to these types of threats, may cause significant volatility and losses in our investment portfolio from declines in the equity markets and from interest rate changes in the United States, Europe and elsewhere, and result in loss of life, property damage, disruptions to commerce and reduced economic activity. Some of the assets in our investment portfolio may be adversely affected by declines in the equity markets and reduced economic activity caused by a large scale pandemic or the continued threat of terrorism. Additionally, a large scale pandemic or terrorist act could have a material effect on the sales, profitability, competitiveness, marketability of product offerings, liquidity, and operating results.

A downgrade in our financial strength ratings may have an adverse effect on our competitive position, the marketability of our product offerings, and our liquidity, access to and cost of borrowing, operating results and financial condition

Financial strength ratings are important factors in establishing the competitive position of insurance companies and generally have an effect on an insurance company's business. On an ongoing basis, rating agencies review our financial performance and condition and could downgrade or change the outlook on our ratings due to, for example, a change in one of our insurance company's statutory capital; a change in a rating agency's determination of the amount of risk-adjusted capital required to maintain a particular rating; an increase in the perceived risk of our investment portfolio; a reduced confidence in management or our business strategy, as well as a number of other considerations that may or may not be under our control. The insurance financial strength ratings of Allstate Insurance Company and Allstate Life Insurance Company and The Allstate Corporation's senior debt ratings from A.M. Best, Standard & Poor's and Moody's are subject to continuous review, and the retention of current ratings cannot be assured. A downgrade in any of these ratings could have a material effect on our sales, our competitiveness, the marketability of our product offerings, our liquidity, access to and cost of borrowing, operating results and financial condition.

Adverse capital and credit market conditions may significantly affect our ability to meet liquidity needs or our ability to obtain credit on acceptable terms

In periods of extreme volatility and disruption in the capital and credit markets, liquidity and credit capacity may be severely restricted. In such circumstances, our ability to obtain capital to fund operating expenses, financing costs, capital expenditures or acquisitions may be limited, and the cost of any such capital may be significant. Our access to additional financing will depend on a variety of factors such as market conditions, the general availability of credit, the overall availability of credit to our industry, our credit ratings and credit capacity, as well as lenders' perception of our long- or short-term financial prospects. Similarly, our access to funds may be impaired if regulatory authorities or rating agencies take negative actions against us. If a combination of these factors were to occur, our internal sources of liquidity may prove to be insufficient and in such case, we may not be able to successfully obtain additional financing on favorable terms.

We may be required to recognize impairments in the value of our goodwill, which may adversely affect our operating results and financial condition

Goodwill represents the excess of amounts paid for acquiring businesses over the fair value of the net assets acquired. Goodwill is evaluated for impairment annually, or more frequently if conditions warrant, by comparing the carrying value (attributed equity) of a reporting unit to its estimated fair value. Market declines or other events impacting the fair value of a reporting unit could result in a goodwill impairment, resulting in a charge to income. Such a charge could have an adverse effect on our results of operations or financial condition.

Changes in accounting standards issued by the Financial Accounting Standards Board or other standard-setting bodies may adversely affect our results of operations and financial condition

Our financial statements are subject to the application of generally accepted accounting principles, which are periodically revised, interpreted and/or expanded. Accordingly, we are required to adopt new guidance or interpretations, or could be subject to existing guidance as we enter into new transactions, which may have a material effect on our results of operations and financial condition that is either unexpected or has a greater impact than expected. For a description of changes in accounting standards that are currently pending and, if known, our estimates of their expected impact, see Note 2 of the consolidated financial statements.

The change in our unrecognized tax benefit during the next 12 months is subject to uncertainty

We have disclosed our estimate of net unrecognized tax benefits and the reasonably possible increase or decrease in its balance during the next 12 months in Note 15 of the consolidated financial statements. However, actual results may differ from our estimate for reasons such as changes in our position on specific issues, developments with respect to the governments' interpretations of income tax laws or changes in judgment resulting from new information obtained in audits or the appeals process.

The realization of deferred tax assets is subject to uncertainty

The realization of our deferred tax assets, net of valuation allowance, is based on our assumption that we will be able to fully utilize the deductions that are ultimately recognized for tax purposes. However, actual results may differ from our assumptions if adequate levels of taxable income are not attained.

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The ability of our subsidiaries to pay dividends may affect our liquidity and ability to meet our obligations

The Allstate Corporation is a holding company with no significant operations. The principal asset is the stock of its subsidiaries. State insurance regulatory authorities limit the payment of dividends by insurance subsidiaries, as described in Note 16 of the consolidated financial statements. In addition, competitive pressures generally require the subsidiaries to maintain insurance financial strength ratings. These restrictions and other regulatory requirements affect the ability of the subsidiaries to make dividend payments. Limits on the ability of the subsidiaries to pay dividends could adversely affect holding company liquidity, including our ability to pay dividends to shareholders, service our debt, or complete share repurchase programs in the timeframe expected.

The occurrence of events unanticipated in our disaster recovery systems and management continuity planning or a support failure from external providers during a disaster could impair our ability to conduct business effectively

The occurrence of a disaster such as a natural catastrophe, an industrial accident, a terrorist attack or war, cyber attack, events unanticipated in our disaster recovery systems, or a support failure from external providers, could have an adverse effect on our ability to conduct business and on our results of operations and financial condition, particularly if those events affect our computer-based data processing, transmission, storage, and retrieval systems or destroy data. If a significant number of our managers were unavailable in the event of a disaster, our ability to effectively conduct our business could be severely compromised.

We depend heavily upon computer systems to perform necessary business functions. Despite our implementation of a variety of security measures, our computer systems could be subject to cyber attacks and unauthorized access, such as physical and electronic break-ins or unauthorized tampering. Like other global companies, we have experienced threats to our data and systems, including malware and computer virus attacks, unauthorized access, system failures and disruptions. If one or more of these events occurs, it could potentially jeopardize the confidential, proprietary and other information processed and stored in, and transmitted through, our computer systems and networks, or otherwise cause interruptions or malfunctions in our operations, which could result in damage to our reputation, financial losses, litigation, increased costs, regulatory penalties and/or customer dissatisfaction or loss.

Changing climate conditions may adversely affect our financial condition, profitability or cash flows

Climate change, to the extent it produces rising temperatures and changes in weather patterns, could impact the frequency or severity of weather events and wildfires, the affordability and availability of homeowners insurance, and the results for our Allstate Protection segment.

Loss of key vendor relationships or failure of a vendor to protect personal information of our customers, claimants or employees could affect our operations

We rely on services and products provided by many vendors in the United States and abroad. These include, for example, vendors of computer hardware and software and vendors of services such as claim adjustment services and human resource benefits management services. In the event that one or more of our vendors suffers a bankruptcy or otherwise becomes unable to continue to provide products or services, or fails to protect personal information of our customers, claimants or employees, we may suffer operational impairments and financial losses.

We may not be able to protect our intellectual property and may be subject to infringement claims

We rely on a combination of contractual rights and copyright, trademark, patent and trade secret laws to establish and protect our intellectual property. Although we use a broad range of measures to protect our intellectual property rights, third parties may infringe or misappropriate our intellectual property. We may have to litigate to enforce and protect our intellectual property and to determine its scope, validity or enforceability, which could divert significant resources and prove unsuccessful. An inability to protect our intellectual property could have a material effect on our business.

We may be subject to claims by third parties for patent, trademark or copyright infringement or breach of usage rights. Any such claims and any resulting litigation could result in significant expense and liability. If our third party providers or we are found to have infringed a third-party intellectual property right, either of us could be enjoined from providing certain products or services or from utilizing and benefiting from certain methods, processes, copyrights, trademarks, trade secrets or licenses. Alternatively, we could be required to enter into costly licensing arrangements with third parties or implement a costly work around. Any of these scenarios could have a material effect on our business and results of operations.

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Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Our home office complex is located in Northbrook, Illinois. As of December 31, 2012, the Home Office complex consists of several buildings totaling 2.3 million square feet of office space on a 278-acre site.

We also operate from approximately 1,360 administrative, data processing, claims handling and other support facilities in North America. In addition to our home office facilities, 1.7 million square feet are owned and 7.0 million square feet are leased. Outside North America, we lease three properties in Northern Ireland comprising 148,200 square feet. We also have one lease in London for 3,650 square feet and one lease in India for 65,970 square feet. Generally, only major Allstate facilities are owned. In a majority of cases, new lease terms and renewals are for five years or less.

The locations out of which the Allstate exclusive agencies operate in the U.S. are normally leased by the agencies as lessees.

Item 3. Legal Proceedings

Information required for Item 3 is incorporated by reference to the discussion under the heading "Regulation and Compliance" and under the heading "Legal and regulatory proceedings and inquiries" in Note 14 of the consolidated financial statements.

Item 4. Mine Safety Disclosures

Not applicable.

Part II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

As of February 1, 2013, there were 97,826 record holders of The Allstate Corporation's common stock. The principal market for the common stock is the New York Stock Exchange but it is also listed on the Chicago Stock Exchange. Set forth below are the high and low New York Stock Exchange Composite listing prices of, and cash dividends declared for, the common stock during 2012 and 2011.

	High	Low	Close	Dividends Declared
2012				
First quarter	33.33	26.98	32.92	.22
Second quarter	35.15	31.93	35.09	.22
Third quarter	40.72	33.35	39.61	.22
Fourth quarter	42.81	37.92	40.17	.22
2011				
First quarter	32.61	30.43	31.78	.21
Second quarter	34.40	29.27	30.53	.21
Third quarter	31.01	22.27	23.69	.21
Fourth quarter	27.98	22.34	27.41	.21

The payment of dividends by Allstate Insurance Company ("AIC") to The Allstate Corporation is limited by Illinois insurance law to formula amounts based on statutory net income and statutory surplus, as well as the timing and amount of dividends paid in the preceding twelve months. In the twelve-month period ending December 31, 2012, AIC paid dividends of $1.51 billion. Based on the greater of 2012 statutory net income or 10% of statutory surplus, the maximum amount of dividends that AIC will be able to pay without prior Illinois Department of Insurance approval at a given point in time in 2013 is $1.95 billion, less dividends paid during the preceding twelve months measured at that point in time. Notification and approval of intercompany lending activities is also required by the Illinois Department of Insurance for those transactions that exceed formula amounts based on statutory admitted assets and statutory surplus.

Issuer Purchases of Equity Securities

Period	Total number of shares (or units) purchased [(1)]	Average price paid per share (or unit)	Total number of shares (or units) purchased as part of publicly announced plans or programs [(2)]	Maximum number (or approximate dollar value) of shares (or units) that may yet be purchased under the plans or programs [(3)]
October 1, 2012 - October 31, 2012	2,116,328	$ 41.0072	2,116,317	$ 79 million
November 1, 2012 - November 30, 2012	2,028,082	$ 39.0845	2,027,705	$
December 1, 2012 - December 31, 2012	1,227,542	$ 40.6346	408,000	$ 984 million
Total	5,371,952	$ 40.1962	4,552,022	

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(1) In accordance with the terms of its equity compensation plans, Allstate acquired the following shares in connection with stock option exercises by employees and/or directors. The stock was received in payment of the exercise price of the options and in satisfaction of withholding taxes due upon exercise or vesting.

October: 11
November: 377
December: 87,527

The Allstate 401(k) Savings Plan acquired the following shares in connection with Allstate's contributions to the plan based on its matching obligation and certain performance measures.

October: none
November: none
December: 732,015

(2)

Repurchases under our programs are, from time to time, executed under the terms of a pre-set trading plan meeting the requirements of Rule 10b5-1(c) of the Securities Exchange Act of 1934.

(3)

On November 8, 2011, we announced the approval of a share repurchase program for $1.00 billion. That program was completed on November 27, 2012. On December 17, 2012, we announced the approval of a new share repurchase program for $1.00 billion. This program is expected to be completed by December 31, 2013.

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Item 6. Selected Financial Data

5-YEAR SUMMARY OF SELECTED FINANCIAL DATA

($ in millions, except per share data and ratios)	**2012**	**2011**	**2010**	**2009**	**2008**
Consolidated Operating Results					
Insurance premiums and contract charges	$ 28,978	$ 28,180	$ 28,125	$ 28,152	$ 28,862
Net investment income	4,010	3,971	4,102	4,444	5,622
Realized capital gains and losses	327	503	(827)	(583)	(5,090)
Total revenues	33,315	32,654	31,400	32,013	29,394
Net income (loss)	2,306	787	911	888	(1,542)
Net income (loss) per share:					
Net income (loss) per share basic	4.71	1.51	1.69	1.65	(2.81)
Net income (loss) per share diluted	4.68	1.50	1.68	1.64	(2.81)
Cash dividends declared per share	0.88	0.84	0.80	0.80	1.64
Consolidated Financial Position					
Investments	$ 97,278	$ 95,618	$ 100,483	$ 99,833	$ 95,998
Total assets	126,947	125,193	130,500	132,209	134,351
Reserves for claims and claims expense, life-contingent contract benefits and contractholder funds	75,502	77,113	81,113	84,659	90,750
Long-term debt	6,057	5,908	5,908	5,910	5,659
Shareholders' equity	20,580	18,298	18,617	16,184	12,121
Shareholders' equity per diluted share	42.39	36.18	34.58	29.90	22.51
Equity	20,580	18,326	18,645	16,213	12,153
Property-Liability Operations					
Premiums earned	$ 26,737	$ 25,942	$ 25,957	$ 26,194	$ 26,967
Net investment income	1,326	1,201	1,189	1,328	1,674
Net income	1,968	403	1,053	1,546	230
Operating ratios [(1)]					
Claims and claims expense ("loss") ratio	69.1	77.7	73.0	71.6	74.4
Expense ratio	26.4	25.7	25.1	24.6	25.0
Combined ratio	95.5	103.4	98.1	96.2	99.4
Allstate Financial Operations					
Premiums and contract charges	$ 2,241	$ 2,238	$ 2,168	$ 1,958	$ 1,895
Net investment income	2,647	2,716	2,853	3,064	3,811
Net income (loss)	541	590	42	(452)	(1,586)
Investments	56,999	57,373	61,582	62,216	61,449

(1) We use operating ratios to measure the profitability of our Property-Liability results. We believe that they enhance an investor's understanding of our profitability. They are calculated as follows: Claims and claims expense ("loss") ratio is the ratio of claims and claims expense to premiums earned. Loss ratios include the impact of catastrophe losses. Expense ratio is the ratio of amortization of deferred policy acquisition costs, operating costs and expenses and restructuring and related charges to premiums earned. Combined ratio is the ratio of claims and claims expense, amortization of deferred policy acquisition costs, 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.

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

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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 5-year summary of selected financial data, consolidated financial statements and related notes found under Part II. Item 6. and Item 8. contained herein. 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 the following priorities in 2013:

- grow insurance premiums;
- maintain auto profitability;
- raise returns in homeowners and annuity businesses;
- proactively manage investments; and
- reduce our cost structure.

The most important factors we monitor to evaluate the financial condition and performance of our company include:

- For Allstate Protection: premium written, the number of policies in force ("PIF"), retention, price changes, claim frequency (rate of claim occurrence per policy in force) and severity (average cost per claim), catastrophes, loss ratio, expenses, underwriting results, and sales of all products and services;
- For Allstate Financial: benefit and investment spread, amortization of deferred policy acquisition costs ("DAC"), expenses, operating income, net income, invested assets, and premiums and contract charges;
- For Investments: credit quality/experience, total return, investment income, cash flows, realized capital gains and losses, unrealized capital gains and losses, stability of long-term returns, and asset and liability duration; and
- For financial condition: liquidity, parent holding company level of deployable invested assets, financial strength ratings, operating leverage, debt leverage, book value per share, and return on equity.

Summary of Results:

- Consolidated net income was $2.31 billion in 2012 compared to $787 million in 2011 and $911 million in 2010. The increase in 2012 compared to 2011 was primarily due to higher net income from Property-Liability, partially offset by lower net income from Allstate Financial. The decrease in 2011 compared to 2010 was primarily due to lower net income from Property-Liability, partially offset by higher net income from Allstate Financial. Net income per diluted share was $4.68, $1.50 and $1.68 in 2012, 2011 and 2010, respectively.
- Allstate Protection had underwriting income of $1.25 billion in 2012 compared to an underwriting loss of $857 million in 2011 and underwriting income of $525 million in 2010. The underwriting income in 2012 compared to the underwriting loss in 2011 was primarily due to underwriting income in homeowners and other personal lines in 2012 compared to underwriting losses in 2011, partially offset by a decrease in standard auto underwriting income. The decrease in 2011 compared to 2010 was primarily due to increases in homeowners underwriting losses and decreases in other personal lines and standard auto underwriting income. The Allstate Protection combined ratio was 95.3, 103.3 and 98.0 in 2012, 2011 and 2010, respectively. Underwriting income (loss), a measure not based on accounting principles generally accepted in the United States of America ("GAAP"), is defined in the Property-Liability Operations section of the MD&A.

Allstate Financial net income was $541 million in 2012 compared to $590 million in 2011 and $42 million in 2010. The decrease in 2012 compared to 2011 was primarily due to net realized capital losses in 2012 compared to net realized capital gains in 2011, lower net investment income and higher life and annuity contract benefits, partially offset by decreased interest credited to contractholder funds and lower amortization of DAC. The increase in 2011 compared to 2010 was primarily due to net realized capital gains in 2011 compared to net realized capital losses in 2010 and decreased interest credited to contractholder funds, partially offset by higher amortization of DAC and lower net investment income.

2012 HIGHLIGHTS

Consolidated net income was $2.31 billion in 2012 compared to $787 million in 2011. Net income per diluted share was $4.68 in 2012 compared to $1.50 in 2011.

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Property-Liability net income was $1.97 billion in 2012 compared to $403 million in 2011.

The Property-Liability combined ratio was 95.5 in 2012 compared to 103.4 in 2011.

Allstate Financial net income was $541 million in 2012 compared to $590 million in 2011.

Total revenues were $33.32 billion in 2012 compared to $32.65 billion in 2011.

Property-Liability premiums earned totaled $26.74 billion in 2012 compared to $25.94 billion in 2011.

Investments totaled $97.28 billion as of December 31, 2012, an increase of 1.7% from $95.62 billion as of December 31, 2011. Net investment income was $4.01 billion in 2012, an increase of 1.0% from $3.97 billion in 2011.

Net realized capital gains were $327 million in 2012 compared to $503 million in 2011.

Book value per diluted share (ratio of shareholders' equity to total shares outstanding and dilutive potential shares outstanding) was $42.39 as of December 31, 2012, an increase of 17.2% from $36.18 as of December 31, 2011.

For the twelve months ended December 31, 2012, return on the average of beginning and ending period shareholders' equity was 11.9%, an increase of 7.6 points from 4.3% for the twelve months ended December 31, 2011.

As of December 31, 2012, shareholders' equity was $20.58 billion. This total included $2.06 billion in deployable invested assets at the parent holding company level.

CONSOLIDATED NET INCOME

($ in millions)	**For the years ended December 31,**		
	2012	**2011**	**2010**
Revenues			
Property-liability insurance premiums	$ 26,737	$ 25,942	$ 25,957
Life and annuity premiums and contract charges	2,241	2,238	2,168
Net investment income	4,010	3,971	4,102
Realized capital gains and losses:			
Total other-than-temporary impairment losses	(239)	(563)	(937)
Portion of loss recognized in other comprehensive income	6	(33)	(64)
Net other-than-temporary impairment losses recognized in earnings	(233)	(596)	(1,001)
Sales and other realized capital gains and losses	560	1,099	174
Total realized capital gains and losses	327	503	(827)
Total revenues	33,315	32,654	31,400
Costs and expenses			
Property-liability insurance claims and claims expense	(18,484)	(20,161)	(18,951)
Life and annuity contract benefits	(1,818)	(1,761)	(1,815)
Interest credited to contractholder funds	(1,316)	(1,645)	(1,807)
Amortization of deferred policy acquisition costs	(3,884)	(3,971)	(3,807)
Operating costs and expenses	(4,118)	(3,739)	(3,542)
Restructuring and related charges	(34)	(44)	(30)
Interest expense	(373)	(367)	(367)
Total costs and expenses	(30,027)	(31,688)	(30,319)
Gain (loss) on disposition of operations	18	(7)	19
Income tax expense	(1,000)	(172)	(189)

Net income	$ 2,306	$ 787	$ 911
Property-Liability	$ 1,968	$ 403	$ 1,053
Allstate Financial	541	590	42
Corporate and Other	(203)	(206)	(184)
Net income	$ 2,306	$ 787	$ 911

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APPLICATION OF CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with GAAP requires management to adopt accounting policies and make estimates and assumptions that affect amounts reported in the consolidated financial statements. The most critical estimates include those used in determining:

Fair value of financial assets

Impairment of fixed income and equity securities

Deferred policy acquisition costs amortization

Reserve for property-liability insurance claims and claims expense estimation

Reserve for life-contingent contract benefits estimation

In making these determinations, management makes subjective and complex judgments that frequently require estimates about matters that are inherently uncertain. Many of these policies, estimates and related judgments are common in the insurance and financial services industries; others are specific to our businesses and operations. It is reasonably likely that changes in these estimates could occur from period to period and result in a material impact on our consolidated financial statements.

A brief summary of each of these critical accounting estimates follows. For a more detailed discussion of the effect of these estimates on our consolidated financial statements, and the judgments and assumptions related to these estimates, see the referenced sections of this document. For a complete summary of our significant accounting policies, see the notes to the consolidated financial statements.

Fair value of financial assets 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. We are responsible for the determination of fair value of financial assets and the supporting assumptions and methodologies. We use independent third-party valuation service providers, broker quotes and internal pricing methods to determine fair values. We obtain or calculate only one single quote or price for each financial instrument.

Valuation service providers typically obtain data about market transactions and other key valuation model inputs from multiple sources and, through the use of proprietary models, produce valuation information in the form of a single fair value for individual fixed income and other securities for which a fair value has been requested under the terms of our agreements. The inputs used by the valuation service providers include, but are not limited to, market prices from recently completed transactions and transactions of comparable securities, interest rate yield curves, credit spreads, liquidity spreads, currency rates, and other information, as applicable. Credit and liquidity spreads are typically implied from completed transactions and transactions of comparable securities. Valuation service providers also use proprietary discounted cash flow models that are widely accepted in the financial services industry and similar to those used by other market participants to value the same financial instruments. The valuation models take into account, among other things, market observable information as of the measurement date, as described above, as well as the specific attributes of the security being valued including its term, interest rate, credit rating, industry sector, and where applicable, collateral quality and other issue or issuer specific information. Executing valuation models effectively requires seasoned professional judgment and experience. For certain equity securities, valuation service providers provide market quotations for completed transactions on the measurement date. In cases where market transactions or other market observable data is limited, the extent to which judgment is applied varies inversely with the availability of market observable information.

For certain of our financial assets measured at fair value, where our valuation service providers cannot provide fair value determinations, we obtain a single non-binding price quote from a broker familiar with the security who, similar to our valuation service providers, may consider transactions or activity in similar securities among other information. The brokers providing price quotes are generally from the brokerage divisions of leading financial institutions with market making, underwriting and distribution expertise regarding the security subject to valuation.

The fair value of certain financial assets, including privately placed corporate fixed income securities, auction rate securities ("ARS") backed by student loans, equity-indexed notes, and certain free-standing derivatives, for which our valuation service providers or brokers do not provide fair value determinations, is determined using valuation methods and models widely accepted in the financial services industry. Our internal pricing methods are primarily based on models using discounted cash flow methodologies that develop a single best estimate of fair value. Our models generally incorporate inputs that we believe are representative of inputs other market participants would use to determine fair value of the same instruments, including yield curves, quoted market prices of comparable securities, published credit spreads, and other applicable market data as well as instrument-specific characteristics that include, but are not limited to, coupon rates, expected cash flows, sector of the issuer, and call provisions. Judgment is required

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in developing these fair values. As a result, the fair value of these financial assets may differ from the amount actually received to sell an asset in an orderly transaction between market participants at the measurement date. Moreover, the use of different valuation assumptions may have a material effect on the financial assets' fair values.

For most of our financial assets measured at fair value, all significant inputs are based on or corroborated by market observable data and significant management judgment does not affect the periodic determination of fair value. The determination of fair value using discounted cash flow models involves management judgment when significant model inputs are not based on or corroborated by market observable data. However, where market observable data is available, it takes precedence, and as a result, no range of reasonably likely inputs exists from which the basis of a sensitivity analysis could be constructed.

There is one primary situation where a discounted cash flow model utilizes a significant input that is not market observable, and it relates to the determination of fair value for our ARS backed by student loans. The significant input utilized is the anticipated date liquidity will return to this market (that is, when auction failures will cease). Determination of this assumption allows for matching to market observable inputs when performing these valuations.

The fair value of our ARS backed by student loans is $394 million as of December 31, 2012. We performed a sensitivity analysis of reasonably likely changes in the anticipated date liquidity will return to the student loan ARS market as of December 31, 2012. If the anticipated date liquidity will return to this market increased or decreased by six months, the fair value of our ARS backed by student loans would decrease or increase by 1.5%, respectively. The selection of these hypothetical scenarios represents an illustration of the estimated potential proportional effect of alternate assumptions and should not be construed as either a prediction of future events or an indication that it would be reasonably likely that all securities would be similarly affected.

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

We also perform an analysis to determine whether there has been a significant decrease in the volume and level of activity for the asset when compared to normal market activity, and if so, whether transactions may not be orderly. Among the indicators we consider in determining whether a significant decrease in the volume and level of market activity for a specific asset has occurred include the level of new issuances in the primary market, trading volume in the secondary market, level of credit spreads over historical levels, bid-ask spread, and price consensuses among market participants and sources. If evidence indicates that prices are based on transactions that are not orderly, we place little, if any, weight on the transaction price and will estimate fair value using an internal model. As of December 31, 2012 and 2011, we did not alter fair values provided by our valuation service providers or brokers or substitute them with an internal model for such securities.

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The following table identifies fixed income and equity securities and short-term investments as of December 31, 2012 by source of fair value determination:

($ in millions)		Fair value	Percent to total
Fair value based on internal sources	$	6,277	7.5%
Fair value based on external sources [(1)]		77,113	92.5
Total	$	83,390	100.0%

(1) Includes $3.78 billion that are valued using broker quotes.

For additional detail on fair value measurements, see Note 6 of the consolidated financial statements.

Impairment of fixed income and equity securities For investments classified as available for sale, the difference between fair value and amortized cost for fixed income securities and cost for equity securities, net of certain other items and deferred income taxes (as disclosed in Note 5), is reported as a component of accumulated other comprehensive income on the Consolidated Statements of Financial Position and is not reflected in the operating results of any period until reclassified to net income upon the consummation of a transaction with an unrelated third party or when a write-down is recorded due to an other-than-temporary decline in fair value. We have a comprehensive portfolio monitoring process to identify and evaluate each fixed income and equity security whose carrying value may be other-than-temporarily impaired.

For each fixed income security in an unrealized loss position, we assess whether management with the appropriate authority has made the decision to sell or whether it is more likely than not we 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 we have not made the decision to sell the fixed income security and it is not more likely than not we will be required to sell the fixed income security before recovery of its amortized cost basis, we evaluate whether we expect to receive cash flows sufficient to recover the entire amortized cost basis of the security. We use our 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 we determine 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 we determine that the fixed income security does not have sufficient cash flow or other information to estimate a recovery value for the security, we may conclude that the entire decline in fair value is deemed to be credit related and the loss is recorded in earnings.

There are a number of assumptions and estimates inherent in evaluating impairments of equity securities and determining if they are other than temporary, including: 1) our ability and intent to hold the investment for a period of time sufficient to allow for an anticipated recovery in value; 2) the length of time and extent to which the fair value has been less than cost; 3) 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; and 4) the specific reasons that a security is in an unrealized loss position, including overall market conditions which could affect liquidity.

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Once assumptions and estimates are made, any number of changes in facts and circumstances could cause us to subsequently determine that a fixed income or equity security is other-than-temporarily impaired, including: 1) general economic conditions that are worse than previously forecasted or that have a greater adverse effect on a particular issuer or industry sector than originally estimated; 2) changes in the facts and circumstances related to a particular issue or issuer's ability to meet all of its contractual obligations; and 3) changes in facts and circumstances that result in changes to management's intent to sell or result in our assessment that it is more likely than not we will be required to sell before recovery of the amortized cost basis of a fixed income security or causes a change in our ability or intent to hold an equity security until it recovers in value. Changes in assumptions, facts and circumstances could result in additional charges to earnings in future periods to the extent that losses are realized. The charge to earnings, while potentially significant to net income, would not have a significant effect on shareholders' equity, since our securities are designated as available for sale and carried at fair value and as a result, any related unrealized loss, net of deferred income taxes and related DAC, deferred sales inducement costs and reserves for life-contingent contract benefits, would already be reflected as a component of accumulated other comprehensive income in shareholders' equity.

The determination of the amount of other-than-temporary impairment is an inherently subjective process based on periodic evaluations of the factors described above. Such evaluations and assessments are revised as conditions change and new information becomes available. We update our evaluations regularly and reflect changes in other-than-temporary impairments in results of operations as such evaluations are revised. The use of different methodologies and assumptions in the determination of the amount of other-than-temporary impairments may have a material effect on the amounts presented within the consolidated financial statements.

For additional detail on investment impairments, see Note 5 of the consolidated financial statements.

Deferred policy acquisition costs amortization We incur significant costs in connection with acquiring insurance policies and investment contracts. In accordance with GAAP, costs that are related directly to the successful acquisition of new or renewal insurance policies and investment contracts are deferred and recorded as an asset on the Consolidated Statements of Financial Position.

DAC related to property-liability contracts is amortized into income as premiums are earned, typically over periods of six or twelve months. The amortization methodology for DAC related to Allstate Financial policies and contracts includes significant assumptions and estimates.

DAC related to traditional life insurance is amortized over the premium paying period of the related policies in proportion to the estimated revenues on such business. Significant assumptions relating to estimated premiums, investment returns, as well as mortality, persistency and expenses to administer the business are established at the time the policy is issued and are generally not revised during the life of the policy. The assumptions for determining the timing and amount of DAC amortization are consistent with the assumptions used to calculate the reserve for life-contingent contract benefits. Any deviations from projected business in force resulting from actual policy terminations differing from expected levels and any estimated premium deficiencies may result in a change to the rate of amortization in the period such events occur. Generally, the amortization periods for these policies approximates the estimated lives of the policies. The recovery of DAC is dependent upon the future profitability of the business. We periodically review the adequacy of reserves and recoverability of DAC for these policies on an aggregate basis using actual experience. We aggregate all traditional life insurance products and immediate annuities with life contingencies in the analysis. In the event actual experience is significantly adverse compared to the original assumptions and a premium deficiency is determined to exist, any remaining unamortized DAC balance must be expensed to the extent not recoverable and a premium deficiency reserve may be required if the remaining DAC balance is insufficient to absorb the deficiency. In 2012, 2011 and 2010, our reviews concluded that no premium deficiency adjustments were necessary, primarily due to projected profit from traditional life insurance more than offsetting the projected losses in immediate annuities with life contingencies.

DAC related to interest-sensitive life, fixed annuities and other investment contracts is amortized in proportion to the incidence of the total present value of gross profits, which includes both actual historical gross profits ("AGP") and estimated future gross profits ("EGP") expected to be earned over the estimated lives of the contracts. The amortization is net of interest on the prior period DAC balance using rates established at the inception of the contracts. Actual amortization periods generally range from 15-30 years; however, incorporating estimates of the rate of customer surrenders, partial withdrawals and deaths generally results in the majority of the DAC being amortized during the surrender charge period, which is typically 10-20 years for interest-sensitive life and 5-10 years for fixed annuities. The cumulative DAC amortization is reestimated and adjusted by a cumulative charge or credit to income when there is a difference between the incidence of actual versus expected gross profits in a reporting period or when there is a change in total EGP.

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AGP and EGP primarily consist of the following components: contract charges for the cost of insurance less mortality costs and other benefits (benefit margin); investment income and realized capital gains and losses less interest credited (investment margin); and surrender and other contract charges less maintenance expenses (expense margin). The principal assumptions for determining the amount of EGP are persistency, mortality, expenses, investment returns, including capital gains and losses on assets supporting contract liabilities, interest crediting rates to contractholders, and the effects of any hedges, and these assumptions are reasonably likely to have the greatest impact on the amount of DAC amortization. Changes in these assumptions can be offsetting and we are unable to reasonably predict their future movements or offsetting impacts over time.

Each reporting period, DAC amortization is recognized in proportion to AGP for that period adjusted for interest on the prior period DAC balance. This amortization process includes an assessment of AGP compared to EGP, the actual amount of business remaining in force and realized capital gains and losses on investments supporting the product liability. The impact of realized capital gains and losses on amortization of DAC depends upon which product liability is supported by the assets that give rise to the gain or loss. If the AGP is greater than EGP in the period, but the total EGP is unchanged, the amount of DAC amortization will generally increase, resulting in a current period decrease to earnings. The opposite result generally occurs when the AGP is less than the EGP in the period, but the total EGP is unchanged. However, when DAC amortization or a component of gross profits for a quarterly period is potentially negative (which would result in an increase of the DAC balance) as a result of negative AGP, the specific facts and circumstances surrounding the potential negative amortization are considered to determine whether it is appropriate for recognition in the consolidated financial statements. Negative amortization is only recorded when the increased DAC balance is determined to be recoverable based on facts and circumstances. Negative amortization was not recorded for certain fixed annuities during 2012, 2011 and 2010 periods in which capital losses were realized on their related investment portfolio. For products whose supporting investments are exposed to capital losses in excess of our expectations which may cause periodic AGP to become temporarily negative, EGP and AGP utilized in DAC amortization may be modified to exclude the excess capital losses.

Annually, we review and update all assumptions underlying the projections of EGP, including persistency, mortality, expenses, investment returns, comprising investment income and realized capital gains and losses, interest crediting rates and the effect of any hedges. At each reporting period, we assess whether any revisions to assumptions used to determine DAC amortization are required. These reviews and updates may result in amortization acceleration or deceleration, which are commonly referred to as "DAC unlocking". If the update of assumptions causes total EGP to increase, the rate of DAC amortization will generally decrease, resulting in a current period increase to earnings. A decrease to earnings generally occurs when the assumption update causes the total EGP to decrease.

The following table provides the effect on DAC amortization of changes in assumptions relating to the gross profit components of investment margin, benefit margin and expense margin during the years ended December 31.

($ in millions)	**2012**	**2011**	**2010**
Investment margin	$ 3	$ (3)	$ (9)
Benefit margin	33	(6)	22
Expense margin	(2)	16	(29)
Net acceleration (deceleration)	$ 34	$ 7	$ (16)

In 2012, DAC amortization acceleration for changes in the investment margin component of EGP primarily related to fixed annuities and was due to lower projected investment returns. The acceleration related to benefit margin was primarily due to increased projected mortality on variable life insurance, partially offset by increased projected persistency on interest-sensitive life insurance. The deceleration related to expense margin related to interest-sensitive life insurance and fixed annuities and was due to a decrease in projected expenses. In 2011, DAC amortization deceleration related to changes in the investment margin component of EGP primarily related to equity-indexed annuities and was due to an increase in projected investment margins. The deceleration related to benefit margin was primarily due to increased projected persistency on interest-sensitive life insurance. The acceleration related to expense margin primarily related to interest-sensitive life insurance and was due to an increase in projected expenses. In 2010, DAC amortization deceleration related to changes in the investment margin component of EGP primarily related to interest-sensitive life insurance and was due to higher than previously projected investment income and lower interest credited, partially offset by higher projected realized capital losses. The acceleration related to benefit margin was primarily due to lower projected renewal premium (which is also expected to reduce persistency) on interest-sensitive life insurance, partially offset by higher than previously projected revenues associated with variable life insurance due to

appreciation in the underlying separate account valuations. The deceleration related to expense margin resulted from current and expected expense levels lower than previously projected.

The following table displays the sensitivity of reasonably likely changes in assumptions included in the gross profit components of investment margin or benefit margin to amortization of the DAC balance as of December 31, 2012.

($ in millions)		**Increase/(reduction) in DAC**
Increase in future investment margins of 25 basis points	$	68
Decrease in future investment margins of 25 basis points	$	(76)
Decrease in future life mortality by 1%	$	15
Increase in future life mortality by 1%	$	(16)

Any potential changes in assumptions discussed above are measured without consideration of correlation among assumptions. Therefore, it would be inappropriate to add them together in an attempt to estimate overall variability in amortization.

For additional detail related to DAC, see the Allstate Financial Segment section of this document.

Reserve for property-liability insurance claims and claims expense estimation Reserves are established to provide for the estimated costs of paying claims and claims expenses under insurance policies we have issued. Property-Liability underwriting results are significantly influenced by estimates of property-liability insurance claims and claims expense reserves. These reserves are an estimate of amounts necessary to settle all outstanding claims, including claims that have been incurred but not reported ("IBNR"), as of the financial statement date.

Characteristics of reserves Reserves are established independently of business segment management for each business segment and line of business based on estimates of the ultimate cost to settle claims, less losses that have been paid. The significant lines of business are auto, homeowners, and other lines for Allstate Protection, and asbestos, environmental, and other discontinued lines for Discontinued Lines and Coverages. Allstate Protection's claims are typically reported promptly with relatively little reporting lag between the date of occurrence and the date the loss is reported. Auto and homeowners liability losses generally take an average of about two years to settle, while auto physical damage, homeowners property and other personal lines have an average settlement time of less than one year. Discontinued Lines and Coverages involve long-tail losses, such as those related to asbestos and environmental claims, which often involve substantial reporting lags and extended times to settle.

Reserves are the difference between the estimated ultimate cost of losses incurred and the amount of paid losses as of the reporting date. Reserves are estimated for both reported and unreported claims, and include estimates of all expenses associated with processing and settling all incurred claims. We update most of our reserve estimates quarterly and as new information becomes available or as events emerge that may affect the resolution of unsettled claims. Changes in prior year reserve estimates (reserve reestimates), which may be material, are determined by comparing updated estimates of ultimate losses to prior estimates, and the differences are recorded as property-liability insurance claims and claims expense in the Consolidated Statements of Operations in the period such changes are determined. Estimating the ultimate cost of claims and claims expenses is an inherently uncertain and complex process involving a high degree of judgment and is subject to the evaluation of numerous variables.

The actuarial methods used to develop reserve estimates Reserve estimates are derived by using several different actuarial estimation methods that are variations on one primary actuarial technique. The actuarial technique is known as a "chain ladder" estimation process in which historical loss patterns are applied to actual paid losses and reported losses (paid losses plus individual case reserves established by claim adjusters) for an accident year or a report year to create an estimate of how losses are likely to develop over time. An accident year refers to classifying claims based on the year in which the claims occurred. A report year refers to classifying claims based on the year in which the claims are reported. Both classifications are used to prepare estimates of required reserves for payments to be made in the future. The key assumptions affecting our reserve estimates comprise data elements including claim counts, paid losses, case reserves, and development factors calculated with this data.

In the chain ladder estimation technique, a ratio (development factor) is calculated which compares current period results to results in the prior period for each accident year. A three-year or two-year average development factor, based on historical results, is usually multiplied by the current period experience to estimate the development of losses of each accident year into the next time period. The development factors for the future time periods for each accident year are compounded over the remaining future periods to calculate an estimate of ultimate losses for each accident year. The implicit assumption of this technique is that an average of historical development factors is predictive of future loss

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development, as the significant size of our experience database achieves a high degree of statistical credibility in actuarial projections of this type. The effects of inflation are implicitly considered in the reserving process, the implicit assumption being that a multi-year average development factor includes an adequate provision. Occasionally, unusual aberrations in loss patterns are caused by external and internal factors such as changes in claim reporting, settlement patterns, unusually large losses, process changes, legal or regulatory changes, and other influences. In these instances, analyses of alternate development factor selections are performed to evaluate the effect of these factors and actuarial judgment is applied to make appropriate development factor assumptions needed to develop a best estimate of ultimate losses.

How reserve estimates are established and updated Reserve estimates are developed at a very detailed level, and the results of these numerous micro-level best estimates are aggregated to form a consolidated reserve estimate. For example, over one thousand actuarial estimates of the types described above are prepared each quarter to estimate losses for each line of insurance, major components of losses (such as coverages and perils), major states or groups of states and for reported losses and IBNR. The actuarial methods described above are used to analyze the settlement patterns of claims by determining the development factors for specific data elements that are necessary components of a reserve estimation process. Development factors are calculated quarterly and periodically throughout the year for data elements such as claim counts reported and settled, paid losses, and paid losses combined with case reserves. The calculation of development factors from changes in these data elements also impacts claim severity trends, which is a common industry reference used to explain changes in reserve estimates. The historical development patterns for these data elements are used as the assumptions to calculate reserve estimates.

Often, several different estimates are prepared for each detailed component, incorporating alternative analyses of changing claim settlement patterns and other influences on losses, from which we select our best estimate for each component, occasionally incorporating additional analyses and actuarial judgment, as described above. These micro-level estimates are not based on a single set of assumptions. Actuarial judgments that may be applied to these components of certain micro-level estimates generally do not have a material impact on the consolidated level of reserves. Moreover, this detailed micro-level process does not permit or result in a compilation of a company-wide roll up to generate a range of needed loss reserves that would be meaningful. Based on our review of these estimates, our best estimate of required reserves for each state/line/coverage component is recorded for each accident year, and the required reserves for each component are summed to create the reserve balance carried on our Consolidated Statements of Financial Position.

Reserves are reestimated quarterly and periodically throughout the year, by combining historical results with current actual results to calculate new development factors. This process incorporates the historic and latest actual trends, and other underlying changes in the data elements used to calculate reserve estimates. New development factors are likely to differ from previous development factors used in prior reserve estimates because actual results (claims reported or settled, losses paid, or changes to case reserves) occur differently than the implied assumptions contained in the previous development factor calculations. If claims reported, paid losses, or case reserve changes are greater or less than the levels estimated by previous development factors, reserve reestimates increase or decrease. When actual development of these data elements is different than the historical development pattern used in a prior period reserve estimate, a new reserve is determined. The difference between indicated reserves based on new reserve estimates and recorded reserves (the previous estimate) is the amount of reserve reestimate and is recognized as an increase or decrease in property-liability insurance claims and claims expense in the Consolidated Statements of Operations. Total Property-Liability reserve reestimates, after-tax, as a percent of net income were favorable 18.7%, 27.7% and 11.3% in 2012, 2011 and 2010, respectively. The 3-year average of reserve reestimates as a percentage of total reserves was a favorable 2.2% for Property-Liability, a favorable 2.7% for Allstate Protection and an unfavorable 1.9% for Discontinued Lines and Coverages, each of these results being consistent within a reasonable actuarial tolerance for our respective businesses. A more detailed discussion of reserve reestimates is presented in the Property-Liability Claims and Claims Expense Reserves section of this document.

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The following table shows net claims and claims expense reserves by segment and line of business as of December 31:

($ in millions)	2012	2011	2010
Allstate Protection			
Auto	$ 11,383	$ 11,404	$ 11,034
Homeowners	2,008	2,439	2,442
Other lines	2,250	2,237	2,141
Total Allstate Protection	15,641	16,080	15,617
Discontinued Lines and Coverages			
Asbestos	1,026	1,078	1,100
Environmental	193	185	201
Other discontinued lines	418	444	478
Total Discontinued Lines and Coverages	1,637	1,707	1,779
Total Property-Liability	$ 17,278	$ 17,787	$ 17,396

Allstate Protection reserve estimates

Factors affecting reserve estimates Reserve estimates are developed based on the processes and historical development trends described above. These estimates are considered in conjunction with known facts and interpretations of circumstances and factors including our 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. When we experience changes of the type previously mentioned, we may need to apply actuarial judgment in the determination and selection of development factors considered more reflective of the new trends, such as combining shorter or longer periods of historical results with current actual results to produce development factors based on two-year, three-year, or longer development periods to reestimate our reserves. For example, if a legal change is expected to have a significant impact on the development of claim severity for a coverage which is part of a particular line of insurance in a specific state, actuarial judgment is applied to determine appropriate development factors that will most accurately reflect the expected impact on that specific estimate. Another example would be when a change in economic conditions is expected to affect the cost of repairs to damaged autos or property for a particular line, coverage, or state, actuarial judgment is applied to determine appropriate development factors to use in the reserve estimate that will most accurately reflect the expected impacts on severity development.

As claims are reported, for certain liability claims of sufficient size and complexity, the field adjusting staff establishes case reserve estimates of ultimate cost, based on their assessment of facts and circumstances related to each individual claim. For other claims which occur in large volumes and settle in a relatively short time frame, it is not practical or efficient to set case reserves for each claim, and a statistical case reserve is set for these claims based on estimation techniques described above. In the normal course of business, we may also supplement our 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.

Historically, the case reserves set by the field adjusting staff have not proven to be an entirely accurate estimate of the ultimate cost of claims. To provide for this, a development reserve is estimated using the processes described above, and allocated to pending claims as a supplement to case reserves. Typically, the case and supplemental development reserves comprise about 90% of total reserves.

Another major component of reserves is IBNR. Typically, IBNR comprises about 10% of total reserves.

Generally, the initial reserves for a new accident year are established based on severity assumptions for different business segments, lines and coverages based on historical relationships to relevant inflation indicators, and reserves for prior accident years are statistically determined using processes described above. Changes in auto current year claim severity are generally influenced by inflation in the medical and auto repair sectors of the economy. We mitigate these effects through various loss management programs. Injury claims are affected largely by medical cost inflation while physical damage claims are affected largely by auto repair cost inflation and used car prices. For auto physical damage coverages, we monitor our rate of increase in average cost per claim against a weighted average of the Maintenance and Repair price index and the Parts and Equipment price index. We believe our claim settlement initiatives, such as improvements to the claim review and settlement process, the use of special investigative units to detect fraud and

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handle suspect claims, litigation management and defense strategies, as well as various other loss management initiatives underway, contribute to the mitigation of injury and physical damage severity trends.

Changes in homeowners current year claim severity are generally influenced by inflation in the cost of building materials, the cost of construction and property repair services, the cost of replacing home furnishings and other contents, the types of claims that qualify for coverage, deductibles and other economic and environmental factors. We employ various loss management programs to mitigate the effect of these factors.

As loss experience for the current year develops for each type of loss, it is monitored relative to initial assumptions until it is judged to have sufficient statistical credibility. From that point in time and forward, reserves are reestimated using statistical actuarial processes to reflect the impact actual loss trends have on development factors incorporated into the actuarial estimation processes. Statistical credibility is usually achieved by the end of the first calendar year; however, when trends for the current accident year exceed initial assumptions sooner, they are usually determined to be credible, and reserves are increased accordingly.

The very detailed processes for developing reserve estimates, and the lack of a need and existence of a common set of assumptions or development factors, limits aggregate reserve level testing for variability of data elements. However, by applying standard actuarial methods to consolidated historic accident year loss data for major loss types, comprising auto injury losses, auto physical damage losses and homeowner losses, we develop variability analyses consistent with the way we develop reserves by measuring the potential variability of development factors, as described in the section titled "Potential Reserve Estimate Variability" below.

Causes of reserve estimate uncertainty Since reserves are estimates of unpaid portions of claims and claims expenses that have occurred, including IBNR losses, the establishment of appropriate reserves, including reserves for catastrophe losses, requires regular reevaluation and refinement of estimates to determine our ultimate loss estimate.

At each reporting date, the highest degree of uncertainty in estimates of losses arises from claims remaining to be settled for the current accident year and the most recent preceding accident year. The greatest degree of uncertainty exists in the current accident year because the current accident year contains the greatest proportion of losses that have not been reported or settled but must be estimated as of the current reporting date. Most of these losses relate to damaged property such as automobiles and homes, and medical care for injuries from accidents. During the first year after the end of an accident year, a large portion of the total losses for that accident year are settled. When accident year losses paid through the end of the first year following the initial accident year are incorporated into updated actuarial estimates, the trends inherent in the settlement of claims emerge more clearly. Consequently, this is the point in time at which we tend to make our largest reestimates of losses for an accident year. After the second year, the losses that we pay for an accident year typically relate to claims that are more difficult to settle, such as those involving serious injuries or litigation. Private passenger auto insurance provides a good illustration of the uncertainty of future loss estimates: our typical annual percentage payout of reserves for an accident year is approximately 45% in the first year after the end of the accident year, 20% in the second year, 15% in the third year, 10% in the fourth year, and the remaining 10% thereafter.

Reserves for catastrophe losses Property-Liability claims and claims expense reserves also include reserves for catastrophe losses. Catastrophe losses are an inherent risk of the property-liability insurance industry that have contributed, and will continue to contribute, to potentially material year-to-year fluctuations in our results of operations and financial position. 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 certain types of terrorism or industrial accidents. The nature and level of catastrophes in any period cannot be predicted.

The estimation of claims and claims expense reserves for catastrophe losses also comprises estimates of losses from reported claims and IBNR, primarily for damage to property. In general, our estimates for catastrophe reserves are based on claim adjuster inspections and the application of historical loss development factors as described above. However, depending on the nature of the catastrophe, as noted above, the estimation process can be further complicated. For example, for hurricanes, complications could include the inability of insureds to promptly report losses, limitations placed on claims adjusting staff affecting their ability to inspect losses, determining whether losses are covered by our homeowners policy (generally for damage caused by wind or wind driven rain) or specifically excluded coverage caused by flood, estimating additional living expenses, and assessing the impact of demand surge, exposure to

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mold damage, and the effects of numerous other considerations, including the timing of a catastrophe in relation to other events, such as at or near the end of a financial reporting period, which can affect the availability of information needed to estimate reserves for that reporting period. In these situations, we may need to adapt our practices to accommodate these circumstances in order to determine a best estimate of our losses from a catastrophe. As an example, in 2005 to complete an estimate for certain areas affected by Hurricane Katrina and not yet inspected by our claims adjusting staff, or where we believed our historical loss development factors were not predictive, we relied on analysis of actual claim notices received compared to total PIF, as well as visual, governmental and third party information, including aerial photos, area observations, and data on wind speed and flood depth to the extent available.

Potential reserve estimate variability The aggregation of numerous micro-level estimates for each business segment, line of insurance, major components of losses (such as coverages and perils), and major states or groups of states for reported losses and IBNR forms the reserve liability recorded in the Consolidated Statements of Financial Position. Because of this detailed approach to developing our reserve estimates, there is not a single set of assumptions that determine our reserve estimates at the consolidated level. Given the numerous micro-level estimates for reported losses and IBNR, management does not believe the processes that we follow will produce a statistically credible or reliable actuarial reserve range that would be meaningful. Reserve estimates, by their very nature, are very complex to determine and subject to significant judgment, and do not represent an exact determination for each outstanding claim. Accordingly, as actual claims, and/or paid losses, and/or case reserve results emerge, our estimate of the ultimate cost to settle will be different than previously estimated.

To develop a statistical indication of potential reserve variability within reasonably likely possible outcomes, an actuarial technique (stochastic modeling) is applied to the countrywide consolidated data elements for paid losses and paid losses combined with case reserves separately for injury losses, auto physical damage losses, and homeowners losses excluding catastrophe losses. Based on the combined historical variability of the development factors calculated for these data elements, an estimate of the standard error or standard deviation around these reserve estimates is calculated within each accident year for the last twenty years for each type of loss. The variability of these reserve estimates within one standard deviation of the mean (a measure of frequency of dispersion often viewed to be an acceptable level of accuracy) is believed by management to represent a reasonable and statistically probable measure of potential variability. Based on our products and coverages, historical experience, the statistical credibility of our extensive data and stochastic modeling of actuarial chain ladder methodologies used to develop reserve estimates, we estimate that the potential variability of our Allstate Protection reserves, excluding reserves for catastrophe losses, within a reasonable probability of other possible outcomes, may be approximately plus or minus 4%, or plus or minus $470 million in net income. A lower level of variability exists for auto injury losses, which comprise approximately 80% of reserves, due to their relatively stable development patterns over a longer duration of time required to settle claims. Other types of losses, such as auto physical damage, homeowners losses and other losses, which comprise about 20% of reserves, tend to have greater variability but are settled in a much shorter period of time. Although this evaluation reflects most reasonably likely outcomes, it is possible the final outcome may fall below or above these amounts. Historical variability of reserve estimates is reported in the Property-Liability Claims and Claims Expense Reserves section of this document.

Adequacy of reserve estimates We believe our net claims and claims expense reserves are appropriately established based on available methodology, facts, technology, laws and regulations. We calculate and record a single best reserve estimate, in conformance with generally accepted actuarial standards, for each line of insurance, its components (coverages and perils) and state, for reported losses and for IBNR losses, and as a result we believe that no other estimate is better than our recorded amount. Due to the uncertainties involved, the ultimate cost of losses may vary materially from recorded amounts, which are based on our best estimates.

Discontinued Lines and Coverages reserve estimates

Characteristics of Discontinued Lines exposure Our exposure to asbestos, environmental and other discontinued lines claims arises principally from assumed reinsurance coverage written during the 1960s through the mid-1980s, including reinsurance on primary insurance written on large U.S. companies, and from direct excess insurance written from 1972 through 1985, including substantial excess general liability coverages on large U.S. companies. Additional exposure stems from direct primary commercial insurance written during the 1960s through the mid-1980s. Asbestos claims relate primarily to bodily injuries asserted by people who were exposed to asbestos or products containing asbestos. Environmental claims relate primarily to pollution and related clean-up costs. Other discontinued lines exposures primarily relate to general liability and product liability mass tort claims, such as those for medical devices and other products, workers' compensation claims and claims for various other coverage exposures other than asbestos and environmental.

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In 1986, the general liability policy form used by us and others in the property-liability industry was amended to introduce an "absolute pollution exclusion," which excluded coverage for environmental damage claims, and to add an asbestos exclusion. Most general liability policies issued prior to 1987 contain annual aggregate limits for product liability coverage. General liability policies issued in 1987 and thereafter contain annual aggregate limits for product liability coverage and annual aggregate limits for all coverages. Our experience to date is that these policy form changes have limited the extent of our exposure to environmental and asbestos claim risks.

Our exposure to liability for asbestos, environmental and other discontinued lines losses manifests differently depending on whether it arises from assumed reinsurance coverage, direct excess insurance or direct primary commercial insurance. The direct insurance coverage we provided that covered asbestos, environmental and other discontinued lines was substantially "excess" in nature.

Direct excess insurance and reinsurance involve coverage written by us for specific layers of protection above retentions and other insurance plans. The nature of excess coverage and reinsurance provided to other insurers limits our exposure to loss to specific layers of protection in excess of policyholder retention on primary insurance plans. Our exposure is further limited by the significant reinsurance that we had purchased on our direct excess business.

Our assumed reinsurance business involved writing generally small participations in other insurers' reinsurance programs. The reinsured losses in which we participate may be a proportion of all eligible losses or eligible losses in excess of defined retentions. The majority of our assumed reinsurance exposure, approximately 85%, is for excess of loss coverage, while the remaining 15% is for pro-rata coverage.

Our direct primary commercial insurance business did not include coverage to large asbestos manufacturers. This business comprises a cross section of policyholders engaged in many diverse business sectors located throughout the country.

How reserve estimates are established and updated We conduct an annual review in the third quarter to evaluate and establish asbestos, environmental and other discontinued lines reserves. Changes to reserves are recorded in the reporting period in which they are determined. Using established industry and actuarial best practices and assuming no change in the regulatory or economic environment, this detailed and comprehensive methodology determines asbestos reserves based on assessments of the characteristics of exposure (i.e. claim activity, potential liability, jurisdiction, products versus non-products exposure) presented by individual policyholders, and determines environmental reserves based on assessments of the characteristics of exposure (i.e. environmental damages, respective shares of liability of potentially responsible parties, appropriateness and cost of remediation) to pollution and related clean-up costs. The number and cost of these claims is affected by intense advertising by trial lawyers seeking asbestos plaintiffs, and entities with asbestos exposure seeking bankruptcy protection as a result of asbestos liabilities, initially causing a delay in the reporting of claims, often followed by an acceleration and an increase in claims and claims expenses as settlements occur.

After evaluating our insureds' probable liabilities for asbestos and/or environmental claims, we evaluate our insureds' coverage programs for such claims. We consider our insureds' total available insurance coverage, including the coverage we issued. We also consider relevant judicial interpretations of policy language and applicable coverage defenses or determinations, if any.

Evaluation of both the insureds' estimated liabilities and our exposure to the insureds depends heavily on an analysis of the relevant legal issues and litigation environment. This analysis is conducted by our specialized claims adjusting staff and legal counsel. Based on these evaluations, case reserves are established by claims adjusting staff and actuarial analysis is employed to develop an IBNR reserve, which includes estimated potential reserve development and claims that have occurred but have not been reported. As of December 31, 2012 and 2011, IBNR was 57.8% and 59.0%, respectively, of combined net asbestos and environmental reserves.

For both asbestos and environmental reserves, we also evaluate our historical direct net loss and expense paid and incurred experience to assess any emerging trends, fluctuations or characteristics suggested by the aggregate paid and incurred activity.

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Other Discontinued Lines and Coverages The following table shows reserves for other discontinued lines which provide for remaining loss and loss expense liabilities related to business no longer written by us, other than asbestos and environmental, as of December 31.

($ in millions)	**2012**	**2011**	**2010**
Other mass torts	$ 166	$ 169	$ 188
Workers' compensation	112	117	116
Commercial and other	140	158	174
Other discontinued lines	$ 418	$ 444	$ 478

Other mass torts describes direct excess and reinsurance general liability coverage provided for cumulative injury losses other than asbestos and environmental. Workers' compensation and commercial and other include run-off from discontinued direct primary, direct excess and reinsurance commercial insurance operations of various coverage exposures other than asbestos and environmental. Reserves are based on considerations similar to those described above, as they relate to the characteristics of specific individual coverage exposures.

Potential reserve estimate variability Establishing Discontinued Lines and Coverages 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. 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. Our reserves for asbestos and environmental exposures could be affected by tort reform, class action litigation, and other potential legislation and judicial decisions. Environmental exposures could also be affected by a change in the existing federal Superfund law and similar state statutes. There can be no assurance that any reform legislation will be enacted or that any such legislation will provide for a fair, effective and cost-efficient system for settlement of asbestos or environmental claims. We believe 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. Historical variability of reserve estimates is demonstrated in the Property-Liability Claims and Claims Expense Reserves section of this document.

Adequacy of reserve estimates Management believes its net loss reserves for environmental, asbestos and other discontinued lines exposures are appropriately established based on available facts, technology, laws, regulations, and assessments of other pertinent factors and characteristics of exposure (i.e. claim activity, potential liability, jurisdiction, products versus non-products exposure) presented by individual policyholders, assuming no change in the legal, legislative or economic environment. 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.

Further discussion of reserve estimates For further discussion of these estimates and quantification of the impact of reserve estimates, reserve reestimates and assumptions, see Notes 8 and 14 to the consolidated financial statements and the Property-Liability Claims and Claims Expense Reserves section of this document.

Reserve for life-contingent contract benefits estimation Due to the long term nature of traditional life insurance, life-contingent immediate annuities and voluntary accident and health insurance products, benefits are payable over many years; accordingly, the reserves are calculated as the present value of future expected benefits to be paid, reduced by the present value of future expected net premiums. Long-term actuarial assumptions of future investment yields, mortality, morbidity, policy terminations and expenses are used when establishing the reserve for life-contingent contract benefits payable under these insurance policies. These assumptions, which for traditional life insurance are applied using the net level premium method, include provisions for adverse deviation and generally vary by characteristics such as type of coverage, year of issue and policy duration. Future investment yield assumptions are determined based upon prevailing investment yields as well as estimated reinvestment yields. Mortality, morbidity and

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policy termination assumptions are based on our experience and industry experience. Expense assumptions include the estimated effects of inflation and expenses to be incurred beyond the premium-paying period. These assumptions are established at the time the policy is issued, are consistent with assumptions for determining DAC amortization for these policies, and are generally not changed during the policy coverage period. However, if actual experience emerges in a manner that is significantly adverse relative to the original assumptions, adjustments to DAC or reserves may be required resulting in a charge to earnings which could have a material effect on our operating results and financial condition. We periodically review the adequacy of reserves and recoverability of DAC for these policies on an aggregate basis using actual experience. In the event actual experience is significantly adverse compared to the original assumptions and a premium deficiency is determined to exist, any remaining unamortized DAC balance must be expensed to the extent not recoverable and the establishment of a premium deficiency reserve may be required. In 2012, 2011 and 2010, our reviews concluded that no premium deficiency adjustments were necessary, primarily due to profit from traditional life insurance more than offsetting the projected losses in immediate annuities with life contingencies. We will continue to monitor the experience of our traditional life insurance and immediate annuities. We anticipate that mortality, investment and reinvestment yields, and policy terminations are the factors that would be most likely to require premium deficiency adjustments to these reserves or related DAC.

For further detail on the reserve for life-contingent contract benefits, see Note 9 of the consolidated financial statements.

PROPERTY-LIABILITY 2012 HIGHLIGHTS

- Property-Liability net income was $1.97 billion in 2012 compared to $403 million in 2011.
- Property-Liability premiums written totaled $27.03 billion in 2012, an increase of 4.0% from $25.98 billion in 2011.
- The Property-Liability loss ratio was 69.1 in 2012 compared to 77.7 in 2011.
- Catastrophe losses were $2.35 billion in 2012 compared to $3.82 billion 2011.
- Prior year reserve reestimates totaled $665 million favorable in 2012 compared to $335 million favorable in 2011.
- Property-Liability underwriting income was $1.20 billion in 2012 compared to an underwriting loss of $882 million in 2011. Underwriting income (loss), a measure not based on GAAP, is defined below.
- Property-Liability investments were $38.22 billion as of December 31, 2012, an increase of 6.2% from $36.00 billion as of December 31, 2011. Net investment income was $1.33 billion in 2012, an increase of 10.4% from $1.20 billion in 2011.
- Net realized capital gains were $335 million in 2012 compared to $85 million in 2011.

PROPERTY-LIABILITY OPERATIONS

Overview Our Property-Liability operations consist of two reporting segments: Allstate Protection and Discontinued Lines and Coverages. Allstate Protection comprises three brands: Allstate, Encompass and Esurance. 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 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

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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 business combination expenses and the amortization of purchased intangible assets on combined and expense ratio the percentage of business combination expenses and the amortization of purchased intangible assets to premiums earned.

Effect of restructuring and related charges on combined ratio the percentage of restructuring and related charges to premiums earned.

Effect of Discontinued Lines and Coverages on combined ratio the ratio of claims and claims expense and operating 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 income (loss) to net income, and GAAP operating ratios for our Property-Liability operations are presented in the following table.

($ in millions, except ratios)	**2012**	**2011**	**2010**
Premiums written	$ 27,027	$ 25,980	$ 25,907
Revenues			
Premiums earned	$ 26,737	$ 25,942	$ 25,957
Net investment income	1,326	1,201	1,189
Realized capital gains and losses	335	85	(321)
Total revenues	28,398	27,228	26,825
Costs and expenses			
Claims and claims expense	(18,484)	(20,161)	(18,951)
Amortization of DAC	(3,483)	(3,477)	(3,517)
Operating costs and expenses	(3,536)	(3,143)	(2,962)
Restructuring and related charges	(34)	(43)	(33)
Total costs and expenses	(25,537)	(26,824)	(25,463)
Gain on disposition of operations			5
Income tax expense	(893)	(1)	(314)
Net income	$ 1,968	$ 403	$ 1,053
Underwriting income (loss)	$ 1,200	$ (882)	$ 494
Net investment income	1,326	1,201	1,189
Income tax (expense) benefit on operations	(779)	30	(426)
Realized capital gains and losses, after-tax	221	54	(207)
Gain on disposition of operations, after-tax			3
Net income	$ 1,968	$ 403	$ 1,053
Catastrophe losses [(1)]	$ 2,345	$ 3,815	$ 2,207
GAAP operating ratios			
Claims and claims expense ratio	69.1	77.7	73.0
Expense ratio	26.4	25.7	25.1
Combined ratio	95.5	103.4	98.1
Effect of catastrophe losses on combined ratio [(1)]	8.8	14.7	8.5
Effect of prior year reserve reestimates on combined ratio [(1)]	(2.5)	(1.3)	(0.6)
Effect of business combination expenses and the amortization of purchased intangible assets on combined ratio	0.5	0.2	
Effect of restructuring and related charges on combined ratio	0.1	0.2	0.1
Effect of Discontinued Lines and Coverages on combined ratio	0.2	0.1	0.1

(1)

Prior year reserve reestimates included in catastrophe losses totaled $410 million favorable in 2012, $130 million favorable in 2011 and $163 million favorable in 2010.

ALLSTATE PROTECTION SEGMENT

Overview and strategy The Allstate Protection segment primarily sells private passenger auto and homeowners insurance to individuals through Allstate exclusive agencies supported by call centers and the internet under the Allstate brand. We sell auto and homeowners insurance through independent agencies under both the Allstate brand and the Encompass brand. We also sell auto insurance direct to consumers online, through call centers and through select agents, including Answer Financial, under the Esurance brand.

Our strategy is to position our products and distribution systems to meet the changing needs of the customer in managing the risks they face. This includes customers who want advice and assistance and those who are self-directed. In addition, there are customers who are brand-sensitive and those who are brand-neutral. Our strategy is to serve all four of these consumer segments with unique products and in unique and innovative ways while leveraging our claims,

pricing and operational capabilities. When we do not offer a product our customers need, we may make available non-proprietary products that meet their needs.

Allstate is executing a multi-year effort to drive the customer experience. We utilize specific customer value propositions for each brand to improve our competitive position and performance. Over time, delivering on these customer value propositions may include investments in resources and require significant changes to our products and capabilities.

Our operating priorities for the Protection segment include achieving profitable market share growth for our auto business as well as earning acceptable returns on our homeowners business. Key goals include:

- Improving customer loyalty and retention;
- Deepening customer product relationships;
- Improving auto competitive position for a greater share of consumers;
- Improving the profitability of our homeowners business;
- Investing in the effectiveness and reach of our multiple distribution channels including self-directed consumers through our Esurance brand; and
- Maintaining a strong capital foundation through risk management and effective resource allocation.

Our strategy for the Allstate brand focuses on customers who prefer local personal advice and service and are brand-sensitive. Our customer-focused strategy for the Allstate brand aligns targeted marketing, product innovation, distribution effectiveness, and pricing toward acquiring and retaining an increased share of our target customers, which generally refers to consumers who want to purchase multiple products from one insurance provider including auto, homeowners and financial products, who have better retention and potentially present more favorable prospects for profitability over the course of their relationships with us. As a result of this strategy, the majority of the Allstate brand's policies are owned by customers with multiple products.

The Allstate brand utilizes marketing delivered to target customers to promote our strategic priorities, with messaging that continues to communicate ease of doing business with Allstate and Allstate agencies, good value, as well as the importance of having proper coverage by highlighting our comprehensive product and coverage options.

The Allstate brand differentiates itself from competitors by offering a comprehensive range of innovative product options and features as well as product customization, including Allstate Your Choice Auto® with options such as accident forgiveness, safe driving deductible rewards and a safe driving bonus, and Allstate House and Home® that provides options of coverage for roof damage including graduated coverage and pricing based on roof type and age. In addition, we offer a Claim Satisfaction Guarantee^{sm} that promises a return of premium to Allstate brand standard auto insurance customers dissatisfied with their claims experience. Our DRIVEWISE® program enables participating customers to be eligible for discounts based on driving performance as measured by a device installed in the vehicle. We will continue to focus on developing and introducing products and services that benefit today's consumers and further differentiate Allstate and enhance the customer experience. We will deepen customer relationships through value-added customer interactions and expanding our presence in households with multiple products by providing financial protection for customer needs. In certain areas with higher risk of catastrophes, we offer a homeowners product from North Light Specialty Insurance Company ("North Light"), our excess and surplus lines carrier. When an Allstate product is not available, we make available non-proprietary products for customers through brokering arrangements. For example, in hurricane exposed areas, Allstate agencies sell non-proprietary property insurance products to customers who prefer to use a single agent for all their insurance needs.

We are undergoing a focused effort to enhance our capabilities by implementing uniform processes and standards to elevate the level and consistency of our customer experience. We continue to enhance technology to integrate our distribution channels, improve customer service, facilitate the introduction of new products and services and reduce infrastructure costs related to supporting agencies and handling claims. These actions and others are designed to optimize the effectiveness of our distribution and service channels by increasing the productivity of the Allstate brand's exclusive agencies. Since Allstate brand customers prefer personal advice and assistance, beginning in 2013 all Allstate brand customers who purchased their policies directly through call centers and the internet will be assigned an Allstate exclusive agency relationship.

Our pricing and underwriting strategies and decisions are designed to enhance both our competitive position and our profit potential. Sophisticated pricing uses a number of risk evaluation factors including insurance scoring, to the extent permissible by regulations, based on information that is obtained from credit reports. Our updated auto risk evaluation pricing model was implemented for 9 states in 2012. Our

pricing strategy involves marketplace pricing and underwriting decisions that are based on these risk evaluation models and an evaluation of competitors. We will utilize

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sophisticated pricing to increase our price competiveness to a greater share of target customers. A combination of underwriting information, pricing and discounts are used to achieve a higher close rate on quotes. We will also use these factors on our non-standard business to offer competitive prices to customers with risk profiles indicating greater likelihood of renewal.

We also continue to enhance our pricing to attract a larger share of customers. For the Allstate brand auto and homeowners business, we continue to shift our mix towards customers that have better retention and thus potentially present more favorable prospects for profitability over the course of their relationship with us. For homeowners, we continue to address rate adequacy and improve underwriting and claim effectiveness. We also consider various strategic options to improve our homeowners insurance business returns.

Allstate brand also includes Emerging Businesses which comprises Consumer Household (specialty auto products including motorcycle, trailer, motor home and off-road vehicle insurance policies and specialty property products including renter, landlord, boat, umbrella, manufactured home and condominium insurance policies), Allstate Roadside Services (roadside assistance products), Allstate Dealer Services (guaranteed automobile protection and vehicle service products sold primarily through auto dealers), Ivantage (insurance agency) and Commercial Lines (commercial products for small business owners). Premiums written by Emerging Businesses were $2.56 billion in 2012 compared to $2.49 billion in 2011.

Our strategy for the Encompass brand centers around our highly differentiated product that simplifies the insurance experience through an expanded coverage single annual policy with one premium, one bill, one policy deductible and one renewal date. It appeals to customers with broad personal lines coverage needs who prefer an independent agent. As part of its package policy strategy, Encompass is focused on increased agency engagement through ease of doing business initiatives and increased package commissions, and de-emphasizing mono-line auto and property products.

Our strategy for the Esurance brand focuses on self-directed and web-savvy consumers. To best serve these customers, Esurance develops its technology and website to continuously improve its hassle-free purchase and claims experience. Esurance began offering renters insurance in 2012 and plans to continue to broaden its product offerings. Esurance is also focused on increasing its preferred driver mix, while raising advertising investment and marketing effectiveness to support growth.

We continue to manage our property catastrophe exposure with the goal of providing shareholders an acceptable return on the risks assumed in our property business and to reduce the variability of our earnings. Our property business includes personal homeowners, commercial property and other property insurance lines. As of December 31, 2012, we are below our goal to have no more than a 1% likelihood of exceeding average annual aggregate catastrophe losses by $2 billion, net of reinsurance, from hurricanes and earthquakes, based on modeled assumptions and applications currently available. The use of different assumptions and updates to industry models could materially change the projected loss. Our growth strategies include areas previously restricted where we believe we can earn an appropriate return for the risk and as a result we may move closer to our goal in the future. In addition, we have exposure to severe weather events which impact catastrophe losses.

Property catastrophe exposure management includes purchasing reinsurance to provide coverage for known exposure to hurricanes, earthquakes, wildfires, fires following earthquakes and other catastrophes. We are also working for changes in the regulatory environment, including recognizing the need for better catastrophe preparedness, improving appropriate risk-based pricing and promoting the creation of government sponsored, privately funded solutions for mega-catastrophes that will make insurance more available and affordable.

Pricing of property products is typically intended to establish returns that we deem acceptable over a long-term period. Losses, including losses from catastrophic events and weather-related losses (such as wind, hail, lightning and freeze losses not meeting our criteria to be declared a catastrophe), are accrued on an occurrence basis within the policy period. Therefore, in any reporting period, loss experience from catastrophic events and weather-related losses may contribute to negative or positive underwriting performance relative to the expectations we incorporated into the products' pricing. We pursue rate increases where indicated, taking into consideration potential customer disruption, the impact on our ability to market our auto lines, regulatory limitations, our competitive position and profitability, using a methodology that appropriately addresses the changing costs of losses from catastrophes such as severe weather and the net cost of reinsurance.

Allstate Protection outlook

- Allstate Protection will continue to focus on its strategy of offering differentiated products and services to our target customers while maintaining pricing discipline.

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We expect that volatility in the level of catastrophes we experience will contribute to variation in our underwriting results; however, this volatility will be mitigated due to our catastrophe management actions, including the purchase of reinsurance.

We will continue to study the efficiencies of our operations and cost structure for additional areas where costs may be reduced.

Premiums written is the amount of premiums charged for policies issued during a fiscal period. 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 Consolidated Statements of Financial Position.

The following table shows the unearned premium balance as of December 31 and the timeframe in which we expect to recognize these premiums as earned.

($ in millions)			% earned after			
	2012	2011	Three months	Six months	Nine months	Twelve months
Allstate brand:						
Standard auto	$ 4,188	$ 4,120	71.6%	96.8%	99.2%	100.0%
Non-standard auto	200	216	67.1%	93.6%	98.5%	100.0%
Homeowners	3,396	3,314	43.5%	75.6%	94.2%	100.0%
Other personal lines (1)	1,370	1,293	39.4%	67.1%	84.0%	90.6%
Total Allstate brand	9,154	8,943	56.3%	84.5%	95.1%	98.6%
Encompass brand:						
Standard auto	321	311	43.5%	75.2%	94.0%	100.0%
Homeowners	222	202	43.3%	75.2%	94.1%	100.0%
Other personal lines (1)	50	47	43.8%	75.6%	94.2%	100.0%
Total Encompass brand	593	560	43.4%	75.2%	94.0%	100.0%
Esurance brand						
Standard auto	265	208	74.2%	98.8%	99.7%	100.0%
Allstate Protection unearned premiums	$ 10,012	$ 9,711	56.0%	84.3%	95.1%	98.7%

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

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

($ in millions)	2012	2011	2010
Premiums written:			
Allstate Protection	$ 27,026	$ 25,981	$ 25,906
Discontinued Lines and Coverages	1	(1)	1
Property-Liability premiums written	27,027	25,980	25,907
(Increase) decrease in unearned premiums	(322)	(33)	19
Other	32	(5)	31
Property-Liability premiums earned	$ 26,737	$ 25,942	$ 25,957

Premiums earned:						
Allstate Protection	$	26,737	$	25,942	$	25,955
Discontinued Lines and Coverages						2
Property-Liability	$	26,737	$	25,942	$	25,957

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Premiums written by brand are shown in the following table.

($ in millions)	Allstate brand			Encompass brand			Esurance brand		Allstate Protection		
	2012	2011	2010	2012	2011	2010	2012	2011 (1)	2012	2011	2010
Standard auto	$15,700	$15,703	$15,842	$ 618	$ 604	$ 644	$1,024	$ 181	$17,342	$16,488	$16,486
Non-standard auto	698	775	883		1	6			698	776	889
Homeowners	6,060	5,893	5,753	398	362	357			6,458	6,255	6,110
Other personal lines	2,431	2,372	2,331	97	90	90			2,528	2,462	2,421
Total	$24,889	$24,743	$24,809	$1,113	$1,057	$1,097	$1,024	$ 181	$27,026	$25,981	$25,906

(1) Represents period from October 7, 2011 to December 31, 2011.

Premiums earned by brand are shown in the following table.

($ in millions)	Allstate brand			Encompass brand			Esurance brand		Allstate Protection		
	2012	2011	2010	2012	2011	2010	2012	2011	2012	2011	2010
Standard auto	$15,637	$15,679	$15,814	$ 609	$ 620	$ 716	$ 967	$ 201	$17,213	$16,500	$16,530
Non-standard auto	715	797	896		2	9			715	799	905
Homeowners	5,980	5,835	5,693	379	365	385			6,359	6,200	6,078
Other personal lines	2,357	2,352	2,348	93	91	94			2,450	2,443	2,442
Total	$24,689	$24,663	$24,751	$1,081	$1,078	$1,204	$ 967	$ 201	$26,737	$25,942	$25,955

Premium measures and statistics that are used to analyze the business are calculated and described below. Measures and statistics presented exclude Allstate Canada 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, surcharges and ceded reinsurance premiums and exclude the impacts from mid-term premium adjustments 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. Esurance brand average gross premiums represent the appropriate policy term, which is 6 months for 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, regardless of whether the customer was previously insured by another Allstate Protection market segment. Does not include automobiles that are added by existing customers.

Standard auto premiums written totaled $17.34 billion in 2012, a 5.2% increase from $16.49 billion in 2011, following a comparable $16.49 billion in both 2011 and 2010.

	Allstate brand			Encompass brand			Esurance brand	
Standard Auto	**2012**	**2011**	**2010**	**2012**	**2011**	**2010**	**2012**	**2011**
PIF (thousands)	16,929	17,213	17,484	708	673	689	1,029	786
Average premium-gross written [1]	$ 450	$ 444	$ 443	$ 912	$ 935	$ 979	$ 493	N/A
Renewal ratio (%)	88.9	89.0	88.7	75.8	69.5	69.2	80.5	78.5 [8]
Approved rate changes [2]:								
# of states	39	33	45 [6]	31	19	24	29	N/A
Countrywide (%) [3]	3.1	4.7	1.4	4.1	3.5	1.4	4.4	N/A
State specific (%) [4][5]	5.0	8.1 [7]	2.2	5.2	6.1	2.7	5.6	N/A

(1) Policy term is six months for Allstate and Esurance brands 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. Rate changes exclude Allstate Canada and specialty auto.

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(3)
Represents the impact in the states where rate changes were approved during the period 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 period 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 $530 million, $731 million and $218 million in 2012, 2011 and 2010, respectively.

(6)
Includes Washington D.C.

(7)
2011 includes the impact of Florida rate increases averaging 18.5% and New York rate increases averaging 11.2% taken across multiple companies.

(8)
The Esurance brand renewal ratio for 2011 was restated to conform to the computation methodology used for Allstate and Encompass brand.

N/A reflects not available.

Allstate brand standard auto premiums written total of $15.70 billion in 2012 was comparable to 2011. Excluding Florida and New York, Allstate brand standard auto premiums written totaled $12.67 billion in 2012, a 1.5% increase from $12.49 billion in 2011. Factors impacting premiums written were the following:

- 1.6% decrease in PIF as of December 31, 2012 compared to December 31, 2011 due to fewer new issued applications and fewer policies available to renew. Excluding Florida and New York, PIF decreased 1.0% as of December 31, 2012 compared to December 31, 2011.
- 4.3% decrease in new issued applications to 1,826 thousand in 2012 from 1,908 thousand in 2011. Excluding Florida and New York, new issued applications decreased 4.9% to 1,614 thousand in 2012 from 1,697 thousand in 2011. New issued applications increased in 11 states in 2012 compared to 2011.
- increase in average gross premium in 2012 compared to 2011
- 0.1 point decrease in the renewal ratio in 2012 compared to 2011. In 2012, 27 states had favorable comparisons to 2011.

Allstate brand standard auto premiums written totaled $15.70 billion in 2011, a 0.9% decrease from $15.84 billion in 2010. Factors impacting premiums written were the following:

- 1.5% decrease in PIF as of December 31, 2011 compared to December 31, 2010 due to fewer new issued applications and fewer policies available to renew. Excluding Florida and New York, PIF as of December 31, 2011 were comparable to December 31, 2010.
- 5.8% decrease in new issued applications to 1,908 thousand in 2011 from 2,025 thousand in 2010. Excluding Florida and New York, new issued applications decreased 0.1% to 1,697 thousand in 2011 from 1,699 thousand in 2010. New issued applications increased in 17 states in 2011 compared to 2010.
- increase in average gross premium in 2011 compared to 2010
- 0.3 point increase in the renewal ratio in 2011 compared to 2010. In 2011, 39 states had favorable comparisons to 2010.

Encompass brand standard auto premiums written totaled $618 million in 2012, a 2.3% increase from $604 million in 2011. Excluding Florida, Encompass brand standard auto premiums written totaled $599 million in 2012, a 3.1% increase from $581 million in 2011. The increase was primarily due to a 5.2% increase in PIF as of December 31, 2012 compared to December 31, 2011 and actions taken to enhance our highly differentiated package policy. New issued applications increased 25.7% in 2012 compared to 2011 primarily due to increases in efforts to improve agency engagement. The renewal ratio increased 6.3 points in 2012 compared to 2011 driven primarily by retaining more package business as a result of our package-focused strategy. Encompass discontinued writing new auto business in Florida as of September 2012 and non-renewals will begin in 2013. Encompass previously withdrew from the Florida property insurance market in 2009.

Encompass brand standard auto premiums written totaled $604 million in 2011, a 6.2% decrease from $644 million in 2010. The decrease was primarily due to the following actions taken: aligned pricing and underwriting with strategic direction, terminated relationships with certain independent agencies, non-renewal of underperforming business, discontinued writing the Special Value product (middle market auto product focused on segment auto) and Deerbrook (non-standard auto) in certain states, and non-renewal of property in Florida.

Esurance brand standard auto premiums written totaled $1.02 billion in 2012. Esurance brand standard auto premiums written totaled $181 million in 2011 for the period from the October 7, 2011 acquisition date to December 31, 2011. PIF increased 30.9% as of December 31, 2012 compared to December 31, 2011.

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Non-standard auto premiums written totaled $698 million in 2012, a 10.1% decrease from $776 million in 2011, following a 12.7% decrease in 2011 from $889 million in 2010.

	Allstate brand		
Non-Standard Auto	**2012**	**2011**	**2010**
PIF (thousands)	508	571	640
Average premium-gross written (6 months)	$ 600	$ 606	$ 624
Renewal ratio (%) (6 months)	70.2	70.4	71.4
Approved rate changes:			
# of states	12	13 [2]	11 [2]
Countrywide (%)	1.2	6.0	4.6
State specific (%) [1]	4.3	12.8	9.6

(1) Based on historical premiums written in those states, rate changes approved for non-standard auto totaled $8 million, $49 million and $41 million in 2012, 2011 and 2010, respectively.

(2) Includes Washington D.C.

Allstate brand non-standard auto premiums written totaled $698 million in 2012, a 9.9% decrease from $775 million in 2011. The decrease was primarily due to a decrease in PIF due to fewer number of policies available to renew; a 3.9% decrease in new issued applications to 246 thousand in 2012 from 256 thousand in 2011; and decreases in average gross premium and the renewal ratio.

Allstate brand non-standard auto premiums written totaled $775 million in 2011, a 12.2% decrease from $883 million in 2010. The decrease was primarily due to a decrease in PIF due to a decline in the number of policies available to renew, a lower retention rate and fewer new issued applications; a 17.2% decrease in new issued applications to 256 thousand in 2011 from 309 thousand in 2010, driven in large part by management actions in Florida through October 2011; and decreases in average gross premium and the renewal ratio.

Homeowners premiums written totaled $6.46 billion in 2012, a 3.2% increase from $6.26 billion in 2011, following a 2.4% increase in 2011 from $6.11 billion in 2010. Excluding the cost of catastrophe reinsurance, premiums written increased 2.8% in 2012 compared to 2011. For a more detailed discussion on reinsurance, see the Property-Liability Claims and Claims Expense Reserves section of the MD&A and Note 10 of the consolidated financial statements.

	Allstate brand			Encompass brand		
Homeowners	**2012**	**2011**	**2010**	**2012**	**2011**	**2010**
PIF (thousands) [1]	5,974	6,369	6,690	327	306	314
Average premium-gross written (12 months)	$ 1,087	$ 999	$ 943	$ 1,311	$ 1,297	$ 1,298
Renewal ratio (%) (12 months)	87.3	88.3	88.4	83.3	79.8	78.1
Approved rate changes [2]:						
# of states	42	41 [4]	32 [4]	33 [4]	27 [4]	23 [4]
Countrywide (%)	6.3	8.6	7.0	6.0	3.1	0.7
State specific (%) [3]	8.6	11.0	10.0	6.4	4.1	1.4

(1) Beginning in 2012, excess and surplus lines PIF are not included in the homeowners PIF totals. Previously, these policy counts were included in the homeowners totals. Excess and surplus lines represent policies written by North Light. All other total homeowners measures and statistics include excess and surplus lines except for new issued applications.

(2) Includes rate changes approved based on our net cost of reinsurance. Rate changes exclude excess and surplus lines.

(3) Based on historical premiums written in those states, rate changes approved for homeowners totaled $412 million, $533 million and $424 million in the 2012, 2011 and 2010, respectively.

(4) Includes Washington D.C.

Allstate brand homeowners premiums written totaled $6.06 billion in 2012, a 2.8% increase from $5.89 billion in 2011. Factors impacting premiums written were the following:

- 6.2% decrease in PIF as of December 31, 2012 compared to December 31, 2011 due to fewer policies available to renew and fewer new issued applications
- 3.1% decrease in new issued applications to 442 thousand in 2012 from 456 thousand in 2011. We have new business underwriting restrictions in certain states. We also continue to take actions to maintain an appropriate level of exposure to catastrophic events while continuing to meet the needs of our customers, including selectively not offering continuing coverage in coastal areas of certain states.

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increase in average gross premium in 2012 compared to 2011 primarily due to rate changes

1.0 point decrease in the renewal ratio in 2012 compared to 2011

$14 million decrease in the cost of our catastrophe reinsurance program to $481 million in 2012 from $495 million in 2011

Actions taken to manage our catastrophe exposure in areas with known exposure to hurricanes, earthquakes, wildfires, fires following earthquakes and other catastrophes have had an impact on our new business writings and retention for homeowners insurance. Allstate brand homeowners PIF has declined 1,281 thousand or 17.7% in the five years ended December 31, 2012. This impact will continue in 2013, although to a lesser degree. For a more detailed discussion on exposure management actions, see the Catastrophe Management section of the MD&A.

We have different plans across the country to improve the growth and profitability of our homeowners business. In states that do not have severe weather issues and that have acceptable returns, we are seeking to grow. We are also seeking to selectively grow homeowners in some currently restricted areas where we believe we will earn an appropriate return for the risk. We will continue to pursue profit actions in states that are not at targeted returns. In states with severe weather and risk, North Light and non-proprietary products will remain a critical component to our overall homeowners strategy to profitably grow and serve our customers.

Our Allstate House and Home product provides options of coverage for roof damage including graduated coverage and pricing based on roof type and age and uses a number of factors to determine the pricing, some of which relate to underwriting information normally obtained to evaluate auto insurance risks. The Allstate House and Home product has been rolled out to 17 states as of December 31, 2012 and we expect a continued countrywide roll out for new business over the next two years.

Allstate brand homeowners premiums written totaled $5.89 billion in 2011, a 2.4% increase from $5.75 billion in 2010. Factors impacting premiums written were the following:

4.8% decrease in PIF as of December 31, 2011 compared to December 31, 2010, due to fewer policies available to renew and fewer new issued applications

14.9% decrease in new issued applications to 456 thousand in 2011 from 536 thousand in 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.

increase in average gross premium in 2011 compared to 2010, primarily due to rate changes

0.1 point decrease in the renewal ratio in 2011 compared to 2010

decrease in the cost of our catastrophe reinsurance program in 2011 compared to 2010

Encompass brand homeowners premiums written totaled $398 million in 2012, a 9.9% increase from $362 million in 2011, following a 1.4% increase in 2011 from $357 million in 2010. The increase in 2012 compared to 2011 was primarily due to a 6.9% increase in PIF as of December 31, 2012 compared to December 31, 2011 and actions taken to enhance our highly differentiated package policy. New issued applications increased 40.0% in 2012 compared to 2011. The renewal ratio increased 3.5 points in 2012 compared to 2011 driven primarily by retaining more package business.

Other personal lines Allstate brand other personal lines premiums written totaled $2.43 billion in 2012, a 2.5% increase from $2.37 billion in 2011, following a 1.8% increase in 2011 from $2.33 billion in 2010. Allstate brand other personal lines includes Emerging Businesses other personal lines (renters, condominium, other property, Allstate Roadside Services and Allstate Dealer Services) for which premiums written increased 4.3% to $1.86 billion in 2012 from $1.79 billion in 2011, following a 5.4% increase in 2011 from $1.70 billion in 2010.

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Underwriting results are shown in the following table.

($ in millions)	2012	2011	2010
Premiums written	$ 27,026	$ 25,981	$ 25,906
Premiums earned	$ 26,737	$ 25,942	$ 25,955
Claims and claims expense	(18,433)	(20,140)	(18,923)
Amortization of DAC	(3,483)	(3,477)	(3,517)
Other costs and expenses	(3,534)	(3,139)	(2,957)
Restructuring and related charges	(34)	(43)	(33)
Underwriting income (loss)	$ 1,253	$ (857)	$ 525
Catastrophe losses	$ 2,345	$ 3,815	$ 2,207
Underwriting income (loss) by line of business			
Standard auto	$ 367	$ 561	$ 692
Non-standard auto	102	102	74
Homeowners	690	(1,331)	(336)
Other personal lines	94	(189)	95
Underwriting income (loss)	$ 1,253	$ (857)	$ 525
Underwriting income (loss) by brand			
Allstate brand	$ 1,515	$ (667)	$ 568
Encompass brand	(70)	(146)	(43)
Esurance brand	(192)	(44)	
Underwriting income (loss)	$ 1,253	$ (857)	$ 525

Allstate Protection had underwriting income of $1.25 billion in 2012 compared to an underwriting loss of $857 million in 2011, primarily due to underwriting income in homeowners and other personal lines in 2012 compared to underwriting losses in 2011, partially offset by a decrease in standard auto underwriting income. Homeowners underwriting income was $690 million in the 2012 compared to an underwriting loss of $1.33 billion in 2011, primarily due to decreases in catastrophe losses and average earned premiums increasing faster than loss costs, partially offset by higher expenses. Other personal lines underwriting income was $94 million in 2012 compared to an underwriting loss of $189 million in 2011, primarily due to decreases in catastrophe losses including favorable reserve reestimates. Standard auto underwriting income decreased $194 million to $367 million in 2012 from $561 million in 2011 primarily due to the inclusion of a full year of Esurance brand's underwriting losses in 2012 and increases in catastrophe losses.

Allstate Protection experienced an underwriting loss of $857 million in 2011 compared to underwriting income of $525 million in 2010, primarily due to an increase in homeowners underwriting loss, an underwriting loss for other personal lines in 2011 compared to an underwriting gain in 2010, and a decrease in standard auto underwriting income. Homeowners underwriting loss increased $995 million to $1.33 billion in 2011 from $336 million in 2010, primarily due to increases in catastrophe losses and higher expenses partially offset by average earned premiums increasing faster than loss costs. Other personal lines underwriting income decreased $284 million to an underwriting loss of $189 million in 2011 from underwriting income of $95 million in 2010, primarily due to increases in catastrophe losses, unfavorable reserve reestimates and higher expenses. Standard auto underwriting income decreased $131 million to $561 million in 2011 from $692 million in 2010, primarily due to increases in catastrophe losses and higher expenses, partially offset by favorable reserve reestimates.

Catastrophe losses were $2.35 billion in 2012 compared to $3.82 billion in 2011 and $2.21 billion in 2010. $1.12 billion of the 2012 catastrophe losses related to Sandy, comprising approximately 179,000 expected claims of which approximately 170,000 claims have been reported. Through February 4, 2013, approximately 98% of the property and auto claim counts related to Sandy are closed and approximately 95% of our expected net losses have been paid. We expect substantially all of our remaining estimated net losses related to Sandy to be paid during 2013. 2012 catastrophe losses also include $8 million of accelerated and reinstatement catastrophe reinsurance premiums incurred as a result of Sandy.

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.

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

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

($ in millions)	**2012**					
	Number of events		**Claims and claims expense**		**Combined ratio impact**	**Average catastrophe loss per event**
Size of catastrophe loss						
Greater than $250 million	1	1.2%	$ 1,117	47.6%	4.2	$ 1,117
$101 million to $250 million	5	5.9	690	29.4	2.6	138
$50 million to $100 million	4	4.8	301	12.9	1.1	75
Less than $50 million	74	88.1	647	27.6	2.4	9
Total	84	100.0%	2,755	117.5	10.3	33
Prior year reserve reestimates			(410)	(17.5)	(1.5)	
Total catastrophe losses			$ 2,345	100.0%	8.8	

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

($ in millions)	**2012**		**2011**		**2010**	
		Number of events		**Number of events**		**Number of events**
Hurricanes/Tropical storms	$ 1,200	3	$ 619	3	$ 15	1
Tornadoes	297	5	1,234	7	174	7
Wind/Hail	1,198	64	1,775	68	1,908	74
Wildfires	53	11	67	9	15	1
Other events	7	1	250	4	258	7
Prior year reserve reestimates	(410)		(130)		(163)	
Total catastrophe losses	$ 2,345	84	$ 3,815	91	$ 2,207	90

Catastrophe losses, including prior year reserve reestimates, excluding hurricanes named or numbered by the National Weather Service, fires following earthquakes and earthquakes totaled $1.32 billion, $3.30 billion and $2.27 billion in 2012, 2011 and 2010, respectively.

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Combined ratio Loss ratios by product, and expense and combined ratios by brand, are shown in the following table.

	Loss ratio (1)			Effect of catastrophe losses on combined ratio			Effect of prior year reserve reestimates on combined ratio			Effect of business combination expenses and the amortization of purchased intangible assets on combined ratio	
	2012	2011	2010	2012	2011	2010	2012	2011	2010	2012	2011
Allstate brand loss ratio:											
Standard auto	70.7	70.6	70.7	3.9	2.6	1.0	(2.0)	(2.3)	(0.9)		
Non-standard auto	61.8	62.8	67.2	0.8	1.1	0.3	(3.2)	(4.9)	(3.6)		
Homeowners	64.1	98.0	82.1	23.2	50.0	31.3	(5.2)	(1.2)	(0.3)		
Other personal lines	64.8	76.0	66.4	8.0	13.6	7.2	(0.9)	4.0	0.7		
Total Allstate brand loss ratio	68.3	77.3	72.8	8.9	14.8	8.5	(2.7)	(1.5)	(0.7)		
Allstate brand expense ratio	25.6	25.4	24.9							0.1	
Allstate brand combined ratio	93.9	102.7	97.7	8.9	14.8	8.5	(2.7)	(1.5)	(0.7)	0.1	
Encompass brand loss ratio:											
Standard auto	79.1	81.8	75.4	3.6	1.8	0.8	(3.3)	2.4			
Non-standard auto		150.0	100.0					(50.0)			
Homeowners	76.5	88.5	74.3	28.8	39.7	23.1	(3.2)	0.3	(1.3)		
Other personal lines	67.7	83.5	73.4	5.4	9.9	4.3	(9.7)		(1.1)		
Total Encompass brand loss ratio	76.9	84.3	75.1	12.6	15.3	8.2	(4.2)	1.4	(0.5)		
Encompass brand expense ratio	29.6	29.2	28.5								
Encompass brand combined ratio	106.5	113.5	103.6	12.6	15.3	8.2	(4.2)	1.4	(0.5)		
Esurance brand loss ratio:											
Standard auto	77.2	78.1		1.6							
Total Esurance brand loss ratio	77.2	78.1		1.6							

Esurance brand expense ratio	42.7	43.8								10.1	20.9
Esurance brand combined ratio	119.9	121.9		1.6						10.1	20.9
Allstate Protection loss ratio	68.9	77.6	72.9	8.8	14.7	8.5	(2.7)	(1.4)	(0.7)		
Allstate Protection expense ratio	26.4	25.7	25.1							0.5	0.2
Allstate Protection combined ratio	95.3	103.3	98.0	8.8	14.7	8.5	(2.7)	(1.4)	(0.7)	0.5	0.2

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

Standard auto loss ratio for the Allstate brand increased 0.1 points in 2012 compared to 2011 primarily due to higher catastrophe losses and lower favorable reserve reestimates. Excluding the impact of catastrophe losses, the Allstate brand standard auto loss ratio improved 1.2 points in 2012 compared to 2011. Florida results have shown improvement with loss ratios, including prior year reserve reestimates, of 69.0 in 2012 compared to 72.6 in 2011. For New York, the trend was also favorable through September 2012, but higher catastrophe losses in the fourth quarter of 2012 caused the year-end ratio to deteriorate to 83.6 in 2012 compared to 77.6 in 2011. Excluding the impact of Sandy, the loss ratio in New York was 67.9 in 2012. Excluding the impact of catastrophe losses, both states have experienced improvement from prior year as a result of management actions, including rate increases, underwriting restrictions, increased claims staffing and review, and on-going efforts to combat fraud and abuse. However, we continue to focus on profitability given ongoing developments in these two states. Claim frequencies in the bodily injury and property damage coverages decreased 0.9% and 1.9%, respectively, in 2012 compared to 2011. Bodily injury and property damage coverage paid claim severities increased 4.1% and 3.0%, respectively, in 2012 compared to 2011. In 2012, severity increased in line with historical Consumer Price Index ("CPI") trends. Standard auto loss ratio for the Allstate brand decreased 0.1 points in 2011 compared to 2010 primarily due to favorable reserve reestimates, partially offset by higher catastrophe losses. Excluding the impact of catastrophe losses, the Allstate brand standard auto loss ratio improved 1.7 points in 2011 compared to 2010. In 2011, claim frequencies in the bodily injury and physical damage coverages have decreased compared to 2010. Bodily injury and physical damage coverages severity results in 2011 increased in line with historical CPI trends.

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Encompass brand standard auto loss ratio decreased 2.7 points in 2012 compared to 2011 primarily due to favorable reserve reestimates, partially offset by higher catastrophe losses. Standard auto loss ratio for the Encompass brand increased 6.4 points in 2011 compared to 2010 primarily due to unfavorable reserve reestimates and higher catastrophe losses.

Esurance brand standard auto loss ratio decreased 0.9 points in 2012 compared to 2011. In 2012, Esurance implemented a number of profitability management actions, including rate increases in 23 out of 30 states, and underwriting actions in Florida and Michigan.

Homeowners loss ratio for the Allstate brand decreased 33.9 points to 64.1 in 2012 from 98.0 in 2011 primarily due to lower catastrophe losses and average earned premiums increasing faster than loss costs. Claim frequency excluding catastrophe losses decreased 8.4% in 2012 compared to 2011. Paid claim severity excluding catastrophe losses increased 3.3% in 2012 compared to 2011. Homeowners loss ratio for the Allstate brand increased 15.9 points to 98.0 in 2011 from 82.1 in 2010 due to higher catastrophe losses. Excluding the impact of catastrophe losses, the Allstate brand homeowners loss ratio improved 2.8 points in 2011 compared to 2010 due to average earned premiums increasing faster than loss costs.

Encompass brand homeowners loss ratio decreased 12.0 points in 2012 compared to 2011 primarily due to lower catastrophe losses and favorable reserve reestimates. Homeowners loss ratio for the Encompass brand increased 14.2 points in 2011 compared to 2010 primarily due to higher catastrophe losses.

Expense ratio for Allstate Protection increased 0.7 points in 2012 compared to 2011 primarily due to additional marketing costs and higher amortization of purchased intangible assets related to Esurance. The expense ratio for Allstate Protection increased 0.6 points in 2011 compared to 2010 driven by additional marketing, including $78 million spent on the Grow to Win initiative, and other growth initiative costs, and reduced guaranty fund accrual levels in 2010.

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

	Allstate brand			Encompass brand			Esurance brand		Allstate Protection		
	2012	2011	2010	2012	2011	2010	2012	2011	2012	2011	2010
Amortization of DAC	13.2	13.3	13.3	17.5	17.4	17.8	2.5	0.5	12.9	13.3	13.6
Advertising expenses	2.7	3.0	2.6	0.5	0.1	0.1	15.4	10.9	3.1	2.9	2.5
Business combination expenses and amortization of purchased intangible assets	0.1						10.1	20.9	0.5	0.2	
Other costs and expenses	9.5	8.9	8.9	11.6	11.7	10.0	14.7	11.5	9.8	9.1	8.9
Restructuring and related charges	0.1	0.2	0.1			0.6			0.1	0.2	0.1
Total expense ratio	25.6	25.4	24.9	29.6	29.2	28.5	42.7	43.8	26.4	25.7	25.1

The Encompass brand DAC amortization is higher on average than Allstate brand DAC amortization due to higher commission rates. The Esurance brand expense ratio is higher than Allstate and Encompass brands due to business combination expenses and amortization of purchased intangible assets. Purchased intangible assets will be amortized on an accelerated basis with over 80% of the amortization taking place by 2016. Since Esurance uses a direct distribution model, its primary acquisition-related costs are advertising as opposed to commissions for the Allstate and Encompass brands. Advertising costs are not capitalized as DAC while commission costs are capitalized as DAC. As a result, the Esurance expense and combined ratios will be higher during periods of growth since the expenses will be recognized prior to the premium earned. Based on our analysis, Esurance's acquisition costs, primarily advertising, are in line with other distribution channels when considering the cumulative earned premiums of policies sold.

DAC We establish a DAC asset for costs that are related directly to the successful acquisition of new or renewal insurance policies, principally agents' remuneration and premium taxes. For the Allstate Protection business, DAC is

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amortized to income over the period in which premiums are earned. The DAC balance as of December 31 by brand and product type are shown in the following table.

($ in millions)	Allstate brand		Encompass brand		Esurance brand		Allstate Protection	
	2012	2011	2012	2011	2012	2011	2012	2011
Standard auto	$ 508	$ 506	$ 54	$ 50	$ 7	$ 25 (1)	$ 569	$ 581
Non-standard auto	23	25					23	25
Homeowners	436	422	36	34			472	456
Other personal lines	325	280	7	6			332	286
Total DAC	$ 1,292	$ 1,233	$ 97	$ 90	$ 7	$ 25	$ 1,396	$ 1,348

(1) Includes $21 million of present value of future profits, which was fully amortized in the first quarter of 2012.

Catastrophe management

Historical catastrophe experience For the last ten years, the average annual impact of catastrophes on our Property-Liability loss ratio was 9.7 points. The average annual impact of catastrophes on the homeowners loss ratio for the last ten years was 32.4 points.

Over time, we have limited our aggregate insurance exposure to catastrophe losses in certain regions of the country that are subject to high levels of natural catastrophes. Limitations include our participation in various state facilities, such as the California Earthquake Authority ("CEA"), which provides insurance for California earthquake losses; the Florida Hurricane Catastrophe Fund ("FHCF"), which provides reimbursements to participating insurers for certain qualifying Florida hurricane losses; and other state facilities, such as wind pools. However, the impact of these actions may be diminished by the growth in insured values, and the effect of state insurance laws and regulations. In addition, in various states we are required to participate in assigned risk plans, reinsurance facilities and joint underwriting associations that provide insurance coverage to individuals or entities that otherwise are unable to purchase such coverage from private insurers. Because of our participation in these and other state facilities such as wind pools, we may be exposed to losses that surpass the capitalization of these facilities and to assessments from these facilities.

We have continued to take actions to maintain an appropriate level of exposure to catastrophic events while continuing to meet the needs of our customers, including the following:

- Selectively not offering continuing coverage of homeowners policies in coastal areas of certain states. This includes New York and New Jersey where our homeowners PIF decreased 29.4% and 32.6%, respectively, since 2006.
- Increased capacity in our brokerage platform for customers not offered a renewal.
- North Light expanded to 5 new states in 2012, bringing the total number of active states to 31.
- In Texas we have been ceding wind exposure related to insured property located in wind pool eligible areas along the coast including the Galveston Islands.
- We ceased writing new homeowners business in California in 2007. We continue to renew current policyholders.
- We ceased writing new homeowners business in Florida in 2011 beyond a modest stance for existing customers who replace their currently-insured home with an acceptable property. The Encompass companies operating in Florida withdrew from the property lines in 2009.

Tropical cyclone deductibles are in place for a large portion of coastal insured properties though contract language varies across states and companies, allowing for these higher deductibles to be triggered differently across our customer base.

We have additional catastrophe exposure, beyond the property lines, for auto customers who have purchased physical damage coverage. Auto physical damage coverage generally includes coverage for flood-related loss. We manage this additional exposure through inclusion of auto losses in our nationwide reinsurance program (which excludes New Jersey and Florida).

Hurricanes

We consider the greatest areas of potential catastrophe losses due to hurricanes generally to be major metropolitan centers in counties along the eastern and gulf coasts of the United States. Usually, the average premium on a property policy near these coasts is greater than in other areas. However, average premiums are often not considered commensurate with the inherent risk of loss. In addition and as explained in Note 14 of the consolidated financial statements, in various states Allstate is subject to assessments from assigned risk plans, reinsurance facilities and joint underwriting associations providing insurance for wind related property losses.

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We have addressed our risk of hurricane loss by, among other actions, purchasing reinsurance for specific states and on a countrywide basis for our personal lines property insurance in areas most exposed to hurricanes, limiting personal homeowners new business writings in coastal areas in southern and eastern states, implementing tropical cyclone deductibles where appropriate, and not offering continuing coverage on certain policies in coastal counties in certain states. We continue to seek appropriate returns for the risks we write. This may require further actions, similar to those already taken, in geographies where we are not getting appropriate returns. However, we may maintain or opportunistically increase our presence in areas where we achieve adequate returns and do not materially increase our hurricane risk.

Earthquakes

Actions taken to reduce our exposure from earthquake coverage are substantially complete. These actions included purchasing reinsurance on a countrywide basis and in the state of Kentucky, no longer offering new optional earthquake coverage in most states, removing optional earthquake coverage upon renewal in most states, and entering into arrangements in many states to make earthquake coverage available through other insurers for new and renewal business.

We expect to retain approximately 30,000 PIF with earthquake coverage due to regulatory and other reasons. We also will continue to have exposure to earthquake risk on certain policies that do not specifically exclude coverage for earthquake losses, including our auto policies, and to fires following earthquakes. Allstate policyholders in the state of California are offered coverage through the CEA, a privately-financed, publicly-managed state agency created to provide insurance coverage for earthquake damage. Allstate is subject to assessments from the CEA under certain circumstances as explained in Note 14 of the consolidated financial statements.

Fires Following Earthquakes

Actions taken related to our risk of loss from fires following earthquakes include changing homeowners underwriting requirements in California, purchasing reinsurance for Kentucky personal lines property risks, and purchasing nationwide occurrence reinsurance, excluding Florida and New Jersey.

Wildfires

Actions we are taking to reduce our risk of loss from wildfires include changing homeowners underwriting requirements in certain states and purchasing nationwide occurrence reinsurance.

Reinsurance

A description of our current catastrophe reinsurance program appears in Note 10 of the consolidated financial statements.

DISCONTINUED LINES AND COVERAGES SEGMENT

Overview The Discontinued Lines and Coverages segment includes results from insurance coverage that we no longer write and results for certain commercial and other businesses in run-off. Our exposure to asbestos, environmental and other discontinued lines claims is reported in this segment. We have assigned management of this segment to a designated group of professionals with expertise in claims handling, policy coverage interpretation, exposure identification and reinsurance collection. As part of its responsibilities, this group may at times be engaged in policy buybacks, settlements and reinsurance assumed and ceded commutations.

Summarized underwriting results for the years ended December 31 are presented in the following table.

($ in millions)	2012	2011	2010
Premiums written	$ 1	$ (1)	$ 1
Premiums earned	$	$	$ 2
Claims and claims expense	(51)	(21)	(28)
Operating costs and expenses	(2)	(4)	(5)
Underwriting loss	$ (53)	$ (25)	$ (31)

The underwriting loss of $53 million in 2012 related to a $26 million unfavorable reestimate of asbestos reserves, a $22 million unfavorable reestimate of environmental reserves and a $5 million unfavorable reestimate of other reserves, primarily as a result of our annual review using

established industry and actuarial best practices, partially offset by a $14 million decrease in our allowance for future uncollectable reinsurance. The cost of administering claims settlements totaled $11 million for each of 2012 and 2011 and $13 million in 2010.

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The underwriting loss of $25 million in 2011 related to a $26 million unfavorable reestimate of asbestos reserves and a $5 million unfavorable reestimate of other reserves, primarily as a result of our annual review using established industry and actuarial best practices, partially offset by a $26 million decrease in our allowance for future uncollectable reinsurance. Environmental reserves were essentially unchanged.

The underwriting loss of $31 million in 2010 related to an $18 million unfavorable reestimate of environmental reserves and a $5 million unfavorable reestimate of asbestos reserves, partially offset by a $4 million favorable reestimate of other reserves, primarily as a result of our annual review using established industry and actuarial best practices.

See the Property-Liability Claims and Claims Expense Reserves section of the MD&A for a more detailed discussion.

Discontinued Lines and Coverages outlook

We may continue to experience asbestos and/or environmental losses in the future. These losses could be due to the potential adverse impact of new information relating to new and additional claims or the impact of resolving unsettled claims based on unanticipated events such as litigation or legislative, judicial and regulatory actions. Environmental losses may also increase as the result of additional funding for environmental site cleanup. Because of our annual review, we believe that our reserves are appropriately established based on available information, technology, laws and regulations.

We continue to be encouraged that the pace of industry asbestos claim activity has slowed, perhaps reflecting various state legislative and judicial actions with respect to medical criteria and increased legal scrutiny of the legitimacy of claims.

PROPERTY-LIABILITY INVESTMENT RESULTS

Net investment income increased 10.4% to $1.33 billion in 2012 from $1.20 billion in 2011, after increasing 1.0% in 2011 compared to 2010. The 2012 increase was primarily due to income from limited partnerships and higher average investment balances, partially offset by lower fixed income yields. We continue to reduce interest rate risk by selling longer term fixed income securities and investing the proceeds in securities with shorter maturities, resulting in realized capital gains and lower net investment income, and positioning for reinvestment when interest rates rise. The 2011 increase was primarily due to higher yields, partially offset by lower average investment balances.

The following table presents the average pre-tax investment yields for the years ended December 31. Pre-tax yield is calculated as investment income (including dividend income in the case of equity securities) divided by the average of the investment balances at the beginning and end of the year and interim quarters. Investment balances, for purposes of the pre-tax yield calculation, exclude unrealized capital gains and losses. Limited partnerships accounted for under the equity method of accounting ("EMA") are included in the 2012 yields since their income is reported in net investment income.

	2012	**2011**	**2010**
Fixed income securities: tax-exempt	4.3%	4.8%	4.9%
Fixed income securities: tax-exempt equivalent	6.3	7.0	7.1
Fixed income securities: taxable	3.7	3.8	3.5
Equity securities	3.5	2.8	2.3
Mortgage loans	4.3	4.0	5.7
Limited partnership interests	6.3	5.6	3.1
Total portfolio	3.9	3.9	3.8

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Net realized capital gains and losses are presented in the following table.

($ in millions)	2012	2011	2010
Impairment write-downs	$ (134)	$ (250)	$ (295)
Change in intent write-downs	(31)	(49)	(62)
Net other-than-temporary impairment losses recognized in earnings	(165)	(299)	(357)
Sales	511	469	455
Valuation of derivative instruments	5	(54)	(331)
Settlements of derivative instruments	(16)	(127)	(143)
EMA limited partnership income [(1)]		96	55
Realized capital gains and losses, pre-tax	335	85	(321)
Income tax (expense) benefit	(114)	(31)	114
Realized capital gains and losses, after-tax	$ 221	$ 54	$ (207)

(1) Income from EMA limited partnerships is reported in net investment income in 2012 and realized capital gains and losses in 2011 and 2010.

For a further discussion of net realized capital gains and losses, see the Investments section of the MD&A.

PROPERTY-LIABILITY CLAIMS AND CLAIMS EXPENSE RESERVES

Property-Liability underwriting results are significantly influenced by estimates of property-liability claims and claims expense reserves. For a description of our reserve process, see Note 8 of the consolidated financial statements and for a further description of our reserving policies and the potential variability in our reserve estimates, see the Application of Critical Accounting Estimates section of the MD&A. These reserves are an estimate of amounts necessary to settle all outstanding claims, including IBNR claims, as of the reporting date.

The facts and circumstances leading to our reestimates of reserves relate to revisions to the development factors used to predict how losses are likely to develop from the end of a reporting period until all claims have been paid. Reestimates occur because actual losses are likely different than those predicted by the estimated development factors used in prior reserve estimates. As of December 31, 2012, the impact of a reserve reestimation corresponding to a one percent increase or decrease in net reserves would be a decrease or increase of approximately $112 million in net income.

We believe the net loss reserves for Allstate Protection exposures are appropriately established based on available facts, technology, laws and regulations.

The table below shows total net reserves as of December 31 by line of business.

($ in millions)	2012	2011	2010
Allstate brand	$ 14,364	$ 14,792	$ 14,696
Encompass brand	807	859	921
Esurance brand	470	429	
Total Allstate Protection	15,641	16,080	15,617
Discontinued Lines and Coverages	1,637	1,707	1,779
Total Property-Liability	$ 17,278	$ 17,787	$ 17,396

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The tables below show reserves, net of reinsurance, representing the estimated cost of outstanding claims as they were recorded at the beginning of years 2012, 2011 and 2010, and the effect of reestimates in each year.

($ in millions)	January 1 reserves		
	2012	2011	2010
Allstate brand	$ 14,792	$ 14,696	$ 14,123
Encompass brand	859	921	1,027
Esurance brand	429		
Total Allstate Protection	16,080	15,617	15,150
Discontinued Lines and Coverages	1,707	1,779	1,878
Total Property-Liability	$ 17,787	$ 17,396	$ 17,028

($ in millions, except ratios)	2012		2011		2010	
	Reserve reestimate [1]	Effect on combined ratio [2]	Reserve reestimate [1]	Effect on combined ratio [2]	Reserve reestimate [1]	Effect on combined ratio [2]
Allstate brand	$ (671)	(2.5)	$ (371)	(1.4)	$ (181)	(0.7)
Encompass brand	(45)	(0.2)	15		(6)	
Esurance brand						
Total Allstate Protection	(716)	(2.7)	(356)	(1.4)	(187)	(0.7)
Discontinued Lines and Coverages	51	0.2	21	0.1	28	0.1
Total Property-Liability [3]	$ (665)	(2.5)	$ (335)	(1.3)	$ (159)	(0.6)
Reserve reestimates, after-tax	$ (432)		$ (218)		$ (103)	
Consolidated net income	$ 2,306		$ 787		$ 911	
Reserve reestimates as a % of net income	18.7%		27.7%		11.3%	

(1) Favorable reserve reestimates are shown in parentheses.

(2) Ratios are calculated using Property-Liability premiums earned.

(3) Prior year reserve reestimates included in catastrophe losses totaled $410 million favorable in 2012, $130 million favorable in 2011 and $163 million favorable in 2010. The effect of catastrophe losses included in prior year reserve reestimates on the combined ratio totaled 1.5 favorable, 0.5 favorable and 0.6 favorable in 2012, 2011 and 2010, respectively.

Allstate Protection

The tables below show Allstate Protection net reserves representing the estimated cost of outstanding claims as they were recorded at the beginning of years 2012, 2011 and 2010, and the effect of reestimates in each year.

($ in millions)	January 1 reserves		
	2012	2011	2010
Auto	$ 11,404	$ 11,034	$ 10,606
Homeowners	2,439	2,442	2,399
Other personal lines	2,237	2,141	2,145
Total Allstate Protection	$ 16,080	$ 15,617	$ 15,150

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($ in millions, except ratios)	2012		2011		2010	
	Reserve reestimate	Effect on combined ratio	Reserve reestimate	Effect on combined ratio	Reserve reestimate	Effect on combined ratio
Auto	$ (365)	(1.4)	$ (381)	(1.5)	$ (179)	(0.7)
Homeowners	(321)	(1.2)	(69)	(0.3)	(23)	(0.1)
Other personal lines	(30)	(0.1)	94	0.4	15	0.1
Total Allstate Protection	$ (716)	(2.7)	$ (356)	(1.4)	$ (187)	(0.7)
Underwriting income (loss)	$ 1,253		$ (857)		$ 525	
Reserve reestimates as a % of underwriting income (loss)	57.1%		41.5%		35.6%	

Auto reserve reestimates in 2012, 2011 and 2010 were primarily due to claim severity development that was better than expected. 2010 was also impacted by a litigation settlement.

Favorable homeowners reserve reestimates in 2012, 2011 and 2010 were primarily due to favorable catastrophe reserve reestimates. 2010 was also impacted by a litigation settlement.

Other personal lines reserve reestimates in 2012 were primarily due to favorable catastrophe reserve reestimates. Other personal lines reserve reestimates in 2011 and 2010 were primarily the result of loss development higher than anticipated in previous estimates.

Pending, new and closed claims for Allstate Protection are summarized in the following table for the years ended December 31. The increase in pending claims as of December 31, 2012 compared to December 31, 2011 relates to catastrophes, primarily Sandy, for all lines as well as the inclusion of Esurance claims for auto.

Number of claims	2012	2011 [1]	2010
Auto			
Pending, beginning of year	436,972	490,459	540,424
New	5,807,557	5,656,687	5,571,199
Total closed	(5,772,451)	(5,710,174)	(5,621,164)
Pending, end of year	472,078	436,972	490,459
Homeowners			
Pending, beginning of year	44,134	51,031	59,685
New	1,003,493	1,214,792	991,962
Total closed	(999,209)	(1,221,689)	(1,000,616)
Pending, end of year	48,418	44,134	51,031
Other personal lines			
Pending, beginning of year	31,871	33,388	36,537
New	337,257	333,209	282,137
Total closed	(315,917)	(334,726)	(285,286)
Pending, end of year	53,211	31,871	33,388
Total Allstate Protection			

Pending, beginning of year	512,977	574,878	636,646
New	7,148,307	7,204,688	6,845,298
Total closed	(7,087,577)	(7,266,589)	(6,907,066)
Pending, end of year	573,707	512,977	574,878

(1) Excludes Esurance brand number of claims since not available.

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The following tables reflect the accident years to which the reestimates shown above are applicable by line of business. Favorable reserve reestimates are shown in parentheses.

2012 Prior year reserve reestimates

($ in millions)	2002 & prior	2003	2004	2005	2006	2007	2008	2009	2010	2011	Total
Allstate brand	$ 102	$ (9)	$ (10)	$ (36)	$ 11	$ (11)	$ (36)	$ (33)	$ (147)	$ (502)	$ (671)
Encompass brand		(1)		(12)	(1)		(5)	(4)	(14)	(8)	(45)
Esurance brand											
Total Allstate Protection	102	(10)	(10)	(48)	10	(11)	(41)	(37)	(161)	(510)	(716)
Discontinued Lines and Coverages	51										51
Total Property- Liability	$ 153	$ (10)	$ (10)	$ (48)	$ 10	$ (11)	$ (41)	$ (37)	$ (161)	$ (510)	$ (665)

2011 Prior year reserve reestimates

($ in millions)	2001 & prior	2002	2003	2004	2005	2006	2007	2008	2009	2010	Total
Allstate brand	$ 123	$ 16	$ 26	$ 8	$ 5	$ 7	$	$ (28)	$ (150)	$ (378)	$ (371)
Encompass brand	2		(1)		1	1	(1)	2	2	9	15
Total Allstate Protection	125	16	25	8	6	8	(1)	(26)	(148)	(369)	(356)
Discontinued Lines and Coverages	21										21
Total Property- Liability	$ 146	$ 16	$ 25	$ 8	$ 6	$ 8	$ (1)	$ (26)	$ (148)	$ (369)	$ (335)

2010 Prior year reserve reestimates

($ in millions)	2000 & prior	2001	2002	2003	2004	2005	2006	2007	2008	2009	Total
Allstate brand	$ 262	$ (1)	$ (7)	$ (18)	$ (15)	$ (51)	$ (106)	$ (86)	$ (45)	$ (114)	$ (181)
Encompass brand	1		1	1	2	6		(6)	(1)	(10)	(6)
Total Allstate Protection	263	(1)	(6)	(17)	(13)	(45)	(106)	(92)	(46)	(124)	(187)
Discontinued Lines and Coverages	28										28
Total Property- Liability	$ 291	$ (1)	$ (6)	$ (17)	$ (13)	$ (45)	$ (106)	$ (92)	$ (46)	$ (124)	$ (159)

Allstate brand prior year reserve reestimates were $671 million favorable in 2012, $371 million favorable in 2011 and $181 million favorable in 2010. In 2012, this was primarily due to favorable catastrophe reserve reestimates and severity development that was better than expected. The increased reserves in accident years 2002 & prior is due to a reclassification of injury reserves to older years and reserve strengthening. In 2011, this was primarily due to severity development that was better than expected and favorable catastrophe reserve reestimates. The increased reserves in accident years 2001 & prior is due to a reclassification of injury reserves to older years and reserve strengthening. In 2010, this was primarily due to favorable catastrophe reserve reestimates and severity development that was better than expected, partially offset by litigation settlements. The increased reserves in accident years 2000 & prior is due to the litigation settlements of $100 million, a reclassification of injury reserves to older years and reserve strengthening.

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These trends are primarily responsible for revisions to loss development factors, as described above, used to predict how losses are likely to develop from the end of a reporting period until all claims have been paid. Because these trends cause actual losses to differ from those predicted by the estimated development factors used in prior reserve estimates, reserves are revised as actuarial studies validate new trends based on the indications of updated development factor calculations.

The impact of these reestimates on the Allstate brand underwriting income (loss) is shown in the table below.

($ in millions)	2012	2011	2010
Reserve reestimates	$ (671)	$ (371)	$ (181)
Allstate brand underwriting income (loss)	1,515	(667)	568
Reserve reestimates as a % of underwriting income (loss)	44.3%	55.6%	31.9%

Encompass brand prior year reserve reestimates in 2012 were related to lower than anticipated claim settlement costs and favorable catastrophe reserve reestimates. Reserve reestimates in 2011 were related to higher than anticipated claim settlement costs. 2010 Encompass brand reserve reestimates were related to lower than anticipated claim settlement costs.

The impact of these reestimates on the Encompass brand underwriting loss is shown in the table below.

($ in millions)	2012	2011	2010
Reserve reestimates	$ (45)	$ 15	$ (6)
Encompass brand underwriting loss	(70)	(146)	(43)
Reserve reestimates as a % of underwriting loss	64.3%	(10.3)%	14.0%

Esurance brand There were no prior year reserve reestimates for Esurance in 2012. However, the Esurance opening balance sheet reserves were reestimated in 2012 resulting in a $13 million reduction in reserves due to lower severity. The adjustment was recorded as a reduction in goodwill and an increase in payables to the seller under the terms of the purchase agreement and therefore had no impact on claims expense or the loss ratio.

Discontinued Lines and Coverages We conduct an annual review in the third quarter of each year to evaluate and establish asbestos, environmental and other discontinued lines reserves. Reserves are recorded in the reporting period in which they are determined. Using established industry and actuarial best practices and assuming no change in the regulatory or economic environment, this detailed and comprehensive methodology determines reserves based on assessments of the characteristics of exposure (e.g. claim activity, potential liability, jurisdiction, products versus non-products exposure) presented by policyholders.

Reserve reestimates for the Discontinued Lines and Coverages, as shown in the table below, were increased primarily for asbestos and environmental in 2012, asbestos in 2011 and environmental in 2010.

($ in millions)	2012		2011		2010	
	January 1 reserves	Reserve reestimate	January 1 reserves	Reserve reestimate	January 1 reserves	Reserve reestimate
Asbestos claims	$ 1,078	$ 26	$ 1,100	$ 26	$ 1,180	$ 5
Environmental claims	185	22	201		198	18
Other discontinued lines	444	3	478	(5)	500	5
Total Discontinued Lines and Coverages	$ 1,707	$ 51	$ 1,779	$ 21	$ 1,878	$ 28
Underwriting loss		$ (53)		$ (25)		$ (31)
Reserve reestimates as a % of underwriting loss		(96.2)%		(84.0)%		(90.3)%

Reserve additions for asbestos in 2012 and 2011 were primarily for products related coverage due to increases for the assumed reinsurance portion of discontinued lines where we are reliant on our ceding companies to report claims. Reserve additions for asbestos in 2010 were primarily for products related coverage.

The reserve additions for environmental in 2012 were primarily related to site-specific remediations where the clean-up cost estimates and responsibility for the clean-up were more fully determined. Normal environmental claim activity resulted in essentially no change in estimated reserves for 2011. The reserve additions for environmental in 2010

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were primarily related to site-specific remediations where the clean-up cost estimates and responsibility for the clean-up were more fully determined.

The table below summarizes reserves and claim activity for asbestos and environmental claims before (Gross) and after (Net) the effects of reinsurance for the past three years.

($ in millions, except ratios)	2012		2011		2010	
	Gross	Net	Gross	Net	Gross	Net
Asbestos claims						
Beginning reserves	$ 1,607	$ 1,078	$ 1,655	$ 1,100	$ 1,780	$ 1,180
Incurred claims and claims expense	34	26	38	26	(7)	5
Claims and claims expense paid	(119)	(78)	(86)	(48)	(118)	(85)
Ending reserves	$ 1,522	$ 1,026	$ 1,607	$ 1,078	$ 1,655	$ 1,100
Annual survival ratio	12.8	13.2	18.7	22.5	14.0	12.9
3-year survival ratio	14.1	14.7	13.6	13.6	12.6	12.2
Environmental claims						
Beginning reserves	$ 225	$ 185	$ 248	$ 201	$ 247	$ 198
Incurred claims and claims expense	32	22	(2)		19	18
Claims and claims expense paid	(16)	(14)	(21)	(16)	(18)	(15)
Ending reserves	$ 241	$ 193	$ 225	$ 185	$ 248	$ 201
Annual survival ratio	15.1	13.8	10.7	11.6	13.8	13.4
3-year survival ratio	13.4	12.9	11.8	11.6	8.0	8.7
Combined environmental and asbestos claims						
Annual survival ratio	13.1	13.3	17.1	19.7	14.0	13.0
3-year survival ratio	14.0	14.3	13.4	13.3	11.7	11.6
Percentage of IBNR in ending reserves		57.8%		59.0%		60.1%

The survival ratio is calculated by taking our ending reserves divided by payments made during the year. This is a commonly used but extremely simplistic and imprecise approach to measuring the adequacy of asbestos and environmental reserve levels. Many factors, such as mix of business, level of coverage provided and settlement procedures have significant impacts on the amount of environmental and asbestos claims and claims expense reserves, claim payments and the resultant ratio. As payments result in corresponding reserve reductions, survival ratios can be expected to vary over time.

In both 2012 and 2011, the asbestos net 3-year survival ratio increased due to lower average annual payments. The environmental net 3-year survival ratio increased in both 2012 and 2011 due to lower average annual payments.

Our net asbestos reserves by type of exposure and total reserve additions are shown in the following table.

($ in millions)	December 31, 2012			December 31, 2011			December 31, 2010		
	Active policy-holders	Net reserves	% of reserves	Active policy-holders	Net reserves	% of reserves	Active policy-holders	Net reserves	% of reserves

Direct policyholders:									
Primary	54	$ 12	1%	52	$ 17	2%	51	$ 17	1%
Excess	299	276	27	314	263	24	319	261	24
Total	353	288	28	366	280	26	370	278	25
Assumed reinsurance		150	15		171	16		165	15
IBNR		588	57		627	58		657	60
Total net reserves		$ 1,026	100%		$ 1,078	100%		$ 1,100	100%
Total reserve additions		$ 26			$ 26			$ 5	

During the last three years, 52 direct primary and excess policyholders reported new claims, and claims of 68 policyholders were closed, decreasing the number of active policyholders by 16 during the period. The 16 decrease comprised (13) from 2012, (4) from 2011 and 1 from 2010. The decrease of 13 in 2012 included 15 new policyholders reporting new claims and the closing of 28 policyholders' claims.

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IBNR net reserves decreased $39 million as of December 31, 2012 compared to December 31, 2011. As of December 31, 2012 IBNR represented 57% of total net asbestos reserves, compared to 58% as of December 31, 2011. IBNR provides for reserve development of known claims and future reporting of additional unknown claims from current and new policyholders and ceding companies.

Pending, new, total closed and closed without payment claims for asbestos and environmental exposures for the years ended December 31 are summarized in the following table.

Number of claims	**2012**	**2011**	**2010**
Asbestos			
Pending, beginning of year	8,072	8,421	8,252
New	492	507	788
Total closed	(1,117)	(856)	(619)
Pending, end of year	7,447	8,072	8,421
Closed without payment	728	664	336
Environmental			
Pending, beginning of year	4,176	4,297	4,114
New	402	351	498
Total closed	(902)	(472)	(315)
Pending, end of year	3,676	4,176	4,297
Closed without payment	511	334	181

Property-Liability reinsurance ceded For Allstate Protection, we utilize reinsurance to reduce exposure to catastrophe risk and manage capital, and to support the required statutory surplus and the insurance financial strength ratings of certain subsidiaries such as Castle Key Insurance Company and Allstate New Jersey Insurance Company. We purchase significant reinsurance to manage our aggregate countrywide exposure to an acceptable level. The price and terms of reinsurance and the credit quality of the reinsurer are considered in the purchase process, along with whether the price can be appropriately reflected in the costs that are considered in setting future rates charged to policyholders. We also participate in various reinsurance mechanisms, including industry pools and facilities, which are backed by the financial resources of the property-liability insurance company market participants, and have historically purchased reinsurance to mitigate long-tail liability lines, including environmental, asbestos and other discontinued lines exposures. We retain primary liability as a direct insurer for all risks ceded to reinsurers.

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Our reinsurance recoverable balances are shown in the following table as of December 31, net of the allowance we have established for uncollectible amounts.

($ in millions)	Standard & Poor's financial strength rating [(1)]	Reinsurance recoverable on paid and unpaid claims, net	
		2012	2011
Industry pools and facilities			
Michigan Catastrophic Claim Association ("MCCA")	N/A	$ 2,590	$ 1,709
National Flood Insurance Program	N/A	428	33
North Carolina Reinsurance Facility	N/A	64	70
New Jersey Unsatisfied Claim and Judgment Fund	N/A	38	50
Other		3	3
Subtotal		3,123	1,865
Lloyd's of London ("Lloyd's")	A+	190	193
Westport Insurance Corporation (formerly Employers Reinsurance Corporation)	AA-	95	98
Swiss Reinsurance America Corporation	AA-	41	16
New England Reinsurance Corporation	N/A	35	36
R&Q Reinsurance Company	N/A	30	31
Renaissance Reinsurance Limited	AA-	28	2
Other, including allowance for future uncollectible reinsurance recoverables		537	433
Subtotal		956	809
Total Property-Liability		$ 4,079	$ 2,674

(1) N/A reflects no rating available.

Reinsurance recoverables include an estimate of the amount of property-liability insurance claims and claims expense reserves that may be ceded under the terms of the reinsurance agreements, including incurred but not reported unpaid losses. We calculate our ceded reinsurance estimate based on the terms of each applicable reinsurance agreement, including an estimate of how IBNR losses will ultimately be ceded under the agreement. We also consider other limitations and coverage exclusions under our reinsurance agreements. Accordingly, our estimate of reinsurance recoverables is subject to similar risks and uncertainties as our estimate of reserves for property-liability claims and claims expense. We believe the recoverables are appropriately established; however, as our underlying reserves continue to develop, the amount ultimately recoverable may vary from amounts currently recorded. We regularly evaluate the reinsurers and the respective amounts recoverable, and a provision for uncollectible reinsurance is recorded if needed. The establishment of reinsurance recoverables and the related allowance for uncollectible reinsurance is also an inherently uncertain process involving estimates. Changes in estimates could result in additional changes to the Consolidated Statements of Operations.

The allowance for uncollectible reinsurance relates to Discontinued Lines and Coverages reinsurance recoverables and was $87 million and $103 million as of December 31, 2012 and 2011, respectively. This amount represents 12.4% and 13.4% of the related reinsurance recoverable balances as of December 31, 2012 and 2011, respectively. The allowance is based upon our ongoing review of amounts outstanding, length of collection periods, changes in reinsurer credit standing, and other relevant factors. In addition, in the ordinary course of business, we may become involved in coverage disputes with certain of our reinsurers which may ultimately result in lawsuits and arbitrations brought by or against such reinsurers to determine the parties' rights and obligations under the various reinsurance agreements. We employ dedicated specialists to manage reinsurance collections and disputes. We also consider recent developments in commutation activity between reinsurers and cedants, and recent trends in arbitration and litigation outcomes in disputes between cedants and reinsurers in seeking to maximize our reinsurance recoveries.

Adverse developments in the insurance industry have led to a decline in the financial strength of some of our reinsurance carriers, causing amounts recoverable from them and future claims ceded to them to be considered a higher risk. There has also been consolidation activity in the industry, which causes reinsurance risk across the industry to be

concentrated among fewer companies. In addition, some companies have segregated asbestos, environmental, and other discontinued lines exposures into separate legal entities with dedicated capital. Regulatory bodies in certain cases have supported these actions. We are unable to determine the impact, if any, that these developments will have on the collectability of reinsurance recoverables in the future.

The effects of reinsurance ceded on our property-liability premiums earned and claims and claims expense for the years ended December 31 are summarized in the following table.

($ in millions)	**2012**	**2011**	**2010**
Ceded property-liability premiums earned	$ 1,090	$ 1,098	$ 1,092
Ceded property-liability claims and claims expense			
Industry pool and facilities			
MCCA	$ 962	$ 509	$ 142
National Flood Insurance Program	758	196	50
FHCF		8	10
Other	70	84	64
Subtotal industry pools and facilities	1,790	797	266
Other	261	130	5
Ceded property-liability claims and claims expense	$ 2,051	$ 927	$ 271

In 2012, ceded property-liability premiums earned decreased $8 million compared to 2011, primarily due to decreased premiums in our catastrophe reinsurance program. In 2011, ceded property-liability premiums earned increased $6 million compared to 2010 year, primarily due to higher premium rates and an increase in policies written for the National Flood Insurance Program.

Ceded property-liability claims and claims expense increased in 2012 primarily due to amounts ceded to the National Flood Insurance Program related to Sandy, reserve increases in the MCCA program, and amounts ceded under our catastrophe reinsurance program related to Sandy. The reserve increases in the MCCA program are attributable to an increased recognition of longer term paid loss trends. The paid loss trends are rising due to increased costs in medical and attendant care and increased longevity of claimants. Ceded property-liability claims and claims expense increased in 2011 primarily due to reserve increases in the MCCA program and an increase in claim activity on the National Flood Insurance Program due to multiple flooding events throughout the year.

For a detailed description of the MCCA, FHCF and Lloyd's, see Note 10 of the consolidated financial statements. As of December 31, 2012, other than the recoverable balances listed in the table above, no other amount due or estimated to be due from any single Property-Liability reinsurer was in excess of $26 million.

We enter into certain intercompany insurance and reinsurance transactions for the Property-Liability operations in order to maintain underwriting control and manage insurance risk among various legal entities. These reinsurance agreements have been approved by the appropriate regulatory authorities. All significant intercompany transactions have been eliminated in consolidation.

Catastrophe reinsurance

Our catastrophe reinsurance program is designed, utilizing our risk management methodology, to address our exposure to catastrophes nationwide. Our program is designed to provide reinsurance protection for catastrophes including hurricanes, windstorms, hail, tornados, fires following earthquakes, earthquakes and 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.

We anticipate completing the placement of our 2013 catastrophe reinsurance program in March 2013. We expect the program will be similar to our 2012 catastrophe reinsurance program. For further details of the existing 2012 program, see Note 10 of the consolidated financial statements.

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ALLSTATE FINANCIAL 2012 HIGHLIGHTS

- Net income was $541 million in 2012 compared to $590 million in 2011.
- Premiums and contract charges on underwritten products, including traditional life, interest-sensitive life and accident and health insurance, totaled $2.18 billion in 2012, an increase of 3.8% from $2.10 billion in 2011.
- Investments totaled $57.00 billion as of December 31, 2012, reflecting a decrease in carrying value of $374 million from $57.37 billion as of December 31, 2011. Net investment income decreased 2.5% to $2.65 billion in 2012 from $2.72 billion in 2011.
- Net realized capital losses totaled $13 million in 2012 compared to net realized capital gains of $388 million in 2011.
- Contractholder funds totaled $39.32 billion as of December 31, 2012, reflecting a decrease of $3.01 billion from $42.33 billion as of December 31, 2011.

ALLSTATE FINANCIAL SEGMENT

Overview and strategy The Allstate Financial segment sells life insurance, voluntary employee benefits products, and products designed to meet customer retirement and investment needs. We serve our customers through Allstate exclusive agencies and exclusive financial specialists, workplace distribution and non-proprietary distribution channels. Allstate Financial brings value to The Allstate Corporation in three principal ways: through profitable growth, by bringing new customers to Allstate, and by improving the economics of the Protection business through increased customer loyalty and stronger customer relationships based on cross selling Allstate Financial products to existing customers. Allstate Financial's strategy is focused on expanding Allstate customer relationships, growing our underwritten product sales through Allstate exclusive agencies and Allstate Benefits (our workplace distribution business), improving returns on and reducing our exposure to spread-based products, and emphasizing capital efficiency and shareholder returns.

Our products include interest-sensitive, traditional and variable life insurance; voluntary accident and health insurance; fixed annuities such as deferred and immediate annuities; and funding agreements backing medium-term notes, which we most recently offered in 2008. Our products are sold through multiple distribution channels including Allstate exclusive agencies and exclusive financial specialists, workplace enrolling independent agents and, to a lesser extent, independent master brokerage agencies, specialized structured settlement brokers, and directly through call centers and the internet. Our institutional product line consists of funding agreements sold to unaffiliated trusts that use them to back medium-term notes issued to institutional and individual investors. Banking products and services were previously offered to customers through the Allstate Bank, which ceased operations in 2011.

We continue to shift our mix of products in force by decreasing our lower returning spread-based products, principally fixed annuities and institutional products, and through growth of our higher returning underwritten products having mortality or morbidity risk, principally life insurance and accident and health products. In addition to focusing on higher return markets, products and distribution channels, Allstate Financial continues to implement capital efficiency and enterprise risk and return management strategies and actions.

Based upon Allstate's strong financial position and brand, we have a unique opportunity to cross-sell to our customer base. We will enhance trusted customer relationships through our Allstate exclusive agencies to serve those who are looking for assistance in meeting their protection and retirement needs by providing them with the information, products and services that they need. To further strengthen Allstate Financial's value proposition to Allstate exclusive agencies and drive further engagement in selling our products, Allstate Financial products are integrated into the Allstate Protection sales processes and the new agent compensation structure incorporates sales of Allstate Financial products. Life insurance policies issued through Allstate agencies increased 9.3% and 31.5% in 2012 and 2011, respectively, compared to the prior years. During 2012, we introduced a new deferred annuity product that allows our Allstate exclusive agents to continue to offer a full range of products that meet customer retirement needs while providing Allstate with an attractive risk adjusted return profile.

Our employer relationships through Allstate Benefits also afford opportunities to offer additional Allstate products and grow our business. Allstate Benefits is an industry leader in voluntary benefits, offering one of the broadest product portfolios in the voluntary benefits market. Our strategy for Allstate Benefits focuses on growth in the national accounts market by increasing the number of sales and account management personnel, expanding independent agent distribution in targeted geographic locations for increased new sales, increasing Allstate exclusive agency engagement to drive cross selling of voluntary benefits products, capitalizing on strategic alliance opportunities, and developing opportunities for revenue growth through new product and fee income offerings. In 2012, Allstate Benefits new business written premiums increased 6.5% compared to 2011.

Our deferred and immediate annuity business has been adversely impacted by the credit cycle and historically low interest rate environment. Our immediate annuity business has been impacted by medical advancements that have

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resulted in annuitants living longer than anticipated when many of these contracts were originated. We are aggressively reducing the level of legacy deferred annuities in force and proactively managing annuity crediting rates to improve the profitability of the business. We are managing the investment portfolio supporting our immediate annuities to ensure the assets match the characteristics of the liabilities and provide the long-term returns needed to support this business. We are increasing limited partnership and other alternative asset investments to appropriately match investment duration with these long-term illiquid liabilities.

Allstate Financial outlook

Our growth initiatives continue to focus on increasing the number of customers served through our proprietary and Allstate Benefits channels.

We continue to focus on improving returns and reducing our concentration in spread-based products resulting in net reductions in contractholder fund obligations.

We plan to further grow premiums and contract charges on underwritten insurance products and offer a broad range of products to meet our customers' needs for retirement income, including third-party solutions when we choose not to offer certain products.

We expect lower investment spread due to reduced contractholder funds, the continuing low interest rate environment and changes in asset allocations. The amount by which the low interest rate environment will reduce our investment spread is contingent on our ability to maintain the portfolio yield and lower interest crediting rates on spread-based products, which could be limited by market conditions, regulatory minimum rates or contractual minimum rate guarantees, and may not match the timing or magnitude of changes in asset yields. We also anticipate changing our asset allocation for long-term immediate annuities by reducing fixed income securities and increasing investments in limited partnerships and other alternative investments. This shift could result in lower and more volatile investment income; however, we anticipate that this strategy will lead to higher total returns and attributed equity.

We expect increases in Allstate Financial's attributed GAAP equity as there may be limitations on the amount of dividends Allstate Financial companies can pay without prior approval by their insurance departments.

We continue to review our strategic options to reduce our exposure and improve returns of the spread-based businesses. As a result, we may take additional operational and financial actions that offer return improvement and risk reduction opportunities.

Summary analysis Summarized financial data for the years ended December 31 is presented in the following table.

($ in millions)	2012	2011	2010
Revenues			
Life and annuity premiums and contract charges	$ 2,241	$ 2,238	$ 2,168
Net investment income	2,647	2,716	2,853
Realized capital gains and losses	(13)	388	(517)
Total revenues	4,875	5,342	4,504
Costs and expenses			
Life and annuity contract benefits	(1,818)	(1,761)	(1,815)
Interest credited to contractholder funds	(1,316)	(1,645)	(1,807)
Amortization of DAC	(401)	(494)	(290)
Operating costs and expenses	(576)	(555)	(568)
Restructuring and related charges		(1)	3
Total costs and expenses	(4,111)	(4,456)	(4,477)
Gain (loss) on disposition of operations	18	(7)	14
Income tax (expense) benefit	(241)	(289)	1
Net income	$ 541	$ 590	$ 42
Investments as of December 31	$ 56,999	$ 57,373	$ 61,582

Net income				
Life insurance	$	226	$	262
Accident and health insurance		81		95
Annuities and institutional products		234		233
Net income	$	541	$	590

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Net income in 2012 was $541 million compared to $590 million in 2011. The decrease was primarily due to net realized capital losses in 2012 compared to net realized capital gains in 2011, lower net investment income and higher life and annuity contract benefits, partially offset by decreased interest credited to contractholder funds and lower amortization of DAC.

Net income in 2011 was $590 million compared to $42 million in 2010. The increase was primarily due to net realized capital gains in 2011 compared to net realized capital losses in 2010, decreased interest credited to contractholder funds, higher life and annuity premiums and contract charges and lower life and annuity contract benefits, partially offset by higher amortization of DAC and lower net investment income.

Analysis of revenues Total revenues decreased 8.7% or $467 million in 2012 compared to 2011 due to net realized capital losses in 2012 compared to net realized capital gains in 2011 and lower net investment income. Total revenues increased 18.6% or $838 million in 2011 compared to 2010 due to net realized capital gains in 2011 compared to net realized capital losses in 2010 and higher premiums and contract charges, partially offset by lower net investment income.

Life and annuity premiums and contract charges Premiums represent revenues generated from traditional life insurance, immediate annuities with life contingencies, and accident and health insurance products that have significant mortality or morbidity risk. Contract charges are revenues generated from interest-sensitive and variable life insurance and fixed annuities for which deposits are classified as contractholder funds or separate account liabilities. Contract charges are assessed against the contractholder account values for maintenance, administration, cost of insurance and surrender prior to contractually specified dates.

The following table summarizes life and annuity premiums and contract charges by product for the years ended December 31.

($ in millions)	**2012**	**2011**	**2010**
Underwritten products			
Traditional life insurance premiums	$ 470	$ 441	$ 420
Accident and health insurance premiums	653	643	621
Interest-sensitive life insurance contract charges	1,055	1,015	991
Subtotal	2,178	2,099	2,032
Annuities			
Immediate annuities with life contingencies premiums	45	106	97
Other fixed annuity contract charges	18	33	39
Subtotal	63	139	136
Life and annuity premiums and contract charges (1)	$ 2,241	$ 2,238	$ 2,168

(1) Contract charges related to the cost of insurance totaled $696 million, $659 million and $637 million in 2012, 2011 and 2010, respectively.

Total premiums and contract charges increased 0.1% in 2012 compared to 2011 primarily due to higher contract charges on interest-sensitive life insurance products primarily resulting from the aging of our policyholders and lower reinsurance ceded, and increased traditional life insurance premiums due to lower reinsurance ceded and higher sales through Allstate agencies, partially offset by lower sales of immediate annuities with life contingencies. Sales of immediate annuities with life contingencies fluctuate with changes in our pricing competitiveness relative to other insurers.

Total premiums and contract charges increased 3.2% in 2011 compared to 2010 primarily due to higher contract charges on interest-sensitive life insurance products primarily resulting from the aging of our policyholders, growth in Allstate Benefits's accident and health insurance business in force and increased traditional life insurance premiums. Increased traditional life insurance premiums were primarily due to lower reinsurance premiums resulting from higher retention, partially offset by lower renewal premiums.

Contractholder funds represent interest-bearing liabilities arising from the sale of products such as interest-sensitive life insurance, fixed annuities, funding agreements and, prior to December 31, 2011, bank deposits. The balance of contractholder funds is equal to the cumulative

deposits received and interest credited to the contractholder less

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cumulative contract benefits, surrenders, withdrawals, maturities and contract charges for mortality or administrative expenses. The following table shows the changes in contractholder funds for the years ended December 31.

($ in millions)	**2012**	**2011**	**2010**
Contractholder funds, beginning balance	$ 42,332	$ 48,195	$ 52,582
Deposits			
Fixed annuities	928	667	932
Interest-sensitive life insurance	1,347	1,291	1,515
Bank deposits		360	991
Total deposits	2,275	2,318	3,438
Interest credited	1,323	1,629	1,794
Benefits, withdrawals, maturities and other adjustments			
Benefits	(1,463)	(1,461)	(1,552)
Surrenders and partial withdrawals	(3,990)	(4,935)	(4,201)
Bank withdrawals		(1,463)	(1,002)
Maturities of and interest payments on institutional products	(138)	(867)	(1,833)
Contract charges	(1,066)	(1,028)	(983)
Net transfers from separate accounts	11	12	11
Fair value hedge adjustments for institutional products		(34)	(196)
Other adjustments [(1)]	35	(34)	137
Total benefits, withdrawals, maturities and other adjustments	(6,611)	(9,810)	(9,619)
Contractholder funds, ending balance	$ 39,319	$ 42,332	$ 48,195

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

Contractholder funds decreased 7.1%, 12.2% and 8.3% in 2012, 2011 and 2010, respectively, reflecting our continuing strategy to reduce our concentration in spread-based products. Average contractholder funds decreased 9.8% in 2012 compared to 2011 and 10.2% in 2011 compared to 2010.

Contractholder deposits decreased 1.9% in 2012 compared to 2011 primarily due to increased fixed annuity deposits driven by new equity-indexed annuity products launched in second quarter 2012 being more than offset by the absence of Allstate Bank deposits in 2012. Contractholder deposits decreased 32.6% in 2011 compared to 2010 primarily due to lower deposits on Allstate Bank products and fixed annuities. In September 2011, Allstate Bank stopped opening new customer accounts and all funds were returned to Allstate Bank account holders prior to December 31, 2011.

Surrenders and partial withdrawals on deferred fixed annuities and interest-sensitive life insurance products decreased 19.1% to $3.99 billion in 2012 from $4.94 billion in 2011. 2011 had elevated surrenders on fixed annuities resulting from crediting rate actions and a large number of contracts reaching the 30-45 day period (typically at their 5 or 6 year anniversary) during which there is no surrender charge. In 2011, surrenders and partial withdrawals on deferred fixed annuities and interest-sensitive life insurance products increased 17.5% to $4.94 billion from $4.20 billion in 2010 primarily due to higher surrenders on fixed annuities, partially offset by lower surrenders and partial withdrawals on interest-sensitive life insurance products. The surrender and partial withdrawal rate on deferred fixed annuities and interest-sensitive life insurance products, based on the beginning of year contractholder funds, was 11.3% in 2012 compared to 12.6% in 2011 and 10.1% in 2010.

Maturities of and interest payments on institutional products decreased to $138 million in 2012 from $867 million in 2011 and $1.83 billion in 2010, reflecting differences in the timing and magnitude of maturities for these declining obligations.

Net investment income decreased 2.5% to $2.65 billion in 2012 from $2.72 billion in 2011 primarily due to lower average investment balances and lower yields on fixed income securities, partially offset by income from limited partnerships. Net investment income decreased 4.8% to $2.72 billion in 2011 from $2.85 billion in 2010 primarily due to

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lower average investment balances which were partially offset by higher yields. The higher yields are primarily attributable to yield optimization actions including the termination of interest rate swaps during the first quarter of 2011.

Net realized capital gains and losses for the years ended December 31 are presented in the following table.

($ in millions)	**2012**	**2011**	**2010**
Impairment write-downs	$ (51)	$ (246)	$ (501)
Change in intent write-downs	(17)	(51)	(142)
Net other-than-temporary impairment losses recognized in earnings	(68)	(297)	(643)
Sales	20	838	219
Valuation of derivative instruments	(16)	(237)	(94)
Settlements of derivative instruments	51	22	(31)
EMA limited partnership income [(1)]		62	32
Realized capital gains and losses, pre-tax	(13)	388	(517)
Income tax benefit (expense)	5	(138)	180
Realized capital gains and losses, after-tax	$ (8)	$ 250	$ (337)

(1) Income from EMA limited partnerships is reported in net investment income in 2012 and realized capital gains and losses in 2011 and 2010.

For further discussion of realized capital gains and losses, see the Investments section of the MD&A.

Analysis of costs and expenses Total costs and expenses decreased 7.7% or $345 million in 2012 compared to 2011 primarily due to lower interest credited to contractholder funds and amortization of DAC, partially offset by higher life and annuity contract benefits. Total costs and expenses decreased 0.5% or $21 million in 2011 compared to 2010 primarily due to lower interest credited to contractholder funds and life and annuity contract benefits, partially offset by higher amortization of DAC.

Life and annuity contract benefits increased 3.2% or $57 million in 2012 compared to 2011 primarily due to worse mortality experience on life insurance and the reduction in accident and health insurance reserves at Allstate Benefits in 2011, partially offset by lower sales of immediate annuities with life contingencies and the reduction in reserves for secondary guarantees on interest-sensitive life insurance. Our 2012 annual review of assumptions resulted in a $13 million decrease in the reserves for secondary guarantees on interest-sensitive life insurance due to favorable projected mortality.

Life and annuity contract benefits decreased 3.0% or $54 million in 2011 compared to 2010 primarily due to reserve reestimations recorded in second quarter 2010 that did not recur in 2011 and a $38 million reduction in accident and health insurance reserves at Allstate Benefits as of December 31, 2011 related to a contract modification, partially offset by unfavorable mortality experience on life insurance. The reserve reestimations in second quarter 2010 utilized more refined policy level information and assumptions. The increase in reserves for certain secondary guarantees on universal life insurance policies resulted in a charge to contract benefits of $68 million. The decrease in reserves for immediate annuities resulted in a credit to contract benefits of $26 million.

We analyze our mortality and morbidity results using the difference between premiums and contract charges earned for the cost of insurance and life and annuity contract benefits excluding the portion related to the implied interest on immediate annuities with life contingencies ("benefit spread"). This implied interest totaled $538 million, $541 million and $549 million in 2012, 2011 and 2010, respectively.

The benefit spread by product group for the years ended December 31 is disclosed in the following table.

($ in millions)	**2012**	**2011**	**2010**
Life insurance	$ 347	$ 355	$ 282
Accident and health insurance	303	329	252

Annuities	(66)	(55)	(25)
Total benefit spread	$ 584	$ 629	$ 509

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Benefit spread decreased 7.2% or $45 million in 2012 compared to 2011 primarily due to worse mortality experience on life insurance and annuities and the reduction in accident and health insurance reserves at Allstate Benefits in 2011, partially offset by lower reinsurance premiums ceded on life insurance, higher cost of insurance contract charges on interest-sensitive life insurance and the reduction in reserves for secondary guarantees on interest-sensitive life insurance.

Benefit spread increased 23.6% or $120 million in 2011 compared to 2010 primarily due to reestimations of reserves that increased contract benefits for interest-sensitive life insurance and decreased contract benefits for immediate annuities with life contingencies in 2010, a reduction in accident and health insurance reserves at Allstate Benefits as of December 31, 2011 related to a contract modification, and favorable morbidity experience on certain accident and health products and growth at Allstate Benefits.

Interest credited to contractholder funds decreased 20.0% or $329 million in 2012 compared to 2011 primarily due to the valuation change on derivatives embedded in equity-indexed annuity contracts that reduced interest credited expense, lower average contractholder funds and lower interest crediting rates. Valuation changes on derivatives embedded in equity-indexed annuity contracts that are not hedged decreased interest credited to contractholder funds by $126 million in 2012 compared to an $18 million increase in 2011. During third quarter 2012, we reviewed the significant valuation inputs for these embedded derivatives and reduced the projected option cost to reflect management's current and anticipated crediting rate setting actions, which were informed by the existing and projected low interest rate environment and are consistent with our strategy to reduce exposure to spread-based business. The reduction in projected interest rates to the level currently being credited, approximately 2%, resulted in a reduction of contractholder funds and interest credited expense by $169 million. Amortization of deferred sales inducement costs was $14 million in 2012 compared to $23 million in 2011.

Interest credited to contractholder funds decreased 9.0% or $162 million in 2011 compared to 2010 primarily due to lower average contractholder funds and lower interest crediting rates on deferred fixed annuities, interest-sensitive life insurance and immediate fixed annuities. Additionally, valuation changes on derivatives embedded in equity-indexed annuity contracts that are not hedged increased interest credited to contractholder funds by $18 million in 2011. Amortization of deferred sales inducement costs was $23 million in 2011 compared to $27 million in 2010.

In order to analyze the impact of net investment income and interest credited to contractholders on net income, we monitor the difference between net investment income and the sum of interest credited to contractholder funds and the implied interest on immediate annuities with life contingencies, which is included as a component of life and annuity contract benefits on the Consolidated Statements of Operations ("investment spread").

The investment spread by product group for the years ended December 31 is shown in the following table.

($ in millions)	2012	2011	2010
Annuities and institutional products	$ 292	$ 188	$ 179
Life insurance	82	54	35
Accident and health insurance	25	19	18
Allstate Bank products		22	31
Net investment income on investments supporting capital	268	265	234
Investment spread before valuation changes on embedded derivatives that are not hedged	667	548	497
Valuation changes on derivatives embedded in equity-indexed annuity contracts that are not hedged	126	(18)	
Total investment spread	$ 793	$ 530	$ 497

Investment spread before valuation changes on embedded derivatives that are not hedged increased 21.7% or $119 million in 2012 compared to 2011 due to income from limited partnerships and lower crediting rates, partially offset by lower yields on fixed income securities and the continued managed reduction in our spread-based business in force. Investment spread before valuation changes on embedded derivatives that are not hedged increased 10.3% or $51 million in 2011 compared to 2010 as actions to improve investment portfolio yields and lower crediting rates more than offset the effect of the continuing decline in our spread-based business in force. For further analysis on the valuation changes on derivatives embedded in equity-indexed annuity contracts, see the interest credited to contractholder funds section.

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

	Weighted average investment yield			**Weighted average interest crediting rate**			**Weighted average investment spreads**		
	2012	**2011**	**2010**	**2012**	**2011**	**2010**	**2012**	**2011**	**2010**
Interest-sensitive life insurance	5.2%	5.4%	5.5%	4.0%	4.2%	4.4%	1.2%	1.2%	1.1%
Deferred fixed annuities and institutional products	4.6	4.6	4.4	3.2	3.3	3.2	1.4	1.3	1.2
Immediate fixed annuities with and without life contingencies	6.9	6.3	6.4	6.1	6.2	6.4	0.8	0.1	
Investments supporting capital, traditional life and other products	4.0	3.9	3.7	n/a	n/a	n/a	n/a	n/a	n/a

The following table summarizes our product liabilities as of December 31 and indicates the account value of those contracts and policies in which an investment spread is generated.

($ in millions)	**2012**	**2011**	**2010**
Immediate fixed annuities with life contingencies	$ 8,889	$ 8,831	$ 8,696
Other life contingent contracts and other	6,006	5,575	4,754
Reserve for life-contingent contract benefits	$ 14,895	$ 14,406	$ 13,450
Interest-sensitive life insurance	$ 11,011	$ 10,826	$ 10,675
Deferred fixed annuities	22,066	25,228	29,367
Immediate fixed annuities without life contingencies	3,815	3,821	3,799
Institutional products	1,851	1,891	2,650
Allstate Bank products			1,091
Other	576	566	613
Contractholder funds	$ 39,319	$ 42,332	$ 48,195

The following table summarizes the weighted average guaranteed crediting rates and weighted average current crediting rates as of December 31, 2012 for certain fixed annuities and interest-sensitive life contracts where management has the ability to change the crediting rate, subject to a contractual minimum. Other products, including equity-indexed, variable and immediate annuities, equity-indexed and variable life, and institutional products totaling $10.72 billion of contractholder funds, have been excluded from the analysis because management does not have the ability to change the crediting rate or the minimum crediting rate is not considered meaningful in this context.

($ in millions)	**Weighted average guaranteed crediting rates**	**Weighted average current crediting rates**	**Contractholder funds**
Annuities with annual crediting rate resets	3.17%	3.18%	$ 10,654
Annuities with multi-year rate guarantees [(1)]:			
Resettable in next 12 months	2.05	3.93	1,610
Resettable after 12 months	1.56	3.54	5,434
Interest-sensitive life insurance	3.92	4.17	10,904

(1) These contracts include interest rate guarantee periods which are typically 5 or 6 years.

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Amortization of DAC decreased 18.8% or $93 million in 2012 compared to 2011 and increased 70.3% or $204 million in 2011 compared to 2010. The components of amortization of DAC for the years ended December 31 are summarized in the following table.

($ in millions)	**2012**	**2011**	**2010**
Amortization of DAC before amortization relating to realized capital gains and losses, valuation changes on embedded derivatives that are not hedged and changes in assumptions	$ 310	$ 331	$ 270
Amortization relating to realized capital gains and losses [(1)] and valuation changes on embedded derivatives that are not hedged	57	156	36
Amortization acceleration (deceleration) for changes in assumptions ("DAC unlocking")	34	7	(16)
Total amortization of DAC	$ 401	$ 494	$ 290

(1) The impact of realized capital gains and losses on amortization of DAC is dependent upon the relationship between the assets that give rise to the gain or loss and the product liability supported by the assets. Fluctuations result from changes in the impact of realized capital gains and losses on actual and expected gross profits.

The decrease in DAC amortization in 2012 compared to 2011 was primarily due to decreased amortization relating to realized capital gains and losses and decreased amortization on fixed annuity products due to the DAC balance for contracts issued prior to 2010 being fully amortized, partially offset by increased amortization acceleration for changes in assumptions and increased amortization relating to valuation changes on embedded derivatives that are not hedged. Amortization relating to valuation changes on derivatives embedded in equity-indexed annuity contracts was $25 million in 2012.

The increase in DAC amortization in 2011 compared to 2010 was primarily due to increased amortization relating to realized capital gains, lower amortization in the second quarter of 2010 resulting from decreased benefit spread on interest-sensitive life insurance due to the reestimation of reserves, and an unfavorable change in amortization acceleration/deceleration for changes in assumptions.

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

In 2011, the review resulted in an acceleration of DAC amortization of $7 million. Amortization acceleration of $12 million related to interest-sensitive life insurance and was primarily due to an increase in projected expenses. Amortization deceleration of $5 million related to equity-indexed annuities and was primarily due to an increase in projected investment margins.

In 2010, the review resulted in a deceleration of DAC amortization (credit to income) of $16 million. Amortization deceleration of $37 million related to variable life insurance and was primarily due to appreciation in the underlying separate account valuations. Amortization acceleration of $20 million related to interest-sensitive life insurance and was primarily due to an increase in projected realized capital losses and lower projected renewal premium (which is also expected to reduce persistency), partially offset by lower expenses.

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The changes in DAC for the years ended December 31 are detailed in the following table.

($ in millions)	Traditional life and accident and health		Interest-sensitive life insurance		Fixed annuities		Total	
	2012	2011	2012	2011	2012	2011	2012	2011
Beginning balance	$ 616	$ 573	$ 1,698	$ 1,917	$ 209	$ 369	$ 2,523	$ 2,859
Acquisition costs deferred	154	133	192	178	25	22	371	333
Amortization of DAC before amortization relating to realized capital gains and losses, valuation changes on embedded derivatives that are not hedged and changes in assumptions (1)	(99)	(90)	(186)	(186)	(25)	(55)	(310)	(331)
Amortization relating to realized capital gains and losses and valuation changes on embedded derivatives that are not hedged (1)			(18)	(21)	(39)	(135)	(57)	(156)
Amortization (acceleration) deceleration for changes in assumptions ("DAC unlocking") (1)			(30)	(12)	(4)	5	(34)	(7)
Effect of unrealized capital gains and losses (2)			(127)	(178)	(141)	3	(268)	(175)
Ending balance	$ 671	$ 616	$ 1,529	$ 1,698	$ 25	$ 209	$ 2,225	$ 2,523

(1) Included as a component of amortization of DAC on the Consolidated Statements of Operations.

(2) Represents the change in the DAC adjustment for unrealized capital gains and losses. The DAC adjustment balance was $(380) million and $(112) million as of December 31, 2012 and 2011, respectively, and represents the amount by which the amortization of DAC would increase or decrease if the unrealized gains and losses in the respective product portfolios were realized.

Operating costs and expenses increased 3.8% or $21 million in 2012 compared to 2011 and decreased 2.3% or $13 million in 2011 compared to 2010. The following table summarizes operating costs and expenses for the years ended December 31.

($ in millions)	2012	2011	2010
Non-deferrable commissions	$ 103	$ 111	$ 109
General and administrative expenses	421	385	396
Taxes and licenses	52	59	63
Total operating costs and expenses	$ 576	$ 555	$ 568
Restructuring and related charges	$	$ 1	$ (3)

General and administrative expenses increased 9.4% or $36 million in 2012 compared to 2011 primarily due to higher employee related expenses, lower reinsurance expense allowances and increased marketing costs, partially offset by a charge in 2011 related to the liquidation plan for Executive Life Insurance Company of New York, the elimination of expenses following our exit from the banking business in 2011 and

lower pension costs.

General and administrative expenses decreased 2.8% or $11 million in 2011 compared to 2010 primarily due to lower employee and professional service costs, reduced insurance department assessments for 2011 and lower net Allstate agencies distribution channel expenses reflecting increased fees from sales of third party financial products, partially offset by a charge related to the liquidation plan for Executive Life Insurance Company of New York.

Gain on disposition of $18 million in 2012 relates to the amortization of the deferred gain from the disposition through reinsurance of substantially all of our variable annuity business in 2006, and the sale of Surety Life Insurance Company, which was not used for new business, in third quarter 2012. Loss on disposition of $7 million in 2011 included $22 million related to the dissolution of Allstate Bank. In 2011, after receiving regulatory approval to dissolve, Allstate Bank ceased operations. We canceled the bank's charter in March 2012 and effective July 1, 2012 The Allstate Corporation is no longer a savings and loan holding company.

Reinsurance ceded We enter into reinsurance agreements with unaffiliated reinsurers to limit our risk of mortality and morbidity losses. In addition, Allstate Financial has used reinsurance to effect the acquisition or disposition of certain blocks of business. We retain primary liability as a direct insurer for all risks ceded to reinsurers. As of December 31, 2012 and 2011, 39% and 42%, respectively, of our face amount of life insurance in force was reinsured. Additionally, we ceded substantially all of the risk associated with our variable annuity business and we cede 100% of the morbidity risk on substantially all of our long-term care contracts.

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Our reinsurance recoverables, summarized by reinsurer as of December 31, are shown in the following table.

($ in millions)	Standard & Poor's financial strength rating [4]	Reinsurance recoverable on paid and unpaid benefits	
		2012	2011
Prudential Insurance Company of America	AA-	$ 1,691	$ 1,681
Employers Reassurance Corporation	A+	1,059	960
Transamerica Life Group	AA-	447	454
RGA Reinsurance Company	AA-	361	359
Swiss Re Life and Health America, Inc. [1]	AA-	217	212
Scottish Re Group [2]	N/A	131	134
Munich American Reassurance	AA-	131	127
Paul Revere Life Insurance Company	A	127	132
Mutual of Omaha Insurance	A+	96	96
Security Life of Denver	A-	83	71
Manulife Insurance Company	AA-	62	64
Lincoln National Life Insurance	AA-	60	63
Triton Insurance Company	N/A	55	56
American Health & Life Insurance Co.	N/A	45	48
Other [3]		123	120
Total		$ 4,688	$ 4,577

(1) The Company has extensive reinsurance contracts directly with Swiss Re and its affiliates and indirectly through Swiss Re's acquisition of other companies with whom we had reinsurance or retrocession contracts.

(2) The reinsurance recoverable on paid and unpaid benefits related to the Scottish Re Group as of December 31, 2012 comprised $71 million related to Scottish Re Life Corporation and $60 million related to Scottish Re (U.S.), Inc. The reinsurance recoverable on paid and unpaid benefits related to the Scottish Re Group as of December 31, 2011 comprised $73 million related to Scottish Re Life Corporation and $61 million related to Scottish Re (U.S.), Inc.

(3) As of December 31, 2012 and 2011, the other category includes $106 million and $103 million, respectively, of recoverables due from reinsurers with an investment grade credit rating from Standard & Poor's ("S&P").

(4) N/A reflects no rating available.

We continuously monitor the creditworthiness of reinsurers in order to determine our risk of recoverability on an individual and aggregate basis, and a provision for uncollectible reinsurance is recorded if needed. No amounts have been deemed unrecoverable in the three-years ended December 31, 2012.

We enter into certain intercompany reinsurance transactions for the Allstate Financial operations in order to maintain underwriting control and manage insurance risk among various legal entities. These reinsurance agreements have been approved by the appropriate regulatory authorities. All significant intercompany transactions have been eliminated in consolidation.

INVESTMENTS 2012 HIGHLIGHTS

Investments totaled $97.28 billion as of December 31, 2012, an increase of 1.7% from $95.62 billion as of December 31, 2011.

Unrealized net capital gains totaled $5.55 billion as of December 31, 2012, increasing from $2.88 billion as of December 31, 2011.

Net investment income was $4.01 billion in 2012, an increase of 1.0% from $3.97 billion in 2011.

Net realized capital gains were $327 million in 2012 compared to $503 million in 2011.

INVESTMENTS

Overview and strategy The return on our investment portfolios is an important component of our financial results. Investment portfolios are segmented between the Property-Liability, Allstate Financial and Corporate and Other operations. While taking into consideration the investment portfolio in aggregate, we manage the underlying portfolios based upon the nature of each respective business and its corresponding liability structure.

We employ a strategic asset allocation approach which considers the nature of the liabilities and risk tolerances, as well as the risk and return parameters of the various asset classes in which we invest. This asset allocation is informed by our global economic and market outlook, as well as other inputs and constraints, including diversification effects,

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duration, liquidity and capital considerations. Within the ranges set by the strategic asset allocation, tactical investment decisions are made in consideration of prevailing market conditions. We manage risks associated with interest rates, credit spreads, equity markets, real estate and currency exchange rates. Our continuing focus is to manage risks and returns and to position our portfolio to take advantage of market opportunities while attempting to mitigate adverse effects.

The Property-Liability portfolio's investment strategy emphasizes protection of principal and consistent income generation, within a total return framework. This approach, which has produced competitive returns over the long term, is designed to ensure financial strength and stability for paying claims, while maximizing economic value and surplus growth.

The Allstate Financial portfolio's investment strategy focuses on the total return of assets needed to support the underlying liabilities, asset-liability management and achieving an appropriate return on capital.

The Corporate and Other portfolio's investment strategy balances the unique liquidity needs of the portfolio in relation to the overall corporate capital structure with the pursuit of returns.

Investments outlook

We anticipate that interest rates may remain below historic averages for an extended period of time and that financial markets will continue to have periods of high volatility. Invested assets and income are expected to decline in line with reductions in contractholder funds for the Allstate Financial segment and as we continue to invest and reinvest proceeds at market yields that are below the current portfolio yield. We plan to focus on the following priorities:

- Optimizing return and risk in an uncertain economic climate and volatile investment markets.
- Reducing our exposure to interest rate risk by targeting a shorter maturity profile in the Property-Liability portfolio.
- Shifting the portfolio mix in the next few years to have less reliance on lending to borrowers and a greater proportion of ownership of assets including real estate and other cash-generating assets.
- Managing the alignment of assets with respect to Allstate Financial's changing liability profile.

Portfolio composition The composition of the investment portfolios as of December 31, 2012 is presented in the table below.

($ in millions)	Property-Liability [5]	Percent to total	Allstate Financial [5]	Percent to total	Corporate and Other [5]	Percent to total	Total	Percent to total
Fixed income securities [1]	$ 29,681	77.7%	$ 45,796	80.3%	$ 1,540	74.6%	$ 77,017	79.2%
Equity securities [2]	3,671	9.6	366	0.6			4,037	4.1
Mortgage loans	493	1.3	6,077	10.7			6,570	6.8
Limited partnership interests [3]	2,991	7.8	1,924	3.4	7	0.3	4,922	5.1
Short-term [4]	912	2.4	907	1.6	517	25.1	2,336	2.4
Other	467	1.2	1,929	3.4			2,396	2.4
Total	$ 38,215	100.0%	$ 56,999	100.0%	$ 2,064	100.0%	$ 97,278	100.0%

(1) Fixed income securities are carried at fair value. Amortized cost basis for these securities was $28.37 billion, $42.05 billion and $1.50 billion for Property-Liability, Allstate Financial and Corporate and Other, respectively.

(2)

Equity securities are carried at fair value. Cost basis for these securities was $3.25 billion and $327 million for Property-Liability and Allstate Financial, respectively.

(3)
We have commitments to invest in additional limited partnership interests totaling $1.13 billion and $947 million for Property-Liability and Allstate Financial, respectively.

(4)
Short-term investments are carried at fair value. Amortized cost basis for these investments was $912 million, $907 million and $517 million for Property-Liability, Allstate Financial and Corporate and Other, respectively.

(5)
Balances reflect the elimination of related party investments between segments.

Total investments increased to $97.28 billion as of December 31, 2012, from $95.62 billion as of December 31, 2011, primarily due to higher valuations of fixed income securities and positive Property-Liability operating cash flows, partially offset by net reductions in Allstate Financial's contractholder funds. Valuations of fixed income securities are typically driven by a combination of changes in relevant risk-free interest rates and credit spreads over the period. Risk-free interest rates are typically referenced as the yield on U.S. Treasury securities, whereas credit spread is the additional yield on fixed income securities above the risk-free rate that market participants require to compensate them

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for assuming credit, liquidity and/or prepayment risks. The increase in valuation of fixed income securities during 2012 was due to tightening credit spreads and decreasing risk-free interest rates.

The Property-Liability investment portfolio increased to $38.22 billion as of December 31, 2012, from $36.00 billion as of December 31, 2011, primarily due to higher valuations of fixed income securities and positive operating cash flows, partially offset by dividends paid by Allstate Insurance Company ("AIC") to its parent, The Allstate Corporation (the "Corporation").

The Allstate Financial investment portfolio decreased to $57.00 billion as of December 31, 2012, from $57.37 billion as of December 31, 2011, primarily due to net reductions in contractholder funds of $3.01 billion, partially offset by higher valuations of fixed income securities.

The Corporate and Other investment portfolio decreased to $2.06 billion as of December 31, 2012, from $2.25 billion as of December 31, 2011, primarily due to offsetting capital transactions.

During 2012, strategic actions focused on optimizing portfolio yield, return and risk considerations in the low interest rate environment. We increased our investment in intermediate corporate fixed income securities and reduced our investment in long-duration municipal and corporate bonds, shorter duration U.S. government and agencies and asset-backed securities ("ABS"), as well as equity securities. This positioning, coupled with an increase in bank loans, has reduced our exposure to interest rate risk in the Property-Liability investment portfolio. While the dispositions generated net realized capital gains, we expect a decline in investment income prospectively due to the lower yield on the reinvestment of proceeds. We opportunistically reduced our investment in structured securities, including residential mortgage-backed securities ("RMBS") and commercial mortgage-backed securities ("CMBS") and ARS, taking advantage of increased valuations and demand. We also increased our limited partnership interests, consistent with our strategy to have a greater proportion of ownership of assets.

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

($ in millions)	Fair value as of December 31, 2012	Percent to total investments	Fair value as of December 31, 2011	Percent to total investments
U.S. government and agencies	$ 4,713	4.9%	$ 6,315	6.6%
Municipal	13,069	13.5	14,241	14.9
Corporate	48,537	49.9	43,581	45.6
Foreign government	2,517	2.6	2,081	2.2
ABS	3,624	3.7	3,966	4.1
RMBS	3,032	3.1	4,121	4.3
CMBS	1,498	1.5	1,784	1.9
Redeemable preferred stock	27		24	
Total fixed income securities	$ 77,017	79.2%	$ 76,113	79.6%

As of December 31, 2012, 91.4% of the consolidated fixed income securities portfolio was rated investment grade, which is defined as a security having a rating of Aaa, Aa, A or Baa from Moody's, a rating of AAA, AA, A or BBB from S&P, Fitch, Dominion, Kroll or Realpoint, a rating of aaa, aa, a or bbb from A.M. Best, or a comparable internal rating if an externally provided rating is not available. All of our fixed income securities are rated by third party credit rating agencies, the National Association of Insurance Commissioners ("NAIC"), and/or are internally rated. Our initial investment decisions and ongoing monitoring procedures for fixed income securities are based on a thorough due diligence process which includes, but is not limited to, an assessment of the credit quality, sector, structure, and liquidity risks of each issue.

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The following table summarizes the fair value and unrealized net capital gains and losses for fixed income securities by credit rating as of December 31, 2012.

($ in millions)	Aaa		Aa		A	
	Fair value	Unrealized gain/(loss)	Fair value	Unrealized gain/(loss)	Fair value	Unrealized gain/(loss)
U.S. government and agencies	$ 4,713	$ 326	$	$	$	$
Municipal						
Tax exempt	1,343	43	3,852	201	1,929	132
Taxable	278	33	2,789	428	1,091	142
ARS	186	(15)	146	(19)	23	(4)
Corporate						
Public	935	70	2,731	187	12,670	1,046
Privately placed	1,185	68	1,343	112	4,035	367
Foreign government	1,047	116	654	34	413	31
ABS						
Collateralized debt obligations ("CDO")	153	5	608	3	251	(25)
Consumer and other asset-backed securities ("Consumer and other ABS")	1,182	49	437	9	385	10
RMBS						
U.S. government sponsored entities ("U.S. Agency")	1,387	59				
Prime residential mortgage-backed securities ("Prime")	72	2	41	2	65	1
Alt-A residential mortgage-backed securities ("Alt-A")	4		1		25	1
Subprime residential mortgage-backed securities ("Subprime")			24	(1)	18	
CMBS	802	40	100	3	155	5
Redeemable preferred stock						
Total fixed income securities	$ 13,287	$ 796	$ 12,726	$ 959	$ 21,060	$ 1,706

	Baa		Ba or lower		Total	
	Fair value	Unrealized gain/(loss)	Fair value	Unrealized gain/(loss)	Fair value	Unrealized gain/(loss)
U.S. government and agencies	$	$	$	$	$ 4,713	$ 326
Municipal						
Tax exempt	626	30	288	(12)	8,038	394
Taxable	357	(7)	92	(12)	4,607	584
ARS	40	(8)	29	(2)	424	(48)
Corporate						
Public	14,506	1,149	3,212	165	34,054	2,617

Privately placed	6,549	395	1,371	35	14,483	977
Foreign government	403	46			2,517	227
ABS						
CDO	195	(28)	121	(26)	1,328	(71)
Consumer and other ABS	264	8	28	(4)	2,296	72
RMBS						
U.S. Agency					1,387	59
Prime	132	2	432	35	742	42
Alt-A	46	1	441	(3)	517	(1)
Subprime	9		335	(67)	386	(68)
CMBS	169	(4)	272	(56)	1,498	(12)
Redeemable preferred stock	26	4	1		27	4
Total fixed income securities	$ 23,322	$ 1,588	$ 6,622	$ 53	$ 77,017	$ 5,102

Municipal bonds, including tax exempt, taxable and ARS securities, totaled $13.07 billion as of December 31, 2012 with an unrealized net capital gain of $930 million. The municipal bond portfolio includes general obligations of state and local issuers and revenue bonds (including pre-refunded bonds, which are bonds for which an irrevocable trust has been established to fund the remaining payments of principal and interest).

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The following table summarizes by state the fair value, amortized cost and credit rating of our municipal bonds, excluding $938 million of pre-refunded bonds, as of December 31, 2012.

($ in millions) State	State general obligation	Local general obligation	Revenue (1)	Fair value	Amortized cost	Average credit rating
Texas	$ 32	$ 385	$ 571	$ 988	$ 890	Aa
California	88	452	446	986	905	A
Florida	135	134	522	791	744	Aa
New York	27	102	590	719	674	Aa
Pennsylvania	110	89	275	474	458	Aa
Missouri	65	127	260	452	423	A
Michigan	64	96	283	443	410	Aa
Ohio	99	159	170	428	388	Aa
Illinois		115	286	401	353	A
Washington	26	50	271	347	322	Aa
All others	1,164	1,461	3,477	6,102	5,707	Aa
Total	$ 1,810	$ 3,170	$ 7,151	$ 12,131	$ 11,274	Aa

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

Our practice for acquiring and monitoring municipal bonds is predominantly based on the underlying credit quality of the primary obligor. We currently rely on the primary obligor to pay all contractual cash flows and are not relying on bond insurers for payments. As a result of downgrades in the insurers' credit ratings, the ratings of the insured municipal bonds generally reflect the underlying ratings of the primary obligor. As of December 31, 2012, 99.6% of our insured municipal bond portfolio is rated investment grade.

ARS totaled $424 million as of December 31, 2012 with an unrealized net capital loss of $48 million. Our holdings primarily have a credit rating of Aaa and Aa. As of December 31, 2012, our ARS backed by student loans portfolio of $394 million was 76% to 100% insured by the U.S. Department of Education. All of our ARS holdings are experiencing failed auctions and we receive the failed auction rate or, for those which contain maximum reset rate formulas, we receive the contractual maximum rate. We anticipate that failed auctions may persist and most of our holdings will continue to pay the failed auction rate or, for those that contain maximum rate reset formulas, the maximum rate. Auctions continue to be conducted as scheduled for each of the securities.

Corporate bonds, including publicly traded and privately placed, totaled $48.54 billion as of December 31, 2012, with an unrealized net capital gain of $3.59 billion. Privately placed securities primarily consist of corporate issued senior debt securities that are directly negotiated with the borrower or are in unregistered form.

Our $14.48 billion portfolio of privately placed securities is broadly diversified by issuer, industry sector and country. The portfolio is made up of 518 issuers. Privately placed corporate obligations contain structural security features such as financial covenants and call protections that provide investors greater protection against credit deterioration, reinvestment risk or fluctuations in interest rates than those typically found in publicly registered debt securities. Additionally, investments in these securities are made after extensive due diligence of the issuer, typically including direct discussions with senior management and on-site visits to company facilities. Ongoing monitoring includes direct periodic dialog with senior management of the issuer and continuous monitoring of operating performance and financial position. Every issue not rated by an independent rating agency is internally rated with a formal rating affirmation at least once a year.

Foreign government securities totaled $2.52 billion as of December 31, 2012, with 100% rated investment grade and an unrealized net capital gain of $227 million. Of these securities, 55.0% are in Canadian governmental and provincial securities, 35.4% of which are held by our Canadian companies, 16.2% are backed by the U.S. government and the remaining 28.8% are highly diversified in other foreign governments.

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

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

ABS, including CDO and Consumer and other ABS, totaled $3.62 billion as of December 31, 2012, with 95.9% rated investment grade and an unrealized net capital gain of $1 million. Credit risk is managed by monitoring the performance of the underlying collateral. Many of the securities in the ABS portfolio have credit enhancement with features such as overcollateralization, subordinated structures, reserve funds, guarantees and/or insurance.

CDO totaled $1.33 billion as of December 31, 2012, with 90.9% rated investment grade. CDO consist primarily of obligations collateralized by high yield and investment grade corporate credits including $1.14 billion of cash flow collateralized loan obligations ("CLO") with unrealized net capital losses of $22 million. Cash flow CLO are structures collateralized primarily by below investment grade senior secured corporate loans. The underlying collateral is generally actively managed by external managers that monitor the collateral's performance and is well diversified across industries and among issuers. The remaining $188 million of securities consisted of project finance CDO, market value CDO and trust preferred CDO with unrealized net capital losses of $49 million.

Consumer and other ABS totaled $2.30 billion as of December 31, 2012, with 98.8% rated investment grade. Consumer and other ABS consists of $486 million of consumer auto and $1.81 billion of other ABS with unrealized net capital gains of $9 million and $63 million, respectively.

RMBS, including U.S. Agency, Prime, Alt-A and Subprime, totaled $3.03 billion as of December 31, 2012, with 60.2% rated investment grade and an unrealized net capital gain of $32 million. The RMBS portfolio is subject to interest rate risk, but unlike other fixed income securities, is additionally subject to significant prepayment risk from the underlying residential mortgage loans. The credit risk associated with the U.S. Agency portfolio is mitigated because they were issued by or have underlying collateral guaranteed by U.S. government agencies. Prime are collateralized by residential mortgage loans issued to prime borrowers. Alt-A includes securities collateralized by residential mortgage loans issued to borrowers who do not qualify for prime financing terms due to high loan-to-value ratios or limited supporting documentation, but have stronger credit profiles than subprime borrowers. Subprime includes securities collateralized by residential mortgage loans issued to borrowers that cannot qualify for Prime or Alt-A financing terms due in part to weak or limited credit history. It also includes securities that are collateralized by certain second lien mortgages regardless of the borrower's credit history. The Subprime portfolio consisted of $264 million and $122 million of first lien and second lien securities, respectively. The Subprime portfolio unrealized net capital loss of $68 million as of December 31, 2012 was the result of wider credit spreads than at initial purchase. Wider spreads are largely due to the risk associated with the underlying collateral supporting certain Subprime securities.

CMBS totaled $1.50 billion as of December 31, 2012, with 81.8% rated investment grade and an unrealized net capital loss of $12 million. The CMBS portfolio is subject to credit risk and has a sequential paydown structure, but unlike certain other structured securities, is generally not subject to prepayment risk due to protections within the underlying commercial mortgage loans. Of the CMBS investments, 91.7% are traditional conduit transactions collateralized by commercial mortgage loans, broadly diversified across property types and geographical area. The remainder consists of non-traditional CMBS such as small balance transactions, large loan pools and single borrower transactions.

Equity securities Equity securities primarily include common stocks, exchange traded and mutual funds, non-redeemable preferred stocks and real estate investment trust equity investments. The equity securities portfolio was $4.04 billion as of December 31, 2012 compared to $4.36 billion as of December 31, 2011. The unrealized net capital gain totaled $460 million as of December 31, 2012 compared to $160 million as of December 31, 2011.

Mortgage loans Our mortgage loan portfolio, which is primarily held in the Allstate Financial portfolio, totaled $6.57 billion as of December 31, 2012, compared to $7.14 billion as of December 31, 2011, and primarily comprises loans secured by first mortgages on developed commercial real estate. Key considerations used to manage our exposure include property type and geographic diversification. For further detail on our mortgage loan portfolio, see Note 5 of the consolidated financial statements.

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Limited partnership interests consist of investments in private equity/debt funds, real estate funds, hedge funds and tax credit funds. The limited partnership interests portfolio is well diversified across a number of characteristics including fund managers, vintage years, strategies, geography (including international), and company/property types. The following table presents information about our limited partnership interests as of December 31, 2012.

($ in millions)	Private equity/debt funds	Real estate funds	Hedge funds	Tax credit funds	Total
Cost method of accounting ("Cost")	$ 912	$ 448	$ 46	$	$ 1,406
Equity method of accounting ("EMA")	1,439	1,115	293	669	3,516
Total	$ 2,351 [1]	$ 1,563	$ 339	$ 669	$ 4,922
Number of managers	98	45	14	11	
Number of individual funds	165	96	38	21	
Largest exposure to single fund	$ 123	$ 224	$ 83	$ 56	

(1) Includes $479 million of infrastructure and real asset funds.

The following table shows the earnings from our limited partnership interests by fund type and accounting classification for the years ended December 31.

($ in millions)	2012				2011			
	Cost	EMA (1)	Total income	Impairment write-downs	Cost	EMA (1)	Total income	Impairment write-downs
Private equity/debt funds	$ 94	$ 152	$ 246	$ (2)	$ 77	$ 72	$ 149	$ (3)
Real estate funds	17	106	123	(4)	12	86	98	(3)
Hedge funds		7	7	(2)		12	12	
Tax credit funds		(28)	(28)		(1)	(11)	(12)	
Total	$ 111	$ 237	$ 348	$ (8)	$ 88	$ 159	$ 247	$ (6)

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

Limited partnership interests produced income, excluding impairment write-downs, of $348 million in 2012 compared to $247 million in 2011. Income on EMA limited partnerships is recognized on a delay due to the availability of the related financial statements. The recognition of income on hedge funds is primarily on a one-month delay and the income recognition on private equity/debt funds, real estate funds and tax credit funds are generally on a three-month delay. Income on cost method limited partnerships is recognized only upon receipt of amounts distributed by the partnerships.

Short-term investments Our short-term investment portfolio was $2.34 billion and $1.29 billion as of December 31, 2012 and 2011, respectively.

Other investments Our other investments as of December 31, 2012 primarily comprise $1.14 billion of policy loans, $682 million of bank loans, $319 million of agent loans and $133 million of certain derivatives. For further detail on our use of derivatives, see Note 7 of the consolidated financial statements.

Unrealized net capital gains totaled $5.55 billion as of December 31, 2012 compared to $2.88 billion as of December 31, 2011. The increase for fixed income securities was due to tightening credit spreads and decreasing

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risk-free interest rates. The increase for equity securities was primarily due to positive returns in the equity markets. The following table presents unrealized net capital gains and losses as of December 31.

($ in millions)	2012	2011
U.S. government and agencies	$ 326	$ 349
Municipal	930	607
Corporate	3,594	2,364
Foreign government	227	215
ABS	1	(214)
RMBS	32	(411)
CMBS	(12)	(178)
Redeemable preferred stock	4	2
Fixed income securities	5,102	2,734
Equity securities	460	160
EMA limited partnerships	7	2
Derivatives	(22)	(17)
Unrealized net capital gains and losses, pre-tax	$ 5,547	$ 2,879

The unrealized net capital gains for the fixed income portfolio totaled $5.10 billion and comprised $5.63 billion of gross unrealized gains and $530 million of gross unrealized losses as of December 31, 2012. This is compared to unrealized net capital gains for the fixed income portfolio totaling $2.73 billion, comprised of $4.40 billion of gross unrealized gains and $1.67 billion of gross unrealized losses as of December 31, 2011. Unrealized capital gains and losses may decrease or increase as risk-free interest rates increase or decrease in the future.

Gross unrealized gains and losses on fixed income securities by type and sector as of December 31, 2012 are provided in the table below.

($ in millions)	Amortized cost	Gross unrealized Gains	Gross unrealized Losses	Fair value
Corporate:				
Banking	$ 3,707	$ 195	$ (55)	$ 3,847
Utilities	7,792	879	(17)	8,654
Capital goods	5,281	424	(15)	5,690
Financial services	3,436	257	(10)	3,683
Consumer goods (cyclical and non-cyclical)	9,960	758	(11)	10,707
Transportation	1,960	203	(8)	2,155
Technology	2,355	147	(4)	2,498
Basic industry	2,626	191	(3)	2,814
Energy	3,993	338	(1)	4,330
Communications	2,931	253	(1)	3,183
Other	902	76	(2)	976
Total corporate fixed income portfolio	44,943	3,721	(127)	48,537
U.S. government and agencies	4,387	326		4,713
Municipal	12,139	1,038	(108)	13,069
Foreign government	2,290	228	(1)	2,517
ABS	3,623	108	(107)	3,624
RMBS	3,000	142	(110)	3,032
CMBS	1,510	65	(77)	1,498
Redeemable preferred stock	23	4		27
Total fixed income securities	$ 71,915	$ 5,632	$ (530)	$ 77,017

The banking, utilities and capital goods sectors had the highest concentration of gross unrealized losses in our corporate fixed income securities portfolio as of December 31, 2012. In general, credit spreads remain wider than at initial purchase for most of the securities with gross

unrealized losses in these categories.

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The unrealized net capital gain for the equity portfolio totaled $460 million and comprised $494 million of gross unrealized gains and $34 million of gross unrealized losses as of December 31, 2012. This is compared to an unrealized net capital gain for the equity portfolio totaling $160 million, comprised of $369 million of gross unrealized gains and $209 million of gross unrealized losses as of December 31, 2011.

Gross unrealized gains and losses on equity securities by sector as of December 31, 2012 are provided in the table below.

		Gross unrealized		
($ in millions)	**Cost**	**Gains**	**Losses**	**Fair value**
Energy	$ 194	$ 27	$ (7)	$ 214
Consumer goods (cyclical and non-cyclical)	643	117	(5)	755
Technology	213	44	(5)	252
Basic industry	138	30	(5)	163
Financial services	183	35	(3)	215
Capital goods	160	31	(2)	189
Utilities	76	7	(2)	81
Index-based funds	403	46	(1)	448
Banking	143	27	(1)	169
Communications	110	25	(1)	134
Real estate	102	19	(1)	120
Transportation	42	12	(1)	53
Emerging market fixed income funds	753	55		808
Emerging market equity funds	417	19		436
Total equity securities	$ 3,577	$ 494	$ (34)	$ 4,037

Within the equity portfolio, the losses were primarily concentrated in the energy, consumer goods, technology and basic industry sectors. The unrealized losses were company and sector specific. As of December 31, 2012, we have the intent and ability to hold our equity securities with unrealized losses until recovery.

As of December 31, 2012, the total fair value of our direct investments in fixed income and equity securities in the Eurozone (European Union member states using the Euro currency) is $1.48 billion, with net unrealized capital gains of $62 million, comprised of $83 million of gross unrealized gains and $21 million of gross unrealized losses. The following table summarizes our total direct exposure related to the Eurozone and the "GIIPS" group of countries, including Greece, Ireland, Italy, Portugal and Spain. As of December 31, 2012, we do not have any direct exposure to Greece. We have no sovereign debt investments in the Eurozone.

	Financials [1]		**Non-financials [2]**		**Total**	
($ in millions)	**Fair value**	**Gross unrealized losses**	**Fair value**	**Gross unrealized losses**	**Fair value**	**Gross unrealized losses**
GIIPS						
Fixed income securities	$ 25	$ (7)	$ 365	$ (9)	$ 390	$ (16)
Equity securities	1				1	
Total	26	(7)	365	(9)	391	(16)
Eurozone non-GIIPS						
Fixed income securities	165	(4)	921	(1)	1,086	(5)
Equity securities	2		3		5	
Total	167	(4)	924	(1)	1,091	(5)
Total Eurozone	$ 193	$ (11)	$ 1,289	$ (10)	$ 1,482	$ (21)

(1) Financials primarily includes banking and financial services.

(2) Non-financials primarily includes energy, capital goods, consumer goods, communication, technology and basic industries.

Other direct exposure to investments in fixed income and equity securities in European Union ("EU") member states that do not use the Euro currency is $2.29 billion, with net unrealized capital gains of $183 million. Remaining

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direct exposure to non-EU countries total $885 million, with net unrealized capital gains of $78 million. The large majority of these investments are in multinational public companies with global revenue sources that are well diversified across region and sector, including a higher allocation to energy, capital goods, non-cyclical consumer goods and communications sectors. We also have additional indirect and diversified exposures through investments in multinational equity funds and limited partnership interests that invest in Europe. We estimate these indirect exposures do not exceed 1% of total investments.

Net investment income The following table presents net investment income for the years ended December 31.

($ in millions)	2012	2011	2010
Fixed income securities	$ 3,234	$ 3,484	$ 3,737
Equity securities	127	122	90
Mortgage loans	374	359	385
Limited partnership interests [(1)]	348	88	40
Short-term investments	6	6	8
Other	132	95	19
Investment income, before expense	4,221	4,154	4,279
Investment expense	(211)	(183)	(177)
Net investment income	$ 4,010	$ 3,971	$ 4,102

(1) Income from EMA limited partnerships is reported in net investment income in 2012 and realized capital gains and losses in 2011 and 2010.

Net investment income increased 1.0% or $39 million in 2012 compared to 2011, after decreasing 3.2% or $131 million in 2011 compared to 2010. The 2012 increase was primarily due to income from limited partnerships, partially offset by lower average investment balances and lower fixed income yields. The 2011 decline was primarily due to lower average investment balances, partially offset by higher yields.

Realized capital gains and losses The following table presents the components of realized capital gains and losses and the related tax effect for the years ended December 31.

($ in millions)	2012	2011	2010
Impairment write-downs	$ (185)	$ (496)	$ (797)
Change in intent write-downs	(48)	(100)	(204)
Net other-than-temporary impairment losses recognized in earnings	(233)	(596)	(1,001)
Sales	536	1,336	686
Valuation of derivative instruments	(11)	(291)	(427)
Settlements of derivative instruments	35	(105)	(174)
EMA limited partnership income [(1)]		159	89
Realized capital gains and losses, pre-tax	327	503	(827)
Income tax (expense) benefit	(111)	(179)	290
Realized capital gains and losses, after-tax	$ 216	$ 324	$ (537)

(1) Income from EMA limited partnerships is reported in net investment income in 2012 and realized capital gains and losses in 2011 and 2010.

Impairment write-downs for the years ended December 31 are presented in the following table.

($ in millions)	**2012**	**2011**	**2010**
Fixed income securities	$ (108)	$ (302)	$ (626)
Equity securities	(63)	(131)	(57)
Mortgage loans	5	(37)	(65)
Limited partnership interests	(8)	(6)	(46)
Other investments	(11)	(20)	(3)
Impairment write-downs	$ (185)	$ (496)	$ (797)

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Impairment write-downs on fixed income securities in 2012 were primarily driven by RMBS and CMBS that experienced deterioration in expected cash flows and municipal and corporate fixed income securities impacted by issuer specific circumstances. Equity securities were written down primarily due to the length of time and extent to which fair value was below cost, considering our assessment of the financial condition and near-term and long-term prospects of the issuer, including relevant industry conditions and trends.

Impairment write-downs in 2011 were primarily driven by RMBS, which experienced deterioration in expected cash flows; investments with commercial real estate exposure, including CMBS, mortgage loans and municipal bonds, which were impacted by lower real estate valuations or experienced deterioration in expected cash flows; and corporate fixed income securities impacted by issuer specific circumstances.

Change in intent write-downs were $48 million, $100 million and $204 million in 2012, 2011 and 2010, respectively. The change in intent write-downs in 2012 were primarily a result of ongoing comprehensive reviews of our portfolios resulting in write-downs of individually identified investments, primarily RMBS and equity securities. The change in intent write-downs in 2011 were primarily a result of ongoing comprehensive reviews of our portfolios resulting in write-downs of individually identified investments, primarily lower yielding, floating rate RMBS and municipal bonds, and equity securities.

Sales generated $536 million, $1.34 billion and $686 million of net realized gains in 2012, 2011 and 2010, respectively. The sales in 2012 primarily related to corporate, municipal and U.S. government and agencies fixed income securities and equity securities in connection with portfolio repositioning. The sales in 2011 were primarily due to $1.11 billion of net gains on sales of corporate, foreign government, U.S. government, ABS, U.S. Agency and municipal fixed income securities and $202 million of net gains on sales of equity securities.

Valuation and settlements of derivative instruments net realized capital gains totaling $24 million in 2012 included $11 million of losses on the valuation of derivative instruments and $35 million of gains on the settlements of derivative instruments. The net realized capital gains on derivative instruments in 2012 primarily included gains on credit default swaps due to the tightening of credit spreads on the underlying credit names. In 2011, net realized capital losses on the valuation and settlements of derivative instruments totaled $396 million, including $291 million of losses on the valuation of derivative instruments and $105 million of losses on the settlements of derivative instruments. The net realized capital losses on derivative instruments in 2011 primarily included losses on interest rate risk management due to decreases in interest rates. As a component of our approach to managing interest rate risk, realized gains and losses on certain derivative instruments are most appropriately considered in conjunction with the unrealized gains and losses on the fixed income portfolio. This approach mitigates the impacts of general interest rate changes to our overall financial condition.

MARKET RISK

Market risk is the risk that we will incur losses due to adverse changes in interest rates, credit spreads, equity prices or currency exchange rates. Adverse changes to these rates and prices may occur due to changes in fiscal policy, the economic climate, the liquidity of a market or market segment, insolvency or financial distress of key market makers or participants or changes in market perceptions of credit worthiness and/or risk tolerance. Our primary market risk exposures are to changes in interest rates, credit spreads and equity prices.

The active management of market risk is integral to our results of operations. We may use the following approaches to manage exposure to market risk within defined tolerance ranges: 1) rebalancing existing asset or liability portfolios, 2) changing the type of investments purchased in the future and 3) using derivative instruments to modify the market risk characteristics of existing assets and liabilities or assets expected to be purchased. For a more detailed discussion of our use of derivative financial instruments, see Note 7 of the consolidated financial statements.

Overview In formulating and implementing guidelines for investing funds, we seek to earn returns that enhance our ability to offer competitive rates and prices to customers while contributing to attractive and stable profits and long-term capital growth. Accordingly, our investment decisions and objectives are a function of the underlying risks and product profiles of each business.

Investment policies define the overall framework for managing market and other investment risks, including accountability and controls over risk management activities. Subsidiaries that conduct investment activities follow policies that have been approved by their respective boards of directors. These investment policies specify the investment limits and strategies that are appropriate given the liquidity, surplus, product profile and regulatory requirements of the subsidiary. Executive oversight of investment activities is conducted primarily through subsidiaries' boards of directors and investment committees. For Allstate Financial, its asset-liability management ("ALM") policies

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further define the overall framework for managing market and investment risks. ALM focuses on strategies to enhance yields, mitigate market risks and optimize capital to improve profitability and returns for Allstate Financial. Allstate Financial ALM activities follow asset-liability policies that have been approved by their respective boards of directors. These ALM policies specify limits, ranges and/or targets for investments that best meet Allstate Financial's business objectives in light of its product liabilities.

We use quantitative and qualitative market-based approaches to measure, monitor and manage market risk. We evaluate our exposure to market risk through the use of multiple measures including but not limited to duration, value-at-risk, scenario analysis and sensitivity analysis. Duration measures the price sensitivity of assets and liabilities to changes in interest rates. For example, if interest rates increase 100 basis points, the fair value of an asset with a duration of 5 is expected to decrease in value by 5%. Value-at-risk is a statistical estimate of the probability that the change in fair value of a portfolio will exceed a certain amount over a given time horizon. Scenario analysis estimates the potential changes in the fair value of a portfolio that could occur under different hypothetical market conditions defined by changes to multiple market risk factors: interest rates, credit spreads, equity prices or currency exchange rates. Sensitivity analysis estimates the potential changes in the fair value of a portfolio that could occur under different hypothetical shocks to a market risk factor. In general, we establish investment portfolio asset allocation and market risk limits for the Property-Liability and Allstate Financial businesses based upon a combination of duration, value-at-risk, scenario analysis and sensitivity analysis. The asset allocation limits place restrictions on the total funds that may be invested within an asset class. Comprehensive day-to-day management of market risk within defined tolerance ranges occurs as portfolio managers buy and sell within their respective markets based upon the acceptable boundaries established by investment policies. For Allstate Financial, this day-to-day management is integrated with and informed by the activities of the ALM organization. This integration is intended to result in a prudent, methodical and effective adjudication of market risk and return, conditioned by the unique demands and dynamics of Allstate Financial's product liabilities and supported by the continuous application of advanced risk technology and analytics.

Although we apply a similar overall philosophy to market risk, the underlying business frameworks and the accounting and regulatory environments differ considerably between the Property-Liability and Allstate Financial businesses affecting investment decisions and risk parameters.

Interest rate risk is the risk that we will incur a loss due to adverse changes in interest rates relative to the characteristics of our interest bearing assets and liabilities. This risk arises from many of our primary activities, as we invest substantial funds in interest-sensitive assets and issue interest-sensitive liabilities. Interest rate risk includes risks related to changes in U.S. Treasury yields and other key risk-free reference yields.

We manage the interest rate risk in our assets relative to the interest rate risk in our liabilities. One of the measures used to quantify this exposure is duration. The difference in the duration of our assets relative to our liabilities is our duration gap. To calculate the duration gap between assets and liabilities, we project asset and liability cash flows and calculate their net present value using a risk-free market interest rate adjusted for credit quality, sector attributes, liquidity and other specific risks. Duration is calculated by revaluing these cash flows at alternative interest rates and determining the percentage change in aggregate fair value. The cash flows used in this calculation include the expected maturity and repricing characteristics of our derivative financial instruments, all other financial instruments, and certain other items including unearned premiums, property-liability insurance claims and claims expense reserves, annuity liabilities and other interest-sensitive liabilities. The projections include assumptions (based upon historical market experience and our experience) that reflect the effect of changing interest rates on the prepayment, lapse, leverage and/or option features of instruments, where applicable. The preceding assumptions relate primarily to mortgage-backed securities, municipal housing bonds, callable municipal and corporate obligations, and fixed rate single and flexible premium deferred annuities. Additionally, the calculations include assumptions regarding the renewal of property-liability policies.

As of December 31, 2012, the difference between our asset and liability duration was a (0.23) gap, compared to a 0.14 gap as of December 31, 2011. A negative duration gap indicates that the fair value of our liabilities is more sensitive to interest rate movements than the fair value of our assets, while a positive duration gap indicates that the fair value of our assets is more sensitive to interest rate movements than the fair value of our liabilities. The Property-Liability segment generally maintains a positive duration gap between its assets and liabilities due to the relatively short duration of auto and homeowners claims, which are its primary liabilities. The Allstate Financial segment may have a positive or negative duration gap, as the duration of its assets and liabilities vary with its product mix and investing activity. As of December 31, 2012, Property-Liability had a positive duration gap while Allstate Financial had a negative duration gap.

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In the management of investments supporting the Property-Liability business, we adhere to an objective of emphasizing safety of principal and consistency of income within a total return framework. This approach is designed to ensure our financial strength and stability for paying claims, while maximizing economic value and surplus growth.

For the Allstate Financial business, we seek to invest premiums, contract charges and deposits to generate future cash flows that will fund future claims, benefits and expenses, and that will earn stable returns across a wide variety of interest rate and economic scenarios. To achieve this objective and limit interest rate risk for Allstate Financial, we adhere to a philosophy of managing the duration of assets and related liabilities within predetermined tolerance levels. This philosophy is executed using duration targets for fixed income investments in addition to interest rate swaps, futures, forwards, caps, floors and swaptions to reduce the interest rate risk resulting from mismatches between existing assets and liabilities, and financial futures and other derivative instruments to hedge the interest rate risk of anticipated purchases and sales of investments and product sales to customers.

Based upon the information and assumptions used in the duration calculation, and interest rates in effect as of December 31, 2012, we estimate that a 100 basis point immediate, parallel increase in interest rates ("rate shock") would increase the net fair value of the assets and liabilities by $211 million, compared to a decrease of $127 million as of December 31, 2011, reflecting year to year changes in duration. Reflected in the duration calculation are the effects of a program that uses swaps, eurodollar futures, options on Treasury futures and interest rate swaptions to manage interest rate risk. In calculating the impact of a 100 basis point increase on the value of the derivatives, we have assumed interest rate volatility remains constant. Based on the swaps, eurodollar futures, options on Treasury futures and interest rate swaptions in place as of December 31, 2012, we would recognize realized capital losses totaling $2 million in the event of a 100 basis point immediate, parallel interest rate increase and $2 million in realized capital gains in the event of a 100 basis point immediate, parallel interest rate decrease on these derivatives. The selection of a 100 basis point immediate, parallel change in interest rates should not be construed as our prediction of future market events, but only as an illustration of the potential effect of such an event. The above estimate excludes the traditional and interest-sensitive life insurance products that are not considered financial instruments and the $12.04 billion of assets supporting them and the associated liabilities. The $12.04 billion of assets excluded from the calculation has increased from $10.49 billion as of December 31, 2011, due to an increase in interest-sensitive life contractholder funds and improved fixed income valuations as a result of declining risk-free interest rates and tightening of credit spreads in certain sectors. Based on assumptions described above, in the event of a 100 basis point immediate increase in interest rates, the assets supporting life insurance products would decrease in value by $737 million, compared to a decrease of $660 million as of December 31, 2011.

To the extent that conditions differ from the assumptions we used in these calculations, duration and rate shock measures could be significantly impacted. Additionally, our calculations assume that the current relationship between short-term and long-term interest rates (the term structure of interest rates) will remain constant over time. As a result, these calculations may not fully capture the effect of non-parallel changes in the term structure of interest rates and/or large changes in interest rates.

Credit spread risk is the risk that we will incur a loss due to adverse changes in credit spreads ("spreads"). This risk arises from many of our primary activities, as we invest substantial funds in spread-sensitive fixed income assets.

We manage the spread risk in our assets. One of the measures used to quantify this exposure is spread duration. Spread duration measures the price sensitivity of the assets to changes in spreads. For example, if spreads increase 100 basis points, the fair value of an asset exhibiting a spread duration of 5 is expected to decrease in value by 5%.

Spread duration is calculated similarly to interest rate duration. As of December 31, 2012, the spread duration of Property-Liability assets was 4.04, compared to 4.77 as of December 31, 2011, and the spread duration of Allstate Financial assets was 5.85, compared to 5.58 as of December 31, 2011. Based upon the information and assumptions we use in this spread duration calculation, and spreads in effect as of December 31, 2012, we estimate that a 100 basis point immediate, parallel increase in spreads across all asset classes, industry sectors and credit ratings ("spread shock") would decrease the net fair value of the assets by $4.04 billion, compared to $4.10 billion as of December 31, 2011. Reflected in the duration calculation are the effects of our tactical actions that use credit default swaps to manage spread risk. The selection of a 100 basis point immediate parallel change in spreads should not be construed as our prediction of future market events, but only as an illustration of the potential effect of such an event.

Equity price risk is the risk that we will incur losses due to adverse changes in the general levels of the equity markets. As of December 31, 2012, we held $3.99 billion in common stocks and exchange traded and mutual funds and $4.97 billion in other securities with equity risk (including primarily limited partnership interests, non-redeemable preferred securities and equity-linked notes), compared to $4.26 billion and $4.82 billion, respectively, as of

December 31, 2011. 90.8% and 60.2% of these totals, respectively, represented assets of the Property-Liability operations as of December 31, 2012, compared to 95.7% and 63.3%, respectively, as of December 31, 2011.

As of December 31, 2012, our portfolio of common stocks and other securities with equity risk had a cash market portfolio beta of 0.86, compared to a beta of 0.72 as of December 31, 2011. Beta represents a widely used methodology to describe, quantitatively, an investment's market risk characteristics relative to an index such as the Standard & Poor's 500 Composite Price Index ("S&P 500"). Based on the beta analysis, we estimate that if the S&P 500 increases or decreases by 10%, the fair value of our equity investments will increase or decrease by 8.6%, respectively. Based upon the information and assumptions we used to calculate beta as of December 31, 2012, we estimate that an immediate decrease in the S&P 500 of 10% would decrease the net fair value of our equity investments identified above by $766 million, compared to $652 million as of December 31, 2011, and an immediate increase in the S&P 500 of 10% would increase the net fair value by $766 million compared to $654 million as of December 31, 2011. The selection of a 10% immediate decrease or increase in the S&P 500 should not be construed as our prediction of future market events, but only as an illustration of the potential effect of such an event.

The beta of our common stocks and other securities with equity risk was determined by calculating the change in the fair value of the portfolio resulting from stressing the equity market up and down 10%. The illustrations noted above may not reflect our actual experience if the future composition of the portfolio (hence its beta) and correlation relationships differ from the historical relationships.

As of December 31, 2012 and 2011, we had separate accounts assets related to variable annuity and variable life contracts with account values totaling $6.61 billion and $6.98 billion, respectively. Equity risk exists for contract charges based on separate account balances and guarantees for death and/or income benefits provided by our variable products. In 2006, we disposed of substantially all of the variable annuity business through reinsurance agreements with The Prudential Insurance Company of America, a subsidiary of Prudential Financial Inc. and therefore mitigated this aspect of our risk. Equity risk for our variable life business relates to contract charges and policyholder benefits. Total variable life contract charges for 2012 and 2011 were $71 million and $76 million, respectively. Separate account liabilities related to variable life contracts were $767 million and $716 million in December 31, 2012 and 2011, respectively.

As of December 31, 2012 and 2011 we had $3.63 billion and $3.87 billion, respectively, in equity-indexed annuity liabilities that provide customers with interest crediting rates based on the performance of the S&P 500. We hedge the majority of the risk associated with these liabilities using equity-indexed options and futures and eurodollar futures, maintaining risk within specified value-at-risk limits.

Foreign currency exchange rate risk is the risk that we will incur economic losses due to adverse changes in foreign currency exchange rates. This risk primarily arises from our foreign equity investments, including real estate funds and private equity funds, and our Canadian and Northern Ireland operations. We also have investments in certain fixed income securities and emerging market fixed income funds that are denominated in foreign currencies; however, derivatives are used to hedge approximately 28% of this foreign currency risk.

As of December 31, 2012, we had $1.11 billion in foreign currency denominated equity investments, $858 million net investment in our foreign subsidiaries, and $548 million in unhedged non-dollar pay fixed income securities. These amounts were $1.24 billion, $786 million, and $363 million, respectively, as of December 31, 2011. 78.9% of the foreign currency exposure is in the Property-Liability business.

Based upon the information and assumptions used as of December 31, 2012, we estimate that a 10% immediate unfavorable change in each of the foreign currency exchange rates to which we are exposed would decrease the value of our foreign currency denominated instruments by $264 million, compared with an estimated $225 million decrease as of December 31, 2011. The selection of a 10% immediate decrease in all currency exchange rates should not be construed as our prediction of future market events, but only as an illustration of the potential effect of such an event.

The modeling technique we use to report our currency exposure does not take into account correlation among foreign currency exchange rates. Even though we believe it is very unlikely that all of the foreign currency exchange rates that we are exposed to would simultaneously decrease by 10%, we nonetheless stress test our portfolio under this and other hypothetical extreme adverse market scenarios. Our actual experience may differ from these results because of assumptions we have used or because significant liquidity and market events could occur that we did not foresee.

PENSION PLANS

We have defined benefit pension plans, which cover most full-time, certain part-time employees and employee-agents. See Note 17 of the consolidated financial statements for a complete discussion of these plans and their effect on

the consolidated financial statements. The pension and other postretirement plans may be amended or terminated at any time. Any revisions could result in significant changes to our obligations and our obligation to fund the plans.

We report unrecognized pension and other postretirement benefit cost in the Consolidated Statements of Financial Position as a component of accumulated other comprehensive income in shareholders' equity. It represents the after-tax differences between the fair value of plan assets and the projected benefit obligation ("PBO") for pension plans and the accumulated postretirement benefit obligation for other postretirement plans that have not yet been recognized as a component of net periodic cost. The measurement of the unrecognized pension and other postretirement benefit cost can vary based upon the fluctuations in the fair value of plan assets and the actuarial assumptions used for the plans as discussed below. The unrecognized pension and other postretirement benefit cost as of December 31, 2012 was $1.73 billion, an increase of $302 million from $1.43 billion as of December 31, 2011. The increase was the result of updated actuarial assumptions primarily the discount rates. As of December 31, 2012, $1.88 billion related to pension benefits and $(150) million related to other postretirement benefits.

The components of net periodic pension cost for all pension plans for the years ended December 31 are as follows:

($ in millions)	2012	2011	2010
Service cost	$ 152	$ 151	$ 150
Interest cost	298	322	320
Expected return on plan assets	(393)	(367)	(331)
Amortization of:			
Prior service credit	(2)	(2)	(2)
Net actuarial loss	178	154	160
Settlement loss	33	46	48
Net periodic cost	$ 266	$ 304	$ 345

The service cost component is the actuarial present value of the benefits attributed by the plans benefit formula to services rendered by the employees during the period. Interest cost is the increase in the PBO in the period due to the passage of time at the discount rate. Interest cost fluctuates as the discount rate changes and is also impacted by the related change in the size of the PBO. The change in the PBO due to the change in the discount rate is deferred as a component of net actuarial loss. It is recorded in accumulated other comprehensive income as unrecognized pension benefit cost and may be amortized.

The expected return on plan assets is determined as the product of the expected long-term rate of return on plan assets and the adjusted fair value of plan assets, referred to as the market-related value of plan assets. To determine the market-related value, the fair value of plan assets is adjusted annually so that differences between changes in the fair value of equity securities and hedge fund limited partnerships and the expected long-term rate of return on these securities are recognized into the market-related value of plan assets over a five year period. We believe this is consistent with the long-term nature of pension obligations.

The difference between the actual return on plan assets and the expected return on plan assets is deferred as a component of net actuarial loss. It is recorded in accumulated other comprehensive income as unrecognized pension benefit cost and may be amortized. The market-related value adjustment represents the current difference between actual returns and expected returns on equity securities and hedge fund limited partnerships recognized over a five year period. The market-related value adjustment is a deferred net gain of $460 million as of December 31, 2012. The expected return on plan assets fluctuates when the market-related value of plan assets changes and when the expected long-term rate of return on plan assets assumption changes.

Amortization of net actuarial loss in pension cost is recorded when the net actuarial loss including the unamortized market-related value adjustment exceeds 10% of the greater of the PBO or the market-related value of plan assets. The amount of amortization is equal to the excess divided by the average remaining service period for active employees for each plan, which approximates 9 years for Allstate's largest plan. As a result, the effect of changes in the PBO due to changes in the discount rate and changes in the fair value of plan assets may be experienced in our net periodic pension cost in periods subsequent to those in which the fluctuations actually occur.

Net actuarial loss fluctuates as the discount rate fluctuates, as the actual return on plan assets differ from the expected long-term rate of return on plans assets, and as actual plan experience differs from other actuarial assumptions. Net actuarial loss related to changes in the discount rate will change when interest rates change and from amortization of net actuarial loss when there is an excess sufficient to qualify for amortization. Net actuarial loss related to changes in the fair value of plan assets will change when plan assets change in fair value and when there is an excess sufficient to qualify for amortization. Other net actuarial loss will change over time due to changes in other valuation assumptions and the plan participants or when there is an excess sufficient to qualify for amortization.

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The change in the discount rate increased the net actuarial loss by $806 million, $407 million, and $166 million in 2012, 2011 and 2010, respectively. The difference between actual and expected returns on plan assets (decreased) increased the net actuarial loss by $(201) million, $100 million, and $(164) million in 2012, 2011 and 2010, respectively.

Net periodic pension cost in 2013 is estimated to be $333 million based on current assumptions, including settlement charges. This represents an increase compared to $266 million in 2012 due to an increase in the amortization expense for prior years net actuarial losses (gain) which increased due to a lower discount rate used to value the pension plans. Net periodic pension cost decreased in 2012 compared to $304 million in 2011 primarily due to an increase in the expected return on plan assets, a lower discount rate used to value the pension plans and a decrease in settlement charges partially offset by increased amortization of net actuarial loss (gain). Net periodic pension cost decreased in 2011 compared to $345 million in 2010 primarily due to an increase in the expected return on plan assets. In 2012, 2011 and 2010, net pension cost included non-cash settlement charges primarily resulting from lump sum distributions made to agents. Settlement charges also occurred during 2012, 2011 and 2010 related to the Supplemental Retirement Income Plan as a result of lump sum payments made from the plan. Settlement charges are likely to continue for some period in the future as we settle our remaining agent pension obligations by making lump sum distributions to agents.

Since December 31, 2007, unrecognized pension benefit cost, pre-tax, has increased approximately $2 billion, approximately one third of which arose from asset returns differing from expected returns and approximately two thirds of which is related to changes in the discount rates which have been declining over this period. As of December 31, 2012, the discount rate had declined over the last five years from 6.5% to 4.0%, due to the decline in the weighted average yields of the investments that qualify for consideration to establish the assumption for the discount rate. Also, plan assets sustained net losses in 2008 primarily due to declines in equity and credit markets.

These changes in discount rates and prior year asset losses, combined with all other unrecognized actuarial gains and losses, resulted in a net actuarial loss of $2.89 billion and amortization of net actuarial loss (and additional net periodic pension cost) of $178 million in 2012 and $153 million in 2011. We anticipate that the net actuarial loss for our pension plans will exceed 10% of the greater of the PBO or the market-related value of assets in 2013 and into the foreseeable future, resulting in additional amortization and net periodic pension cost. The net actuarial loss will be amortized over the remaining service life of active employees (approximately 9 years) or will reverse with increases in the discount rate or better than expected returns on plan assets.

Amounts recorded for net periodic pension cost and accumulated other comprehensive income are significantly affected by changes in the assumptions used to determine the discount rate and the expected long-term rate of return on plan assets. The discount rate is based on rates at which expected pension benefits attributable to past employee service could effectively be settled on a present value basis at the measurement date. We develop the assumed discount rate by utilizing the weighted average yield of a theoretical dedicated portfolio derived from non-callable bonds and bonds with a make-whole provision available in the Bloomberg corporate bond universe having ratings of at least "AA" by S&P or at least "Aa" by Moody's on the measurement date with cash flows that match expected plan benefit requirements. Significant changes in discount rates, such as those caused by changes in the credit spreads, yield curve, the mix of bonds available in the market, the duration of selected bonds and expected benefit payments, may result in volatility in pension cost and accumulated other comprehensive income.

Holding other assumptions constant, a hypothetical decrease of 100 basis points in the discount rate would result in an increase of $51 million in net periodic pension cost and a $503 million increase in the unrecognized pension cost liability recorded as accumulated other comprehensive income as of December 31, 2012, compared to an increase of $52 million in net periodic pension cost and a $427 million increase in the unrecognized pension cost liability as of December 31, 2011. A hypothetical increase of 100 basis points in the discount rate would decrease net periodic pension cost by $45 million and would decrease the unrecognized pension cost liability recorded as accumulated other comprehensive income by $421 million as of December 31, 2012, compared to a decrease in net periodic pension cost of $46 million and a $360 million decrease in the unrecognized pension cost liability recorded as accumulated other comprehensive income as of December 31, 2011. This non-symmetrical range results from the non-linear relationship between discount rates and pension obligations, and changes in the amortization of unrealized net actuarial gains and losses.

The expected long-term rate of return on plan assets reflects the average rate of earnings expected on plan assets. While this rate reflects long-term assumptions and is consistent with long-term historical returns, sustained changes in the market or changes in the mix of plan assets may lead to revisions in the assumed long-term rate of return on plan assets that may result in variability of pension cost. Differences between the actual return on plan assets and the

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expected long-term rate of return on plan assets are a component of net actuarial loss and are recorded in accumulated other comprehensive income.

Holding other assumptions constant, a hypothetical decrease of 100 basis points in the expected long-term rate of return on plan assets would result in an increase of $51 million in pension cost as of December 31, 2012, compared to $47 million as of December 31, 2011. A hypothetical increase of 100 basis points in the expected long-term rate of return on plan assets would result in a decrease in net periodic pension cost of $51 million as of December 31, 2012, compared to $47 million as of December 31, 2011.

We target funding levels that do not restrict the payment of plan benefits in our domestic plans and were within our targeted range as of December 31, 2012. In 2012, we contributed $439 million to our pension plans. We expect to contribute $578 million for the 2013 fiscal year to maintain the plans' funded status. This estimate could change significantly following either an improvement or decline in investment markets.

GOODWILL

Goodwill represents the excess of amounts paid for acquiring businesses over the fair value of the net assets acquired. The goodwill balances were $822 million and $418 million as of December 31, 2012 for the Allstate Protection segment and the Allstate Financial segment, respectively. Our reporting units are equivalent to our reporting segments, Allstate Protection and Allstate Financial. Goodwill is allocated to reporting units based on which unit is expected to benefit from the synergies of the business combination.

Goodwill is not amortized but is tested for impairment at least annually. We perform our annual goodwill impairment testing during the fourth quarter of each year based upon data as of the close of the third quarter. We also review goodwill for impairment whenever events or changes in circumstances, such as deteriorating or adverse market conditions, indicate that it is more likely than not that the carrying amount of goodwill may exceed its implied fair value.

Impairment testing requires the use of estimates and judgments. For purposes of goodwill impairment testing, if the carrying value of a reporting unit exceeds its estimated fair value, the second step of the goodwill test is required. In such instances, the implied fair value of the goodwill is determined in the same manner as the amount of goodwill that would be determined in a business acquisition. The excess of the carrying value of goodwill over the implied fair value of goodwill would be recognized as an impairment and recorded as a charge against net income.

To estimate the fair value of our reporting units for our annual impairment test, we initially utilize a stock price and market capitalization analysis and apportion the value between our reporting units using peer company price to book multiples. If the stock price and market capitalization analysis does not result in the fair value of the reporting unit exceeding its carrying value, we may also utilize a peer company price to earnings multiples analysis and/or a discounted cash flow analysis to supplement the stock price and market capitalization analysis. If a combination of valuation techniques are utilized, the analyses would be weighted based on management's judgment of their relevance given current facts and circumstances.

The stock price and market capitalization analysis takes into consideration the quoted market price of our outstanding common stock and includes a control premium, derived from historical insurance industry acquisition activity, in determining the estimated fair value of the consolidated entity before allocating that fair value to individual reporting units. The total market capitalization of the consolidated entity is allocated to the individual reporting units using book value multiples derived from peer company data for the respective reporting units. The peer company price to earnings multiples analysis takes into consideration the price earnings multiples of peer companies for each reporting unit and estimated income from our strategic plan. The discounted cash flow analysis utilizes long term assumptions for revenue growth, capital growth, earnings projections including those used in our strategic plan, and an appropriate discount rate. We apply significant judgment when determining the fair value of our reporting units and when assessing the relationship of market capitalization to the estimated fair value of our reporting units. The valuation analyses described above are subject to critical judgments and assumptions and may be potentially sensitive to variability. Estimates of fair value are inherently uncertain and represent management's reasonable expectation regarding future developments. These estimates and the judgments and assumptions utilized may differ from future actual results. Declines in the estimated fair value of our reporting units could result in goodwill impairments in future periods which may be material to our results of operations but not our financial position.

During fourth quarter 2012, we completed our annual goodwill impairment test using information as of September 30, 2012. The stock price and market capitalization analysis resulted in the fair value of our reporting units exceeding their respective carrying values. While the fair value of the reporting units exceeded their respective carrying values, the results indicated that the amount of excess fair value was disproportionately greater for the Allstate

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Protection reporting unit and relatively less for the Allstate Financial reporting unit. The results of this analysis are consistent with both the relative operating performance of the individual reporting units as well as their respective industry sector's performance. Specifically, spread-based products, which are a material component of the Allstate Financial reporting unit, are experiencing the continued impacts of the historically low interest rate environment which has depressed operating margins. In contrast, underwriting results from the Allstate Protection business have benefitted by the general presence of stable to higher premium rates and stable loss costs.

Goodwill impairment evaluations indicated no impairment as of December 31, 2012 and no reporting unit was at risk of having its carrying value including goodwill exceed its fair value.

CAPITAL RESOURCES AND LIQUIDITY 2012 HIGHLIGHTS

Shareholders' equity as of December 31, 2012 was $20.58 billion, an increase of 12.5% from $18.30 billion as of December 31, 2011.

On January 3, 2012, April 2, 2012, July 2, 2012, October 1, 2012 and December 31, 2012, we paid shareholder dividends of $0.21, $0.22, $0.22, $0.22 and $0.22, respectively. On February 6, 2013, we declared a quarterly shareholder dividend of $0.25 payable on April 1, 2013.

In November 2012, we completed a $1.00 billion share repurchase program that commenced in November 2011. In December 2012, we commenced a new $1.00 billion share repurchase program that is expected to be completed by December 31, 2013, and as of December 31, 2012, had $984 million remaining. In February 2013, an additional $1 billion share repurchase program was authorized and is expected to be completed by March 31, 2014. Our repurchase programs may utilize an accelerated repurchase program. During 2012, we repurchased 26.7 million common shares for $910 million.

CAPITAL RESOURCES AND LIQUIDITY

Capital resources consist of shareholders' equity and debt, representing funds deployed or available to be deployed to support business operations or for general corporate purposes. The following table summarizes our capital resources as of December 31.

($ in millions)	**2012**	**2011**	**2010**
Common stock, retained income and other shareholders' equity items	$ 19,405	$ 18,269	$ 18,789
Accumulated other comprehensive income (loss)	1,175	29	(172)
Total shareholders' equity	20,580	18,298	18,617
Debt	6,057	5,908	5,908
Total capital resources	$ 26,637	$ 24,206	$ 24,525
Ratio of debt to shareholders' equity	29.4%	32.3%	31.7%
Ratio of debt to capital resources	22.7%	24.4%	24.1%

Shareholders' equity increased in 2012, primarily due to net income and increased unrealized net capital gains on investments, partially offset by share repurchases and dividends paid to shareholders. Shareholders' equity decreased in 2011, primarily due to share repurchases and dividends paid to shareholders, partially offset by net income and increased unrealized net capital gains on investments.

Debt The debt balance increased in 2012 due to increases in long-term debt. On January 11, 2012, we issued $500 million of 5.20% Senior Notes due 2042, utilizing the registration statement filed with the Securities and Exchange Commission on May 8, 2009. The proceeds of this issuance were used for general corporate purposes, including the repayment of $350 million of 6.125% Senior Notes on February 15, 2012.

On January 10, 2013, we issued $500 million of 5.10% Fixed-to-Floating Rate Subordinated Debentures due 2053, utilizing the registration statement filed with the Securities and Exchange Commission on April 30, 2012. The proceeds of this issuance will be used for general corporate purposes, including the repurchase of our common stock through open market purchases from time to time or through an accelerated repurchase program. The next debt maturity is on June 15, 2013 when $250 million of 7.50% Debentures are due, which is expected to be refinanced or repaid from available capital. For further information on outstanding debt, see Note 12 of the consolidated financial statements. As of December 31, 2012 and 2011, there were no outstanding commercial paper borrowings.

Share repurchases In November 2012, we completed our $1.00 billion share repurchase program that commenced in November 2011. In December 2012, we commenced a new $1.00 billion share repurchase program that is expected to

be completed by December 31, 2013, and as of December 31, 2012, had $984 million remaining. This program is expected to be funded by issuing a like amount of subordinated debentures (half of which were issued in January 2013). In February 2013, an additional $1 billion share repurchase program was authorized and is expected to be completed by March 31, 2014. Our repurchase programs may utilize an accelerated repurchase program. During 2012, we repurchased 26.7 million common shares for $910 million.

Since 1995, we have acquired 523 million shares of our common stock at a cost of $21.13 billion, primarily as part of various stock repurchase programs. We have reissued 104 million shares since 1995, primarily associated with our equity incentive plans, the 1999 acquisition of American Heritage Life Investment Corporation and the 2001 redemption of certain mandatorily redeemable preferred securities. Since 1995, total shares outstanding has decreased by 417 million shares or 46.5%, primarily due to our repurchase programs.

Financial ratings and strength The following table summarizes our senior long-term debt, commercial paper and insurance financial strength ratings as of December 31, 2012.

	Moody's	Standard & Poor's	A.M. Best
The Allstate Corporation (senior long-term debt)	A3	A-	a-
The Allstate Corporation (commercial paper)	P-2	A-2	AMB-1
Allstate Insurance Company (insurance financial strength)	Aa3	AA-	A+
Allstate Life Insurance Company (insurance financial strength)	A1	A+	A+

Our ratings are influenced by many factors including our operating and financial performance, asset quality, liquidity, asset/liability management, overall portfolio mix, financial leverage (i.e., debt), exposure to risks such as catastrophes and the current level of operating leverage.

On January 31, 2013, A.M. Best affirmed The Allstate Corporation's debt and commercial paper ratings of a- and AMB-1, respectively, and our insurance entities financial strength ratings of A+ for AIC and Allstate Life Insurance Company ("ALIC"). The outlook for AIC and ALIC remained stable. In April 2012, S&P affirmed The Allstate Corporation's debt and commercial paper ratings of A- and A-2, respectively, AIC's financial strength ratings of AA- and ALIC's financial strength rating of A+. The outlook for all S&P ratings remained negative. There were no changes to our debt, commercial paper and insurance financial strength ratings from Moody's during 2012. The outlook for all of our Moody's ratings is negative. In the future, if our financial position is less than rating agency expectations including those related to capitalization at the parent company, AIC or ALIC, we could be exposed to a downgrade in our ratings of one notch or more which we do not view as being material to our business model or strategies.

We have distinct and separately capitalized groups of subsidiaries licensed to sell property and casualty insurance in New Jersey and Florida that maintain separate group ratings. The ratings of these groups are influenced by the risks that relate specifically to each group. Many mortgage companies require property owners to have insurance from an insurance carrier with a secure financial strength rating from an accredited rating agency. In February 2013, A.M. Best affirmed the Allstate New Jersey Insurance Company, which writes auto and homeowners insurance, rating of A-. The outlook for this rating is stable. Allstate New Jersey Insurance Company also has a Financial Stability Rating® of A" from Demotech, which was affirmed on November 28, 2012. On September 19, 2012, A.M. Best affirmed the Castle Key Insurance Company, which underwrites personal lines property insurance in Florida, rating of B-. The outlook for the rating is negative. Castle Key Insurance Company also has a Financial Stability Rating® of A' from Demotech, which was affirmed on November 28, 2012.

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

In addition to the Liquidity Agreement, the Corporation also has an intercompany loan agreement with certain of its subsidiaries, which include, but are not limited to, AIC and ALIC. The amount of intercompany loans available to the Corporation's subsidiaries is at the discretion of the Corporation. The maximum amount of loans the Corporation will have outstanding to all its eligible subsidiaries at any given point in time is limited to $1.00 billion. The Corporation may use commercial paper borrowings, bank lines of credit and securities lending to fund intercompany borrowings.

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Allstate's domestic property-liability and life insurance subsidiaries prepare their statutory-basis financial statements in conformity with accounting practices prescribed or permitted by the insurance department of the applicable state of domicile. Statutory surplus is a measure that is often used as a basis for determining dividend paying capacity, operating leverage and premium growth capacity, and it is also reviewed by rating agencies in determining their ratings. As of December 31, 2012, total statutory surplus is $17.28 billion compared to $15.59 billion as of December 31, 2011. Property-Liability surplus was $13.74 billion as of December 31, 2012, compared to $11.99 billion as of December 31, 2011. Allstate Financial surplus was $3.54 billion as of December 31, 2012, compared to $3.60 billion as of December 31, 2011.

The ratio of net premiums written to statutory surplus is a common measure of operating leverage used in the property-casualty insurance industry and serves as an indicator of a company's premium growth capacity. Ratios in excess of 3 to 1 are typically considered outside the usual range by insurance regulators and rating agencies, and for homeowners and related coverages that have significant net exposure to natural catastrophes a ratio of 1 to 1 is considered appropriate. AIC's premium to surplus ratio was 1.6x as of both December 31, 2012 and 2011.

State laws specify regulatory actions if an insurer's risk-based capital ("RBC"), a measure of an insurer's solvency, falls below certain levels. The NAIC has a standard formula for annually assessing RBC. The formula for calculating RBC for property-liability companies takes into account asset and credit risks but places more emphasis on underwriting factors for reserving and pricing. The formula for calculating RBC for life insurance companies takes into account factors relating to insurance, business, asset and interest rate risks. As of December 31, 2012, the statutory capital and surplus for each of our domestic insurance companies exceeds its company action level RBC.

The NAIC has also developed a set of financial relationships or tests known as the Insurance Regulatory Information System to assist state regulators in monitoring the financial condition of insurance companies and identifying companies that require special attention or actions by insurance regulatory authorities. The NAIC analyzes financial data provided by insurance companies using prescribed ratios, each with defined "usual ranges". Generally, regulators will begin to monitor an insurance company if its ratios fall outside the usual ranges for four or more of the ratios. If an insurance company has insufficient capital, regulators may act to reduce the amount of insurance it can issue. The ratios of our domestic insurance companies are within these ranges.

Liquidity sources and uses Our potential sources of funds principally include activities shown in the following table.

	Property-Liability	Allstate Financial	Corporate and Other
Receipt of insurance premiums	X	X	
Contractholder fund deposits		X	
Reinsurance recoveries	X	X	
Receipts of principal, interest and dividends on investments	X	X	X
Sales of investments	X	X	X
Funds from securities lending, commercial paper and line of credit agreements	X	X	X
Intercompany loans	X	X	X
Capital contributions from parent	X	X	
Dividends from subsidiaries	X		X
Tax refunds/settlements	X	X	X
Funds from periodic issuance of additional securities			X
Receipt of intercompany settlements related to employee benefit plans			X

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Our potential uses of funds principally include activities shown in the following table.

	Property-Liability	Allstate Financial	Corporate and Other
Payment of claims and related expenses	X		
Payment of contract benefits, maturities, surrenders and withdrawals		X	
Reinsurance cessions and payments	X	X	
Operating costs and expenses	X	X	X
Purchase of investments	X	X	X
Repayment of securities lending, commercial paper and line of credit agreements	X	X	X
Payment or repayment of intercompany loans	X	X	X
Capital contributions to subsidiaries	X		X
Dividends to shareholders/parent company	X	X	X
Tax payments/settlements	X	X	
Share repurchases			X
Debt service expenses and repayment	X	X	X
Payments related to employee and agent benefit plans	X	X	X

We actively manage our financial position and liquidity levels in light of changing market, economic, and business conditions. Liquidity is managed at both the entity and enterprise level across the Company, and is assessed on both base and stressed level liquidity needs. We believe we have sufficient liquidity to meet these needs. Additionally, we have existing intercompany agreements in place that facilitate liquidity management across the Company to enhance flexibility.

Parent company capital capacity At the parent holding company level, we have deployable invested assets totaling $2.06 billion as of December 31, 2012. These assets include investments that are generally saleable within one quarter totaling $1.48 billion. The substantial earnings capacity of the operating subsidiaries is the primary source of capital generation for the Corporation. In 2013, AIC will have the capacity to pay dividends currently estimated at $1.95 billion without prior regulatory approval. In addition, we have access to $1.00 billion of funds from either commercial paper issuance or an unsecured revolving credit facility. These provide funds for the parent company's relatively low fixed charges and other corporate purposes.

In 2012, AIC paid dividends totaling $1.51 billion. These dividends comprised $1.06 billion in cash paid to its parent, Allstate Insurance Holdings, LLC ("AIH"), of which $1.04 billion were paid by AIH to its parent, the Corporation, and the transfer of ownership (valued at $450 million) to AIH of three insurance companies that were formerly subsidiaries of AIC (Allstate Indemnity Company, Allstate Fire and Casualty Insurance Company and Allstate Property and Casualty Insurance Company). In 2011, dividends totaling $838 million were paid by AIC to the Corporation. In 2010, dividends totaling $1.30 billion were paid by AIC to the Corporation. There were no capital contributions paid by the Corporation to AIC in 2012, 2011 or 2010. There were no capital contributions by AIC to ALIC in 2012, 2011 or 2010. In 2012, Allstate Financial paid $357 million of dividends and repayments of surplus notes to the Corporation and other affiliates.

The Corporation has access to additional borrowing to support liquidity as follows:

A commercial paper facility with a borrowing limit of $1.00 billion to cover short-term cash needs. As of December 31, 2012, there were no balances outstanding and therefore the remaining borrowing capacity was $1.00 billion; however, the outstanding balance can fluctuate daily.

Our credit facility is available for short-term liquidity requirements and backs our commercial paper facility. The $1.00 billion unsecured revolving credit facility has an initial term of five years expiring in April 2017. The facility is fully subscribed among 12 lenders with the largest commitment being $115 million. We have the option to extend the expiration by one year at the first and second anniversary of the facility, upon approval of existing or replacement lenders. The commitments of the lenders are several and no lender is responsible for any other lender's commitment if such lender fails to make a loan under the facility. This facility contains an increase provision that would allow up to an additional $500 million of borrowing. This facility has a financial covenant requiring that we not exceed a 37.5% debt to capitalization ratio as defined in the agreement. This ratio was 19.8% as of December 31, 2012. Although the right to borrow under the facility is not subject to a minimum rating requirement, the costs of maintaining the facility and borrowing under it are based on the ratings of our senior unsecured, unguaranteed long-term debt. There were no borrowings under the credit facility during 2012. The total amount

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outstanding at any point in time under the combination of the commercial paper program and the credit facility cannot exceed the amount that can be borrowed under the credit facility.

A universal shelf registration statement was filed with the Securities and Exchange Commission on April 30, 2012. We can use this shelf registration to issue an unspecified amount of debt securities, common stock (including 421 million shares of treasury stock as of December 31, 2012), preferred stock, depositary shares, warrants, stock purchase contracts, stock purchase units and securities of trust subsidiaries. The specific terms of any securities we issue under this registration statement will be provided in the applicable prospectus supplements.

Liquidity exposure Contractholder funds were $39.32 billion as of December 31, 2012. The following table summarizes contractholder funds by their contractual withdrawal provisions as of December 31, 2012.

($ in millions)			Percent to total
Not subject to discretionary withdrawal	$	6,012	15.3%
Subject to discretionary withdrawal with adjustments:			
Specified surrender charges (1)		13,170	33.5
Market value adjustments (2)		5,382	13.7
Subject to discretionary withdrawal without adjustments (3)		14,755	37.5
Total contractholder funds (4)	$	39,319	100.0%

(1) Includes $6.81 billion of liabilities with a contractual surrender charge of less than 5% of the account balance.

(2) $4.45 billion of the contracts with market value adjusted surrenders have a 30-45 day period at the end of their initial and subsequent interest rate guarantee periods (which are typically 5 or 6 years) during which there is no surrender charge or market value adjustment.

(3) 76% of these contracts have a minimum interest crediting rate guarantee of 3% or higher.

(4) Includes $1.12 billion of contractholder funds on variable annuities reinsured to The Prudential Insurance Company of America, a subsidiary of Prudential Financial Inc., in 2006.

While we are able to quantify remaining scheduled maturities for our institutional products, anticipating retail product surrenders is less precise. Retail life and annuity products may be surrendered by customers for a variety of reasons. Reasons unique to individual customers include a current or unexpected need for cash or a change in life insurance coverage needs. Other key factors that may impact the likelihood of customer surrender include the level of the contract surrender charge, the length of time the contract has been in force, distribution channel, market interest rates, equity market conditions and potential tax implications. In addition, the propensity for retail life insurance policies to lapse is lower than it is for fixed annuities because of the need for the insured to be re-underwritten upon policy replacement. Surrenders and partial withdrawals for our retail annuities decreased 20.1% in 2012 compared to 2011. The annualized surrender and partial withdrawal rate on deferred fixed annuities and interest-sensitive life insurance products, based on the beginning of year contractholder funds, was 11.3% and 12.6% in 2012 and 2011, respectively. Allstate Financial strives to promptly pay customers who request cash surrenders; however, statutory regulations generally provide up to six months in most states to fulfill surrender requests.

Our institutional products are primarily funding agreements sold to unaffiliated trusts used to back medium-term notes. As of December 31, 2012, total institutional products outstanding were $1.84 billion, with scheduled maturities of $1.75 billion in April of 2013 and $85 million in 2016.

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

Certain remote events and circumstances could constrain our liquidity. Those events and circumstances include, for example, a catastrophe resulting in extraordinary losses, a downgrade in our senior long-term debt rating of A3, A- and a- (from Moody's, S&P and A.M. Best, respectively) to non-investment grade status of below Baa3/BBB-/bb, a downgrade in AIC's financial strength rating from Aa3, AA- and A+ (from Moody's, S&P and A.M. Best, respectively) to below Baa2/BBB/A-, or a downgrade in ALIC's financial strength ratings from A1, A+ and A+ (from Moody's, S&P and A.M. Best, respectively) to below A3/A-/A-. The rating agencies also consider the interdependence of our individually rated entities; therefore, a rating change in one entity could potentially affect the ratings of other related entities.

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The following table summarizes consolidated cash flow activities by segment.

($ in millions)	Property-Liability (1)			Allstate Financial (1)			Corporate and Other (1)			Consolidated		
	2012	2011	2010	2012	2011	2010	2012	2011	2010	2012	2011	2010
Net cash provided by (used in):												
Operating activities	$ 2,023	$789	$1,373	$ 1,165	$ 1,295	$ 2,407	$ (134)	$ (155)	$ (91)	$ 3,054	$ 1,929	$ 3,689
Investing activities	(1,081)	244	(44)	2,497	5,284	3,096	165	633	(720)	1,581	6,161	2,332
Financing activities	(18)	(4)	(8)	(3,363)	(6,504)	(5,510)	(1,224)	(1,368)	(553)	(4,605)	(7,876)	(6,071)
Net increase (decrease) in consolidated cash										$ 30	$ 214	$ (50)

(1) Business unit cash flows reflect the elimination of intersegment dividends, contributions and borrowings.

Property-Liability Higher cash provided by operating activities in 2012 compared to 2011 was primarily due to lower claim payments. Lower cash provided by operating activities in 2011 compared to 2010 was primarily due to higher claim payments, partially offset by lower income tax payments.

Cash used in investing activities in 2012 compared to cash provided by investing activities in 2011 was primarily due to 2012 operating cash flows being invested. There were lower sales of fixed income and equity securities and lower purchases of fixed income and equity securities. Cash provided by investing activities in 2011 compared to cash used in investing activities in 2010 was primarily due to higher net sales of fixed income and equity securities, partially offset by higher net purchases of fixed income and equity securities.

Allstate Financial Lower cash provided by operating cash flows in 2012 compared to 2011 was primarily due to higher contract benefits paid. Lower cash provided by operating cash flows in 2011 was primarily due to income tax payments in 2011 compared to income tax refunds in 2010.

Lower cash provided by investing activities in 2012 compared to 2011 was primarily due to lower financing needs as reflected in lower sales of fixed income securities, partially offset by decreased purchases of fixed income securities. Higher cash provided by investing activities in 2011 compared to 2010 was impacted by lower net purchases of fixed income securities and higher net sales of fixed income securities used to fund reductions in contractholder fund liabilities.

Lower cash used in financing activities in 2012 compared to 2011 was primarily due to lower surrenders and partial withdrawals on fixed annuities, decreased maturities of institutional products and the absence of Allstate Bank activity in 2012. Higher cash used in financing activities in 2011 compared to 2010 was primarily due to higher surrenders and partial withdrawals on fixed annuities and Allstate Bank products and lower deposits on Allstate Bank products and fixed annuities, partially offset by decreased maturities of institutional products. In 2011, Allstate Bank ceased operations and all funds were returned to customers by December 31, 2011. For quantification of the changes in contractholder funds, see the Allstate Financial Segment section of the MD&A.

Corporate and Other Fluctuations in the Corporate and Other operating cash flows were primarily due to the timing of intercompany settlements. Investing activities primarily relate to investments in the parent company portfolio, including the acquisition of Esurance and Answer Financial in 2011. Financing cash flows of the Corporate and Other segment reflect actions such as fluctuations in short-term debt,

repayment of debt, proceeds from the issuance of debt, dividends to shareholders of The Allstate Corporation and share repurchases; therefore, financing cash flows are affected when we increase or decrease the level of these activities.

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Contractual obligations and commitments Our contractual obligations as of December 31, 2012 and the payments due by period are shown in the following table.

($ in millions)	Total	Less than 1 year	1-3 years	4-5 years	Over 5 years
Liabilities for collateral [1]	$ 808	$ 808	$	$	$
Contractholder funds [2]	54,517	7,924	9,929	6,990	29,674
Reserve for life-contingent contract benefits [2]	35,195	1,216	2,241	2,108	29,630
Long-term debt [3]	12,652	607	1,628	591	9,826
Capital lease obligations [3]	63	19	24	9	11
Operating leases [3]	580	166	229	115	70
Unconditional purchase obligations [3]	392	158	183	51	
Defined benefit pension plans and other postretirement benefit plans [3][4]	3,276	622	280	286	2,088
Reserve for property-liability insurance claims and claims expense [5]	21,288	9,258	6,513	2,392	3,125
Other liabilities and accrued expenses [6][7]	3,722	3,529	98	69	26
Net unrecognized tax benefits [8]	25	25			
Total contractual cash obligations	$ 132,518	$ 24,332	$ 21,125	$ 12,611	$ 74,450

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(1) Liabilities for collateral are typically fully secured with cash or short-term investments. We manage our short-term liquidity position to ensure the availability of a sufficient amount of liquid assets to extinguish short-term liabilities as they come due in the normal course of business, including utilizing potential sources of liquidity as disclosed previously.

(2) Contractholder funds represent interest-bearing liabilities arising from the sale of products such as interest-sensitive life, fixed annuities, including immediate annuities without life contingencies and institutional products. The reserve for life-contingent contract benefits relates primarily to traditional life insurance, immediate annuities with life contingencies and voluntary accident and health insurance. These amounts reflect the present value of estimated cash payments to be made to contractholders and policyholders. Certain of these contracts, such as immediate annuities without life contingencies and institutional products, involve payment obligations where the amount and timing of the payment is essentially fixed and determinable. These amounts relate to (i) policies or contracts where we are currently making payments and will continue to do so and (ii) contracts where the timing of a portion or all of the payments has been determined by the contract. Other contracts, such as interest-sensitive life, fixed deferred annuities, traditional life insurance, immediate annuities with life contingencies and voluntary accident and health insurance, involve payment obligations where a portion or all of the amount and timing of future payments is uncertain. For these contracts, we are not currently making payments and will not make payments until (i) the occurrence of an insurable event such as death or illness or (ii) the occurrence of a payment triggering event such as the surrender or partial withdrawal on a policy or deposit contract, which is outside of our control. We have estimated the timing of payments related to these contracts based on historical experience and our expectation of future payment patterns. Uncertainties relating to these liabilities include mortality, morbidity, expenses, customer lapse and withdrawal activity, estimated additional deposits for interest-sensitive life contracts, and renewal premium for life policies, which may significantly impact both the timing and amount of future payments. Such cash outflows reflect adjustments for the estimated timing of mortality, retirement, and other appropriate factors, but are undiscounted with respect to interest. As a result, the sum of the cash outflows shown for all years in the table exceeds the corresponding liabilities of $39.32 billion for contractholder funds and $14.90 billion for reserve for life-contingent contract benefits as included in the

Consolidated Statements of Financial Position as of December 31, 2012. The liability amount in the Consolidated Statements of Financial Position reflects the discounting for interest as well as adjustments for the timing of other factors as described above.

(3)

Our payment obligations relating to long-term debt, capital lease obligations, operating leases, unconditional purchase obligations and pension and other post employment benefits ("OPEB") contributions are managed within the structure of our intermediate to long-term liquidity management program. Amount differs from the balance presented on the Consolidated Statements of Financial Position as of December 31, 2012 because the long-term debt amount above includes interest.

(4)

The pension plans' obligations in the next 12 months represent our planned contributions, and the remaining years' contributions are projected based on the average remaining service period using the current underfunded status of the plans. The OPEB plans' obligations are estimated based on the expected benefits to be paid. These liabilities are discounted with respect to interest, and as a result the sum of the cash outflows shown for all years in the table exceeds the corresponding liability amount of $2.14 billion included in other liabilities and accrued expenses on the Consolidated Statements of Financial Position.

(5)

Reserve for property-liability insurance claims and claims expense is an estimate of amounts necessary to settle all outstanding claims, including claims that have been IBNR as of the balance sheet date. We have estimated the timing of these payments based on our historical experience and our expectation of future payment patterns. However, the timing of these payments may vary significantly from the amounts shown above, especially for IBNR claims. The ultimate cost of losses may vary materially from recorded amounts which are our best estimates. The reserve for property-liability insurance claims and claims expense includes loss reserves related to asbestos and environmental claims as of December 31, 2012, of $1.52 billion and $241 million, respectively.

(6)

Other liabilities primarily include accrued expenses and certain benefit obligations and claim payments and other checks outstanding. Certain of these long-term liabilities are discounted with respect to interest, as a result the sum of the cash outflows shown for all years in the table exceeds the corresponding liability amount of $3.65 billion.

(7)

Balance sheet liabilities not included in the table above include unearned and advance premiums of $11.08 billion and gross deferred tax liabilities of $2.89 billion. These items were excluded as they do not meet the definition of a contractual liability as we are not contractually obligated to pay

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these amounts to third parties. Rather, they represent an accounting mechanism that allows us to present our financial statements on an accrual basis. In addition, other liabilities of $244 million were not included in the table above because they did not represent a contractual obligation or the amount and timing of their eventual payment was sufficiently uncertain.

(8)

Net unrecognized tax benefits represent our potential future obligation to the taxing authority for a tax position that was not recognized in the consolidated financial statements. We believe it is reasonably possible that the liability balance will be reduced by $25 million within the next twelve months upon the resolution of an outstanding issue resulting from the 2005-2006 and 2007-2008 Internal Revenue Service examinations. The resolution of this obligation may be for an amount different than what we have accrued.

Our contractual commitments as of December 31, 2012 and the periods in which the commitments expire are shown in the following table.

($ in millions)	Total	Less than 1 year	1-3 years	4-5 years	Over 5 years
Other commitments conditional	$ 128	$ 74	$	$ 12	$ 42
Other commitments unconditional	2,080	253	457	1,171	199
Total commitments	$ 2,208	$ 327	$ 457	$ 1,183	$ 241

Contractual commitments represent investment commitments such as private placements, limited partnership interests and other loans.

We have agreements in place for services we conduct, generally at cost, between subsidiaries relating to insurance, reinsurance, loans and capitalization. All material intercompany transactions have appropriately been eliminated in consolidation. Intercompany transactions among insurance subsidiaries and affiliates have been approved by the appropriate departments of insurance as required.

For a more detailed discussion of our off-balance sheet arrangements, see Note 7 of the consolidated financial statements.

ENTERPRISE RISK AND RETURN MANAGEMENT

Allstate manages enterprise risk under an integrated Enterprise Risk and Return Management ("ERRM") framework with risk-return principles, governance and analytics. This framework provides an enterprise view of risks and opportunities and is used by senior leaders and business managers to drive strategic and business decisions. Allstate's risk management strategies adapt to changes in business and market environments and seek to optimize returns. Allstate continually validates and improves its ERRM practices by benchmarking and securing external perspectives for our processes.

Our qualitative risk-return principles define how we operate and guide decision-making around risk and return. These principles are built around three key operating components: maintaining our strong foundation of stakeholder trust and financial strength, building strategic value and optimizing return per unit of risk.

ERRM governance includes an executive management committee structure, Board oversight and chief risk officers ("CROs"). The Enterprise Risk & Return Council ("ERRC") is Allstate's senior risk management committee. It directs ERRM by establishing risk-return targets, determining economic capital levels and directing integrated strategies and actions from an enterprise perspective. It consists of Allstate's chief executive officer, business unit presidents, enterprise and business unit chief risk officers and chief financial officers, general counsel and treasurer. Allstate's Board of Directors and Audit Committee provide ERRM oversight by reviewing enterprise principles, guidelines and limits for Allstate's significant risks and by monitoring strategies and actions management has taken to control these risks.

CROs are appointed for the enterprise and for Allstate Protection, Allstate Financial and Allstate Investments. Collectively, the CROs create an integrated approach to risk and return management to ensure risk management practices and strategies are aligned with Allstate's overall enterprise objectives.

Our ERRM governance is supported with an analytic framework to manage risk exposure and optimize returns on risk-adjusted capital. Allstate views economic capital primarily on a statutory accounting basis. Management and the ERRC use enterprise stochastic modeling, risk expertise and judgment to determine an appropriate level of enterprise economic capital to hold considering a broad range of risk objectives and external constraints. These include limiting risks of financial stress, insolvency, likelihood of capital stress and volatility, maintaining stakeholder value and financial strength ratings and satisfying regulatory and rating agency risk-based capital requirements. Enterprise economic capital approximates a combination of statutory surplus and deployable invested assets at the parent holding company level.

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Using our governance and analytic framework, Allstate designs business and enterprise strategies that seek to optimize returns on risk-adjusted capital. Examples include shifting Allstate Financial away from spread-based products toward underwritten products, implementing a comprehensive program of margin improvement actions in homeowners insurance, and balancing yield and return considerations in the low interest rate environment.

REGULATION AND LEGAL PROCEEDINGS

We are subject to extensive regulation and we are involved in various legal and regulatory actions, all of which have an effect on specific aspects of our business. For a detailed discussion of the legal and regulatory actions in which we are involved, see Note 14 of the consolidated financial statements.

PENDING ACCOUNTING STANDARDS

There are several pending accounting standards that we have not implemented because the implementation date has not yet occurred. For a discussion of these pending standards, see Note 2 of the consolidated financial statements.

The effect of implementing certain accounting standards on our financial results and financial condition is often based in part on market conditions at the time of implementation of the standard and other factors we are unable to determine prior to implementation. For this reason, we are sometimes unable to estimate the effect of certain pending accounting standards until the relevant authoritative body finalizes these standards or until we implement them.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Information required for Item 7A is incorporated by reference to the material under the caption "Market Risk" in Part II, Item 7 of this report.

Item 8. Financial Statements and Supplementary Data

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THE ALLSTATE CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

($ in millions, except per share data)	Year Ended December 31,		
	2012	2011	2010
Revenues			
Property-liability insurance premiums (net of reinsurance ceded of $1,090, $1,098 and $1,092)	$ 26,737	$ 25,942	$ 25,957
Life and annuity premiums and contract charges (net of reinsurance ceded of $674, $750 and $804)	2,241	2,238	2,168
Net investment income	4,010	3,971	4,102
Realized capital gains and losses:			
Total other-than-temporary impairment losses	(239)	(563)	(937)
Portion of loss recognized in other comprehensive income	6	(33)	(64)
Net other-than-temporary impairment losses recognized in earnings	(233)	(596)	(1,001)
Sales and other realized capital gains and losses	560	1,099	174
Total realized capital gains and losses	327	503	(827)
	33,315	32,654	31,400
Costs and expenses			
Property-liability insurance claims and claims expense (net of reinsurance ceded of $2,051, $927 and $271)	18,484	20,161	18,951
Life and annuity contract benefits (net of reinsurance ceded of $665, $653 and $702)	1,818	1,761	1,815
Interest credited to contractholder funds (net of reinsurance ceded of $28, $27 and $32)	1,316		