ALLSTATE CORP
Form 10-Q
August 05, 2009

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

/X/ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF

THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2009

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE

SECURITIES EXCHANGE ACT OF 1934

Commission file number 1-11840

THE ALLSTATE CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**36-3871531**
(State of Incorporation)	(I.R.S. Employer Identification Number)

2775 Sanders Road, Northbrook, Illinois 60062

(Address of principal executive offices) (Zip Code)

Registrant s telephone number, including area code: (847) 402-5000

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 No

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

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

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

Yes No X

As of July 31, 2009, the registrant had 536,387,353 common shares, $.01 par value, outstanding.

THE ALLSTATE CORPORATION

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June 30, 2009

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PART I. FINANCIAL INFORMATION

ITEM I. FINANCIAL STATEMENTS

THE ALLSTATE CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

($ in millions, except per share data)	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
	(unaudited)		(unaudited)	
Revenues				
Property-liability insurance premiums earned	$ 6,560	$ 6,750	$ 13,142	$ 13,514
Life and annuity premiums and contract charges	494	471	978	923
Net investment income	1,108	1,412	2,284	2,938
Realized capital gains and losses:				
Total other-than-temporary impairment losses	(471)	(1,265)	(1,196)	(1,723)
Portion of loss recognized in other comprehensive income	154	--	154	--
Net other-than-temporary impairment losses recognized in earnings	(317)	(1,265)	(1,042)	(1,723)
Sales and other realized capital gains and losses	645	50	1,011	(147)
Total realized capital gains and losses	328	(1,215)	(31)	(1,870)
	8,490	7,418	16,373	15,505
Costs and expenses				
Property-liability insurance claims and claims expense	5,002	4,776	9,722	9,452
Life and annuity contract benefits	407	395	794	792
Interest credited to contractholder funds	561	563	1,140	1,187
Amortization of deferred policy acquisition costs	1,229	959	2,626	2,034
Operating costs and expenses	702	728	1,503	1,520
Restructuring and related charges	32	(5)	77	(6)
Interest expense	97	88	185	176
	8,030	7,504	16,047	15,155
Gain (loss) on disposition of operations	1	--	4	(9)
Income (loss) from operations before income tax expense (benefit)	461	(86)	330	341
Income tax expense (benefit)	72	(111)	215	(32)
Net income	$ 389	$ 25	$ 115	$ 373
Earnings per share:				
Net income per share - Basic	$ 0.72	$ 0.05	$ 0.21	$ 0.67
Weighted average shares - Basic	539.8	551.8	539.3	556.3
Net income per share - Diluted	$ 0.72	$ 0.05	$ 0.21	$ 0.67
Weighted average shares - Diluted	540.6	553.8	540.1	558.3

Cash dividends declared per share	$	0.20	$	0.41	$	0.40	$	0.82

See notes to condensed consolidated financial statements.

THE ALLSTATE CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

($ in millions, except par value data)		June 30, 2009 (unaudited)		December 31, 2008
Assets				
Investments:				
Fixed income securities, at fair value (amortized cost $79,890 and $77,104)	$	72,766	$	68,608
Equity securities, at fair value (cost $3,483 and $3,137)		3,297		2,805
Mortgage loans		9,406		10,229
Limited partnership interests		2,464		2,791
Short-term, at fair value (amortized cost $6,070 and $8,903)		6,070		8,906
Other		2,455		2,659
Total investments		96,458		95,998
Cash		667		415
Premium installment receivables, net		4,794		4,842
Deferred policy acquisition costs		8,228		8,542
Reinsurance recoverables, net		6,621		6,403
Accrued investment income		859		884
Deferred income taxes		2,710		3,794
Property and equipment, net		1,031		1,059
Goodwill		874		874
Other assets		2,656		3,748
Separate Accounts		8,193		8,239
Total assets	$	133,091	$	134,798
Liabilities				
Reserve for property-liability insurance claims and claims expense	$	19,271	$	19,456
Reserve for life-contingent contract benefits		12,835		12,881
Contractholder funds		53,999		58,413
Unearned premiums		9,755		10,024
Claim payments outstanding		813		790
Other liabilities and accrued expenses		6,469		6,663
Long-term debt		6,658		5,659
Separate Accounts		8,193		8,239
Total liabilities		117,993		122,125
Commitments and Contingent Liabilities (Note 11)				
Equity				
Preferred stock, $1 par value, 25 million shares authorized, none issued		--		--
Common stock, $.01 par value, 2.0 billion shares authorized and 900 million issued, 536 million and 536 million shares outstanding		9		9
Additional capital paid-in		3,144		3,130
Retained income		30,969		30,207
Deferred ESOP expense		(47)		(49)
Treasury stock, at cost (364 million and 364 million shares)		(15,835)		(15,855)
Accumulated other comprehensive income:				
Unrealized net capital gains and losses:				
Unrealized net capital losses on fixed income securities with OTTI		(380)		--
Other unrealized net capital gains and losses		(4,374)		(5,767)
Unrealized adjustment to DAC, DSI and insurance reserves		2,642		2,029
Total unrealized net capital gains and losses		(2,112)		(3,738)
Unrealized foreign currency translation adjustments		17		5
Unrecognized pension and other postretirement benefit cost		(1,077)		(1,068)
Total accumulated other comprehensive loss		(3,172)		(4,801)
Total shareholders equity		15,068		12,641
Noncontrolling interest		30		32
Total equity		15,098		12,673
Total liabilities and equity	$	133,091	$	134,798

See notes to condensed consolidated financial statements.

THE ALLSTATE CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

($ in millions)	Six Months Ended June 30, 2009	2008
	(unaudited)	
Cash flows from operating activities		
Net income	$ 115	$ 373
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and other non-cash items	(86)	(141)
Realized capital gains and losses	31	1,870
(Gain) loss on disposition of operations	(4)	9
Interest credited to contractholder funds	1,140	1,187
Changes in:		
Policy benefits and other insurance reserves	(148)	(146)
Unearned premiums	(283)	(179)
Deferred policy acquisition costs	548	(269)
Premium installment receivables, net	55	(12)
Reinsurance recoverables, net	(133)	51
Income taxes	1,359	(361)
Other operating assets and liabilities	(112)	(83)
Net cash provided by operating activities	2,482	2,299
Cash flows from investing activities		
Proceeds from sales:		
Fixed income securities	8,856	14,113
Equity securities	3,547	5,106
Limited partnership interests	214	214
Mortgage loans	141	204
Other investments	262	163
Investment collections:		
Fixed income securities	2,658	2,144
Mortgage loans	598	399
Other investments	65	69
Investment purchases:		
Fixed income securities	(12,424)	(9,430)
Equity securities	(4,207)	(5,155)
Limited partnership interests	(268)	(599)
Mortgage loans	(14)	(438)
Other investments	(41)	(75)
Change in short-term investments, net	3,167	(6,604)
Change in other investments, net	(80)	(274)
Disposition (acquisition) of operations	12	(120)
Purchases of property and equipment, net	(104)	(98)
Net cash provided by (used in) investing activities	2,382	(381)
Cash flows from financing activities		
Change in short-term debt, net	--	18
Proceeds from issuance of long-term debt	1,000	--
Repayment of long-term debt	(1)	--
Contractholder fund deposits	2,450	7,035
Contractholder fund withdrawals	(7,736)	(7,441)
Dividends paid	(327)	(444)
Treasury stock purchases	(3)	(865)
Shares reissued under equity incentive plans, net	--	13
Excess tax benefits on share-based payment arrangements	(6)	2
Other	11	90
Net cash used in financing activities	(4,612)	(1,592)
Net increase in cash	252	326

Cash at beginning of period		415		422
Cash at end of period	$	667	$	748

See notes to condensed consolidated financial statements.

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THE ALLSTATE CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. General

Basis of presentation

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

The condensed consolidated financial statements and notes as of June 30, 2009, and for the three-month and six-month periods ended June 30, 2009 and 2008 are unaudited. The condensed consolidated financial statements reflect all adjustments (consisting only of normal recurring accruals), which are, in the opinion of management, necessary for the fair presentation of the financial position, results of operations and cash flows for the interim periods. These condensed consolidated financial statements and notes should be read in conjunction with the consolidated financial statements and notes thereto included in the Company s Annual Report on Form 10-K for the year ended December 31, 2008. The results of operations for the interim periods should not be considered indicative of results to be expected for the full year.

To conform to the 2009 presentation, certain amounts in the prior year condensed consolidated financial statements and notes have been reclassified.

Subsequent events were evaluated through August 5, 2009, the date the consolidated financial statements were issued.

Adopted accounting standards

Financial Accounting Standards Board (FASB) Staff Position No. FAS 115-2 and FAS 124-2, Recognition and Presentation of Other-Than-Temporary Impairments (FSP FAS 115-2)

In April 2009, the FASB issued FSP FAS 115-2 which amends Statement of Financial Accounting Standards No. 115, *Accounting for Certain Investments in Debt and Equity Securities* (SFAS No. 115), to provide recognition guidance for debt securities classified as available-for-sale and subject to other-than-temporary impairment (OTTI) guidance. If the fair value of a debt security is less than its amortized cost basis at the reporting date, an entity shall assess whether the impairment is an OTTI. When an entity intends to sell an impaired security or more likely than not will be required to sell an impaired security before recovery of its amortized cost basis, an OTTI is recognized in earnings. If the entity does

not expect to recover the entire amortized cost basis of an impaired security, even if it does not intend to sell the security and it is not more likely than not that it would be required to sell the security before recovery of its amortized cost basis, the entity must consider, based upon an estimate of the present value of cash flows expected to be collected on the debt security as compared to its amortized cost basis, whether a credit loss exists. The portion of the total OTTI related to a credit loss shall be recognized in earnings while the portion of the total OTTI related to factors other than credit shall be recognized in other comprehensive income (OCI). The statement of operations is required to present the total OTTI with an offset for the amount of the total OTTI that is recognized in OCI. The statement disclosing accumulated other comprehensive income (AOCI) is required to separately present amounts recognized for debt securities for which a portion of an OTTI has been recognized in earnings.

FSP FAS 115-2 expands the disclosure requirements of SFAS No. 115 (for both debt and equity securities) and requires a more detailed, risk-oriented breakdown of security types and related information, and requires that the annual disclosures be made for interim periods. In addition, new disclosures are required about significant inputs used in determining credit losses as well as a rollforward of credit losses each period. FSP FAS 115-2 is effective for interim periods ending after June 15, 2009. The disclosures are not required for earlier periods presented for comparative purposes. FSP FAS 115-2 applies to existing and new investments held as of the beginning of the interim period of adoption.

The Company adopted the provisions of FSP FAS 115-2 as of April 1, 2009. The adoption resulted in the reclassification of $1.15 billion of previously recorded OTTI write-downs from retained income to unrealized capital losses. The cumulative effect of adoption, net of related deferred policy acquisition costs (DAC), deferred sales inducements (DSI) and tax adjustments, was an increase in retained income of $863 million and a decrease in unrealized net capital gains and losses of $578 million, with a net benefit to equity of $285 million. The benefit to

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

equity resulted from a decrease in a deferred tax asset valuation allowance. The adoption did not have an impact on the Company s Condensed Consolidated Statement of Operations.

FSP FAS 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly (FSP FAS 157-4)

In April 2009, the FASB issued FSP FAS 157-4, which amends SFAS No. 157, *Fair Value Measurements* (SFAS No. 157), to provide additional guidance for estimating fair value when the volume and level of activity for an asset or liability have significantly decreased. Guidance on identifying circumstances that indicate a transaction is not orderly is also provided. If it is concluded that there has been a significant decrease in the volume and level of market activity for an asset or liability in relation to normal market activity, transaction or quoted prices may not be determinative of fair value and further analysis of transaction or quoted prices may be necessary. A significant adjustment to transaction or quoted prices may be necessary to estimate fair value under the current market conditions. Determination of whether a transaction is orderly is based on the weight of relevant evidence.

The disclosure requirements of SFAS No. 157 are expanded to include the inputs and valuation techniques used to measure fair value and a discussion of changes in valuation techniques and related inputs during the quarterly reporting period. Disclosures of assets and liabilities measured at fair value are to be presented by major security type. FSP FAS 157-4 does not require disclosures for earlier periods presented for comparative purposes. FSP FAS 157-4 is effective for interim periods ending after June 15, 2009. Revisions resulting from a change in valuation technique or its application shall be accounted for as a change in accounting estimate and disclosed, along with the total effect of the change in valuation technique and related inputs, if practicable, by major category. The Company adopted the provisions of FSP FAS 157-4 as of April 1, 2009. The adoption of FSP FAS 157-4 had no effect on the Company s results of operations or financial position.

FSP No. FAS 107-1 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments (FSP FAS 107-1 and APB 28-1)

In April 2009, the FASB issued FSP FAS 107-1 and APB 28-1, which amends FASB Statement No. 107, *Disclosures about Fair Value of Financial Instruments*, to require disclosures about fair value of financial instruments for interim reporting periods as well as in annual financial statements; and amends Accounting Principles Board Opinion No. 28, *Interim Financial Reporting*, to require those disclosures in summarized financial information for interim reporting periods. FSP FAS 107-1 and APB 28-1 is effective for interim periods ending after June 15, 2009. The disclosures are not required for earlier periods presented for comparative purposes. The Company adopted the provisions of FSP FAS 107-1 and APB 28-1 for second quarter 2009 with required disclosures in Note 5. FSP FAS 107-1 and APB 28-1 affects disclosures only and therefore the adoption had no impact on the Company s results of operations or financial position.

SFAS No. 141(R), Business Combinations (SFAS No. 141R)

In December 2007, the FASB issued SFAS No. 141R which replaces SFAS No. 141, *Business Combinations* (SFAS No. 141). In April 2009, the FASB issued FSP No. FAS 141(R)-1, *Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies* (FSP FAS 141(R)-1), which clarifies SFAS No. 141R by addressing application issues raised by preparers, auditors and the legal profession. Among other things, SFAS No. 141R and the related FSP broaden the scope of SFAS No. 141 to include all transactions where an acquirer obtains control of one or more other businesses; retains the guidance to recognize intangible assets separately from goodwill; requires, with limited exceptions, that all assets acquired and liabilities assumed, including certain of those that arise from contingencies, be measured at their acquisition date fair values; requires most acquisition and restructuring-related costs to be expensed as incurred; requires that step acquisitions, once control is acquired, be recorded at the full amounts of the fair values of the identifiable assets, liabilities and the noncontrolling interest in the acquiree; and replaces the reduction of asset values and recognition of negative goodwill with a requirement to recognize a gain in earnings. The provisions of SFAS No. 141R and FSP FAS 141(R)-1 are effective for fiscal years beginning after December 15, 2008 and are to be applied prospectively only. Early adoption is not permitted. The Company will apply the provisions of SFAS No. 141R to any business combinations effective subsequent to January 1, 2009.

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(Unaudited)

SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements - an amendment of ARB No. 51 (SFAS No. 160)

In December 2007, the FASB issued SFAS No. 160 which clarifies that a noncontrolling interest in a subsidiary is that portion of the subsidiary s equity that is attributable to owners of the subsidiary other than its parent or parent s affiliates. Noncontrolling interests are required to be reported as equity in the consolidated financial statements and as such, net income will include amounts attributable to both the parent and the noncontrolling interest with disclosure of the amounts attributable to each on the face of the consolidated statements of operations, if material. SFAS No. 160 requires that all changes in a parent s ownership interest in a subsidiary when control of the subsidiary is retained, be accounted for as equity transactions. In contrast, when control over a subsidiary is relinquished and the subsidiary is deconsolidated, SFAS No. 160 requires a parent to recognize a gain or loss in net income as well as provide certain associated expanded disclosures. SFAS No. 160 is effective as of the beginning of a reporting entity s first fiscal year beginning after December 15, 2008. SFAS No. 160 requires prospective application as of the beginning of the fiscal year in which the standard is initially applied, except for the presentation and disclosure requirements which are to be applied retrospectively for all periods presented. The adoption of SFAS No. 160 resulted in $32 million of noncontrolling interest being reclassified from total liabilities to total equity on the December 31, 2008 Condensed Consolidated Statement of Financial Position presented. The adoption did not have a material effect on the Company s results of operations.

SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities - an amendment of FASB Statement No. 133 (SFAS No. 161)

In March 2008, the FASB issued SFAS No. 161, which amends and expands the disclosure requirements for derivatives currently accounted for in accordance with SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activitie*s (SFAS No. 133). The new disclosures are designed to enhance the understanding of how and why an entity uses derivative instruments and how derivative instruments affect an entity s financial position, results of operations, and cash flows. The standard requires, on a quarterly basis, quantitative disclosures about the potential cash outflows associated with the triggering of credit-risk-contingent features, if any; tabular disclosures about the classification and fair value amounts of derivative instruments reported in the statement of financial position; disclosure of the location and amount of gains and losses on derivative instruments reported in the statement of operations; and qualitative information about how and why an entity uses derivative instruments and how derivative instruments and related hedged items affect the entity s financial statements. SFAS No. 161 is effective for fiscal periods beginning after November 15, 2008, and is to be applied on a prospective basis only. SFAS No. 161 affects disclosures only and therefore the adoption had no impact on the Company s results of operations or financial position (see Note 6).

FSP No. EITF 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities (FSP EITF 03-6-1)

In June 2008, the FASB issued FSP EITF 03-6-1, clarifying that non-forfeitable instruments granted in share-based payment transactions are participating securities prior to vesting and, therefore, need to be included in the earnings allocation in computing earnings per share under the two-class method described in FASB Statement No. 128, *Earnings Per Share.* The two-class method is an earnings allocation formula that treats participating securities as having the same rights to earnings as available to common shareholders. The provisions of this FASB staff position are effective for reporting periods ending after December 15, 2008. The adoption of FSP EITF 03-6-1 impacted previously reported basic and diluted earnings per share amounts as follows: changed from $(1.71) to $(1.70) for the three months ended September 30, 2008,

changed from $(2.11) to $(2.10) for the three months ended December 31, 2008, and changed from $(3.07) to $(3.06) for the year ended December 31, 2008. The basic and diluted earnings per share amounts for other 2008 periods were unchanged.

Pending accounting standards

FSP No. FAS 132(R)-1, Employers Disclosures about Postretirement Benefit Plan Assets (FSP FAS 132(R)-1)

In January 2009, the FASB issued FSP FAS 132(R)-1 which amends SFAS No. 132(R), *Employers Disclosures about Pensions and Other Postretirement Benefit*s, to provide guidance on an employer s disclosures about plan assets of a defined benefit pension or other postretirement plan. Since plan assets measured at fair value are reported net of benefit obligations in an employer s statements of financial position, the disclosures are intended to increase transparency surrounding the types of assets and associated risks in the benefit plans. FSP FAS 132(R)-1 requires companies to disclose information about how investment allocation decisions are made in the plans, the fair value of

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

each major category of plan assets at each annual reporting date for each plan separately, information that would enable users to assess the assumptions and valuation techniques used in the development of the fair value measurements at the reporting date, and information that provides an understanding of significant concentrations of risk in plan assets. FSP FAS 132(R)-1 is effective for fiscal years ending after December 15, 2009. The disclosures are not required for earlier periods that are presented for comparative purposes and earlier application is permitted. FSP FAS 132(R)-1 affects disclosures and therefore implementation will not impact the Company s results of operations or financial position.

SFAS No. FAS 167, Amendments to FASB Interpretation No. 46(R) (SFAS No. 167)

In June 2009, the FASB issued SFAS No. 167 which amends FASB Interpretation No. 46(R), *Consolidation of Variable Interest Entities* (FIN 46R), to require an entity to perform a qualitative analysis to determine whether the entity holds a controlling financial interest (i.e., primary beneficiary (PB)) in a variable interest entity (VIE). The analysis identifies the PB of a VIE as the entity that has both the power to direct the activities of the VIE that most significantly impact the economic performance of the VIE and the obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIE. Additional amendments include the requirement to perform ongoing reassessments of FIN 46R to determine whether the entity is the PB of a VIE and the elimination of the quantitative approach for determining the PB of a VIE. SFAS No. 167 is effective for fiscal years ending after December 15, 2009 with early application prohibited. The Company is in the process of evaluating the impact of adoption on the Company s results of operations or financial position.

2. Earnings per share

Basic earnings per share is computed based on the weighted average number of common shares outstanding. Diluted earnings per share is computed based on the weighted average number of common and dilutive potential common shares outstanding. For Allstate, dilutive potential common shares consist of outstanding stock options and restricted stock units.

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

($ in millions, except per share data)	**Three months ended June 30,**		**Six months ended June 30,**	
	2009	**2008**	**2009**	**2008**
Numerator:				
Net income	$ 389	$ 25	$ 115	$ 373
Denominator:				
Weighted average common shares outstanding	539.8	551.8	539.3	556.3

Effect of dilutive potential common shares:							
Stock options		0.8		2.0		0.8		2.0
Weighted average common and dilutive potential common shares outstanding		540.6		553.8		540.1		558.3
Earnings per share - Basic:	$	0.72	$	0.05	$	0.21	$	0.67
Earnings per share - Diluted:	$	0.72	$	0.05	$	0.21	$	0.67

The effect of dilutive potential common shares does not include the effect of options with an anti-dilutive effect on earnings per share because their exercise prices exceed the average market price of Allstate common shares during the period or for which the unrecognized compensation cost would have an anti-dilutive effect. Options to purchase 26.4 million and 17.6 million Allstate common shares, with exercise prices ranging from $26.69 to $64.53 and $48.01 to $65.38, were outstanding at June 30, 2009 and 2008, respectively, but were not included in the computation of diluted earnings per share for the three-month periods. Options to purchase 26.8 million and 17.6 million Allstate common shares, with exercise prices ranging from $26.69 to $64.53 and $48.01 to $65.38, were outstanding at June 30, 2009 and 2008, respectively, but were not included in the computation of diluted earnings per share for the six-month periods.

THE ALLSTATE CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

3. Supplemental Cash Flow Information

Non-cash investment exchanges, including modifications of certain fixed income securities, mortgage loans and other investments, as well as mergers completed with equity securities and limited partnerships, totaled $156 million and $20 million for the six-month periods ended June 30, 2009 and 2008, respectively.

Liabilities for collateral received in conjunction with the Company s securities lending and over-the-counter (OTC) derivatives and for funds received from the Company s security repurchase business activities are reported in other liabilities and accrued expenses or other investments in the Condensed Consolidated Statements of Financial Position. The accompanying cash flows are included in cash flows from operating activities in the Condensed Consolidated Statements of Cash Flows along with the activities resulting from management of the proceeds, which are as follows:

($ in millions)	Six months ended June 30,	
	2009	2008
Net change in proceeds managed		
Net change in fixed income securities	$ --	$ 399
Net change in short-term investments	(530)	82
Operating cash flow (used) provided	$ (530)	$ 481
Net change in liabilities		
Liabilities for collateral and security repurchase, beginning of year	$ (340)	$ (3,461)
Liabilities for collateral and security repurchase, end of period	(870)	(2,980)
Operating cash flow provided (used)	$ 530	$ (481)

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4. Investments

Fair values

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

($ in millions)	Amortized cost	Gross unrealized Gains	Gross unrealized Losses	Fair value
At June 30, 2009				
U.S. government and agencies	$ 3,932	$ 261	$ (8)	$ 4,185
Municipal	24,122	481	(1,506)	23,097
Corporate	31,488	649	(2,199)	29,938
Foreign government	2,479	271	(27)	2,723
Residential mortgage-backed securities (RMBS)	9,663	102	(2,262)	7,503
Commercial mortgage-backed securities (CMBS)	4,983	19	(1,765)	3,237
Asset-backed securities (ABS)	3,185	17	(1,151)	2,051
Redeemable preferred stock	38	1	(7)	32
Total fixed income securities	$ 79,890	$ 1,801	$ (8,925)	$ 72,766
At December 31, 2008				
U.S. government and agencies	$ 3,272	$ 963	$ (1)	$ 4,234
Municipal	23,565	467	(2,184)	21,848
Corporate	31,040	463	(3,876)	27,627
Foreign government	2,206	544	(75)	2,675
RMBS	8,010	93	(1,538)	6,565
CMBS	5,840	10	(2,004)	3,846
ABS	3,135	5	(1,353)	1,787
Redeemable preferred stock	36	--	(10)	26
Total fixed income securities	$ 77,104	$ 2,545	$ (11,041)	$ 68,608

Scheduled maturities

The scheduled maturities for fixed income securities are as follows at June 30, 2009:

($ in millions)	Amortized cost	Fair value
Due in one year or less	$ 2,777	$ 2,786
Due after one year through five years	18,607	18,604
Due after five years through ten years	14,457	14,300
Due after ten years	31,201	27,522
	67,042	63,212
Residential mortgage- and asset-backed securities	12,848	9,554
Total	$ 79,890	$ 72,766

Actual maturities may differ from those scheduled as a result of prepayments by the issuers. Because of the potential for prepayment on residential mortgage- and asset-backed securities, they are not categorized by contractual maturity. The commercial mortgage-backed securities are categorized by contractual maturity because they generally are not subject to prepayment risk.

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Net investment income

Net investment income is as follows:

($ in millions)	Three months ended June 30, 2009	Three months ended June 30, 2008	Six months ended June 30, 2009	Six months ended June 30, 2008
Fixed income securities	$ 993	$ 1,197	$ 2,035	$ 2,476
Equity securities	19	31	35	63
Mortgage loans	131	156	268	316
Limited partnership interests	4	30	7	90
Other	2	56	16	122
Investment income, before expense	1,149	1,470	2,361	3,067
Investment expense	(41)	(58)	(77)	(129)
Net investment income	$ 1,108	$ 1,412	$ 2,284	$ 2,938

Realized capital gains and losses

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

($ in millions)	Three months ended June 30, 2009	Three months ended June 30, 2008	Six months ended June 30, 2009	Six months ended June 30, 2008
Fixed income securities	$ 15	$ (1,137)	$ 122	$ (1,495)
Equity securities	27	(151)	(136)	(109)
Mortgage loans	(16)	(38)	(48)	(37)
Limited partnership interests	(84)	(6)	(423)	(5)
Derivatives	420	125	515	(206)
Other	(34)	(8)	(61)	(18)
Realized capital gains and losses	$ 328	$ (1,215)	$ (31)	$ (1,870)

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

($ in millions)	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
Impairment write-downs (1)	$ (291)	$ (250)	$ (911)	$ (665)
Change in intent write-downs (2)	(26)	(1,015)	(131)	(1,058)
Net OTTI losses recognized in earnings	(317)	(1,265)	(1,042)	(1,723)
Sales	263	(73)	681	30
Valuation of derivative instruments	367	40	470	(285)
Settlements of derivative instruments	52	83	40	108
EMA LP income (3)	(37)	--	(180)	--
Realized capital gains and losses	$ 328	$ (1,215)	$ (31)	$ (1,870)

(1) Beginning April 1, 2009 for fixed income securities, impairment write-downs reflect the credit loss component of issue specific other-than-temporary declines in fair value where the amortized cost basis is not expected to be entirely recovered. For periods prior to April 1, 2009 for fixed income securities and all periods for equity securities, impairment write-downs reflect issue specific other-than-temporary declines in fair value, including instances where the Company could not reasonably assert that the recovery period would be temporary.

(2) Beginning April 1, 2009 for fixed income securities, change in intent write-downs reflect instances where the Company has made a decision to sell the security or it is more likely than not the Company will be required to sell the security before recovery of its amortized cost basis. For periods prior to April 1, 2009 for fixed income securities and all periods for equity securities, change in intent write-downs reflect instances where the Company could not assert a positive intent to hold until recovery.

(3) Beginning in the fourth quarter of 2008, income from limited partnership interests accounted for utilizing the equity method of accounting (EMA LP) is reported in realized capital gains and losses. EMA LP income for periods prior to the fourth quarter of 2008 is reported in net investment income.

Gross gains of $298 million and $114 million and gross losses of $78 million and $152 million were realized on sales of fixed income securities during the three months ended June 30, 2009 and 2008, respectively. Gross gains of $948 million and $269 million and gross losses of $330 million and $288 million were realized on sales of fixed income securities during the six months ended June 30, 2009 and 2008, respectively.

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

($ in millions)	Three months ended June 30, 2009			Six months ended June 30, 2009		
	Gross	Included in OCI	Net	Gross	Included in OCI	Net
Fixed income securities:						
Municipal	$ (36)	$ 4	$ (32)	$ (86)	$ 4	(82)
Corporate	(37)	(9)	(46)	(92)	(9)	(101)

Foreign government	--	--	--	(17)	--	(17)
RMBS	(213)	151	(62)	(259)	151	(108)
CMBS	(43)	(1)	(44)	(52)	(1)	(53)
ABS	(37)	9	(28)	(175)	9	(166)
Total fixed income securities	(366)	154	(212)	(681)	154	(527)
Equity securities	(32)	--	(32)	(186)	--	(186)
Mortgage loans	(15)	--	(15)	(49)	--	(49)
Limited partnership interests	(46)	--	(46)	(243)	--	(243)
Other	(12)	--	(12)	(37)	--	(37)
Other-than-temporary impairment losses	$ (471)	$ 154	$ (317)	$ (1,196)	$ 154	$ (1,042)

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The total amount of other-than-temporary impairment losses included in accumulated other comprehensive income for fixed income securities at June 30, 2009, which were not included in earnings, are presented in the following table. The amount excludes $101 million of net unrealized gains related to changes in valuation of the fixed income securities subsequent to the impairment measurement date.

($ in millions)		
Municipal	$	(4)
Corporate		(94)
RMBS		(399)
CMBS		(63)
ABS		(125)
Total	$	(685)

A rollforward of the amount related to credit losses for fixed income securities recognized in earnings is presented in the following table.

($ in millions)		
Beginning balance of cumulative credit loss for securities held at April 1, 2009	$	(1,357)
Additional credit loss for securities previously other-than-temporarily impaired		(44)
Additional credit loss for securities not previously other-than-temporarily impaired		(148)
Reduction in credit loss for securities disposed or collected		43
Reduction in credit loss for securities other-than-temporarily impaired to fair value		--
Change in credit loss due to accretion of increase in cash flows and time value of cash flows for securities previously other-than-temporarily impaired		--
Ending balance at June 30, 2009	$	(1,506)

The Company uses its best estimate of future cash flows expected to be collected from the fixed income security discounted at the security s effective rate prior to impairment 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 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 may not be limited to, the remaining payment terms of the security, prepayment speeds, foreign exchange rates, the financial condition of the issuer(s), expected defaults, expected recoveries, the value of the underlying collateral and current subordination levels, vintage, geographic concentration, available reserves or escrows, third party guarantees and other credit enhancements. Additionally, 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 collectability of the security may also be considered. The estimated fair value of collateral may be used to estimate recovery value if the Company determines that the security is dependent on the liquidation of collateral for recovery. 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. If the Company determines that the fixed income security does not have sufficient cash flow or other information to determine a recovery value for the security, the Company may conclude that the entire decline in fair value is deemed to be credit related and is recorded in earnings. The unrealized loss deemed to be related to factors other than credit remains classified in OCI.

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Unrealized net capital gains and losses

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

($ in millions) At June 30, 2009	Fair value	Gross unrealized Gains	Gross unrealized Losses	Unrealized net gains (losses)
Fixed income securities (1)	$ 72,766	$ 1,801	$ (8,925)	$ (7,124)
Equity securities	3,297	162	(348)	(186)
Short-term investments	6,070	--	--	--
Derivative instruments(2)	(13)	5	(20)	(15)
Unrealized net capital gains and losses, pre-tax				(7,325)
Amounts recognized for:				
Insurance reserves (3)				--
DAC and DSI (4)				4,064
Amounts recognized				4,064
Deferred income taxes				1,149
Unrealized net capital gains and losses, after-tax				$ (2,112)

(1) Unrealized net capital gains and losses for fixed income securities comprise $(584) million related to unrealized net capital losses on fixed income securities with OTTI and $(6,540) million related to other unrealized net capital gains and losses.

(2) Included in the fair value of derivative securities are $(5) million classified as assets and $8 million classified as liabilities.

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

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

At December 31, 2008	Fair value	Gross unrealized Gains	Gross unrealized Losses	Unrealized net gains (losses)
Fixed income securities	$ 68,608	$ 2,545	$ (11,041)	$ (8,496)
Equity securities	2,805	112	(444)	(332)
Short-term investments	8,906	4	(1)	3
Derivative instruments (1)	15	25	(14)	11
Unrealized net capital gains and losses, pre-tax				(8,814)
Amounts recognized for:				
Insurance reserves				(378)
DAC and DSI				3,500
Amounts recognized				3,122

Deferred income taxes		1,954
Unrealized net capital gains and losses, after-tax	$	(3,738)

(1) Included in the fair value of derivative securities are $4 million classified as assets and $(11) million classified as liabilities.

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Change in unrealized net capital gains and losses

The change in unrealized net capital gains and losses for the six months ended June 30, 2009 is as follows:

($ in millions)		
Fixed income securities	$	1,372
Equity securities		146
Short-term investments		(3)
Derivative instruments		(26)
Total		1,489
Amounts recognized for:		
Insurance reserves		378
DAC and DSI		564
Increase in amounts recognized		942
Deferred income taxes		(805)
Increase in unrealized net capital gains and losses	$	1,626

Portfolio monitoring

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

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

If the Company has not made the decision to sell the fixed income security and it is not more likely than not the Company will be required to sell the fixed income security before recovery of its amortized cost basis, the Company evaluates if it expects to receive cash flows sufficient to recover the entire amortized cost basis of the security by comparing the estimated recovery value calculated by discounting the best estimate of future cash flows at the security s effective rate prior to impairment with the amortized cost of the security. If the Company does not expect to receive cash flows sufficient to recover the entire amortized cost basis of the fixed income security, the credit loss component of the impairment is recorded in earnings, with the remaining amount of the unrealized loss attributed to other factors recognized in OCI.

For equity securities, the Company considers various factors, including whether the Company has the intent and ability to hold the equity security for a period of time sufficient to recover its cost basis. Where the Company lacks the intent and ability to hold to recovery, or believes the recovery period is extended, the equity security s decline in fair value is considered other than temporary and is recorded in earnings.

Our portfolio monitoring process includes a quarterly review of all securities using a screening process to identify situations where the fair value, compared to amortized cost for fixed income securities and cost for equity securities, is below established thresholds for certain time periods, or which are identified through other monitoring criteria such as ratings, ratings downgrades or payment defaults. The securities identified, as well as others for which the Company may have a concern, are evaluated for potential other-than-temporary impairment using all reasonably available information relevant to the collectability or recovery of the security. Inherent in the Company s evaluation of other-than-temporary impairment for these fixed income and equity securities are assumptions and estimates about the financial condition of the issue or issuer and its future earnings potential. Some of the factors considered in evaluating whether a decline in fair value is other than temporary are: 1) the length of time and extent to which the fair value has been less than amortized cost for fixed income securities, or cost for equity securities; 2) the financial condition, near-term and long-term prospects of the issue or issuer, including relevant industry conditions and trends, geographic location and implications of rating agency actions and offering prices; and 3) the specific reasons that a security is in a significant unrealized loss position, including market conditions which could affect liquidity.

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The following table summarizes the gross unrealized losses and fair value of fixed income and equity securities by the length of time that individual securities have been in a continuous unrealized loss position.

($ in millions)	Less than 12 months (1)			12 months or more (1)			Total
	Number of issues	Fair value	Unrealized losses	Number of issues	Fair value	Unrealized losses	Total unrealized losses
At June 30, 2009							
Fixed income securities							
U.S. government and agencies	11	$ 619	$ (8)	--	$ --	$ --	$ (8)
Municipal	1,677	7,923	(701)	760	3,322	(805)	(1,506)
Corporate	638	6,413	(619)	776	8,050	(1,580)	(2,199)
Foreign government	47	517	(21)	14	59	(6)	(27)
RMBS	615	1,373	(112)	465	2,587	(2,150)	(2,262)
CMBS	106	935	(309)	329	2,089	(1,456)	(1,765)
ABS	31	237	(54)	214	1,403	(1,097)	(1,151)
Redeemable preferred stock	1	3	(2)	2	17	(5)	(7)
Total fixed income securities (2)	3,126	18,020	(1,826)	2,560	17,527	(7,099)	(8,925)
Equity securities	209	1,247	(313)	20	110	(35)	(348)
Total fixed income and equity securities	3,335	$ 19,267	$ (2,139)	2,580	$ 17,637	$ (7,134)	$ (9,273)
Investment grade fixed income securities	2,826	$ 16,587	$ (1,442)	2,063	$ 14,923	$ (4,918)	$ (6,360)
Below investment grade fixed income securities	300	1,433	(384)	497	2,604	(2,181)	(2,565)
Total fixed income securities	3,126	$ 18,020	$ (1,826)	2,560	$ 17,527	$ (7,099)	$ (8,925)
At December 31, 2008							
Fixed income securities							
U.S. government and agencies	5	$ 230	$ (1)	--	$ --	$ --	$ (1)
Municipal	2,648	11,981	(1,983)	117	598	(201)	(2,184)
Corporate	1,632	14,827	(2,050)	448	4,504	(1,826)	(3,876)
Foreign government	58	349	(63)	3	13	(12)	(75)
RMBS	465	1,875	(457)	317	1,685	(1,081)	(1,538)
CMBS	295	2,729	(797)	179	899	(1,207)	(2,004)
ABS	81	551	(124)	181	1,092	(1,229)	(1,353)
Redeemable preferred stock	3	17	(10)	1	1	--	(10)
Total fixed income securities	5,187	32,559	(5,485)	1,246	8,792	(5,556)	(11,041)
Equity securities	325	1,897	(398)	10	53	(46)	(444)
Total fixed income and equity securities	5,512	$ 34,456	$ (5,883)	1,256	$ 8,845	$ (5,602)	$ (11,485)
Investment grade fixed income securities	4,687	$ 30,484	$ (4,813)	1,081	$ 7,988	$ (4,961)	$ (9,774)
Below investment grade fixed income securities	500	2,075	(672)	165	804	(595)	(1,267)
Total fixed income securities	5,187	$ 32,559	$ (5,485)	1,246	$ 8,792	$ (5,556)	$ (11,041)

(1) The aging of unrealized losses, and therefore the time period category of aging, as of June 30, 2009 was reset to the historical point of impairment for securities impacted by the adoption of FSP FAS 115-2. December 31, 2008 balances have not been restated.

(2) Unrealized losses resulting from factors other than credit on fixed income securities with other-than-temporary impairments for which the Company has recorded a credit loss in earnings total $99 million for the less than 12 month category and $511 million for the 12 months or greater category.

As of June 30, 2009, $2.20 billion of unrealized losses are related to securities with an unrealized loss position less than 20% of cost or amortized cost, the degree of which suggests that these securities do not pose a high risk of being other-than-temporarily impaired. Of the $2.20 billion, $1.86 billion are related to unrealized losses on investment grade fixed income securities. Investment grade is defined as a security having a rating from the NAIC of 1 or 2; a rating of Aaa, Aa, A or Baa from Moody s, a rating of AAA, AA, A or BBB from Standard & Poor s (S&P), Fitch or Dominion, or aaa, aa, a or bbb from A.M. Best; or a comparable internal rating if an externally provided rating is not available. Unrealized losses on investment grade securities are principally related to rising interest rates or changes in credit spreads since the securities were acquired.

As of June 30, 2009, the remaining $7.07 billion of unrealized losses are related to securities in unrealized loss positions greater than or equal to 20% of cost or amortized cost. Of the $7.07 billion, $2.32 billion are related to

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below investment grade fixed income securities and $246 million are related to equity securities. Of these amounts, $1.22 billion of the below investment grade fixed income securities had been in an unrealized loss position for a period of twelve or more consecutive months as of June 30, 2009. Unrealized losses on below investment grade securities are principally related to rising interest rates or changes in credit spreads. Unrealized losses on equity securities are primarily related to equity market fluctuations. The other securities comprising the $4.50 billion of unrealized losses were evaluated based on factors such as the financial condition and near-term and long-term prospects of the issuer and were determined to have adequate resources to fulfill contractual obligations, such as recent financings or bank loans, cash flows from operations, collateral or the position of a subsidiary with respect to its parent s bankruptcy.

Unrealized losses on residential mortgage-backed, asset-backed and commercial mortgage-backed holdings were evaluated based on credit ratings, as well as the performance of the underlying collateral relative to the securities positions in the securities respective capital structure. The unrealized losses on residential mortgage-backed and asset-backed securities were evaluated with credit enhancements from bond insurers where applicable. The unrealized losses on municipal bonds that had credit enhancements from bond insurers were evaluated on the quality of the underlying security. These investments were determined to have adequate resources to fulfill contractual obligations.

As of June 30, 2009, the Company did not have the intent to sell and it is not more likely than not the Company will be required to sell fixed income securities with unrealized losses before recovery of the amortized cost basis. As of June 30, 2009, the Company had the intent and ability to hold the equity securities with unrealized losses for a period of time sufficient for them to recover.

Limited partnership impairment

As of June 30, 2009 and December 31, 2008, equity-method limited partnership interests totaled $1.40 billion and $1.56 billion, respectively. The Company recognizes a loss in value for equity-method investments when evidence demonstrates that it is other-than-temporarily impaired. Evidence of a loss in value that is other than temporary may include the absence of an ability to recover the carrying amount of the investment or the inability of the investee to sustain an earnings capacity that would justify the carrying amount of the investment. The Company did not have any write-downs for the three months ended June 30, 2009 and 2008 related to equity-method limited partnership interests. The Company had write-downs of $10 million and $8 million for the six months ended June 30, 2009 and 2008, respectively, related to equity-method limited partnership interests.

As of June 30, 2009 and December 31, 2008, the carrying value for cost-method limited partnership interests was $1.07 billion and $1.23 billion, respectively, which primarily included limited partnership interests in fund investments. The fair value for cost-method investments is estimated to be equivalent to the reported net asset value of the underlying funds. To determine if an other-than-temporary impairment has occurred, the Company evaluates whether an impairment indicator has occurred in the period that may have a significant adverse effect on the carrying value of the investment. Impairment indicators may include: actual recent cash flows received being significantly less than expected cash flows; reduced valuations based on financing completed at a lower value; completed sale of a material underlying investment at a price significantly lower than expected; significantly reduced valuations of the investments held by limited partnerships; or any other recent adverse events since the last financial statements received that might affect the fair value of the investee s capital. Additionally, the Company uses a screening process to identify those investments whose net asset value is below established thresholds for certain periods of time, and investments that are

performing below expectations for consideration for inclusion on its watch-list. The Company had write-downs of $46 million and $7 million for the three months ended June 30, 2009 and 2008, respectively, and write-downs of $233 million and $12 million for the six months ended June 30, 2009 and 2008, respectively, related to cost method investments that were other-than-temporarily impaired.

5. Fair Value of Assets and Liabilities

The hierarchy for inputs used in determining fair value maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that observable inputs be used when available. Assets and liabilities recorded on the Condensed Consolidated Statements of Financial Position at fair value are categorized in the fair value hierarchy based on the observability of inputs to the valuation techniques as follows:

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

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

(a) Quoted prices for similar assets or liabilities in active markets;

(b) Quoted prices for identical or similar assets or liabilities in non-active markets; or

(c) Valuation models whose inputs are observable, directly or indirectly, for substantially the full term of the asset or liability.

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

The availability of observable inputs varies by instrument. In situations where fair value is based on internally developed pricing models or inputs that are unobservable in the market, the determination of fair value requires more judgment. The degree of judgment exercised by the Company in determining fair value is typically greatest for instruments categorized in Level 3. In many instances, valuation inputs used to measure fair value fall into different levels of the fair value hierarchy. The category level in the fair value hierarchy is determined based on the lowest level input that is significant to the fair value measurement in its entirety. The Company uses prices and inputs that are current as of the measurement date, including during periods of market disruption. In periods of market disruption, the ability to observe prices and inputs may be reduced for many instruments. This condition could cause an instrument to be reclassified from Level 1 to Level 2, or from Level 2 to Level 3.

Certain assets are not carried at fair value on a recurring basis, including investments such as mortgage loans, limited partnership interests, bank loans and policy loans. Accordingly, such investments are only included in the fair value hierarchy disclosure when the investment is subject to remeasurement at fair value after initial recognition and the resulting remeasurement is reflected in the condensed consolidated financial statements. In addition, equity options embedded in fixed income securities are not disclosed in the hierarchy with free-standing derivatives as the embedded derivatives are presented with the host contract in fixed income securities. As of June 30, 2009, 68.4% of total assets are measured at fair value and 0.5% of total liabilities are measured at fair value.

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

Level 1 measurements

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

- Equity securities: Comprise actively traded, exchange-listed U.S. and international equity securities. Valuation is based on unadjusted quoted prices for identical assets in active markets that the Company can access.

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

- Separate account assets: Comprise actively traded mutual funds that have daily quoted net asset values for identical assets that the Company can access. Net asset values for the actively traded mutual funds in which the separate account assets are invested are obtained daily from the fund managers.

Level 2 measurements

- Fixed income securities:

Corporate, including privately placed: Valued based on inputs including quoted prices for identical or similar assets in markets that are not active. Also includes privately placed securities which have market-observable external ratings from independent third party rating agencies.

Municipal: Externally rated municipals are valued based on inputs including quoted prices for identical or similar assets in markets that are not active. Included in municipals are auction rate securities (ARS) other than those backed by student loans. ARS backed by student loans are included in Level 3.

U.S. government and agencies: Valued based on inputs including quoted prices for identical or similar assets in markets that are not active.

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CMBS: Valuation is principally based on inputs including quoted prices for identical or similar assets in markets that are not active.

Redeemable preferred stock; U.S. government sponsored entities (U.S. Agency); Prime residential mortgage-backed securities (Prime); Foreign government; ABS - credit card, auto and student loans: Valued based on inputs including quoted prices for identical or similar assets in markets that are not active.

- Equity securities: Valued based on inputs including quoted prices for identical or similar assets in markets that are not active.

- Short-term: Commercial paper and other short-term investments are valued based on quoted prices for identical or similar assets in markets that are not active or amortized cost.

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

OTC derivatives, including interest rate swaps, foreign currency swaps, foreign exchange forward contracts, certain credit default swaps, and commodity swaps, are valued using models that rely on inputs such as interest rate yield curves, currency rates, adjustment for counterparty credit risks, and commodity prices that are observable for substantially the full term of the contract. The valuation techniques underlying the models are widely accepted in the financial services industry and do not involve significant judgment.

- Contractholder funds: Derivatives embedded in certain annuity contracts are valued based on internal models that rely on inputs such as interest rate yield curves and equity index volatility assumptions that are market observable for substantially the full term of the contract. The valuation techniques are widely accepted in the financial services industry and do not include significant judgment.

Level 3 measurements

- Fixed income securities:

Corporate: Valued based on non-binding broker quotes.

Corporate privately placed: Valued based on non-binding broker quotes and models that are widely accepted in the financial services industry and use internally assigned credit ratings as inputs and instrument specific inputs. Instrument specific inputs used in internal fair value determinations include coupon rate, coupon type, weighted average life, sector of the issuer and call provisions. Privately placed securities are categorized as Level 3 as a result of the significance of non-market observable inputs. The internally modeled securities are valued based on internal ratings, which are not observable in the market. Multiple internal ratings comprise a National Association of Insurance Commissioners (NAIC) rating category and when used in the internal model provide a more refined determination of fair value. The Company s internal ratings are primarily consistent with the NAIC ratings which are generally updated annually.

Municipal: ARS primarily backed by student loans that have become illiquid due to failures in the auction market and municipal bonds that are not rated by third party credit rating agencies but are generally rated by the NAIC are included in Level 3. ARS backed by student loans are valued based on a discounted cash flow model with certain inputs to the valuation model that are significant to the valuation, but are not market observable, including estimates of future coupon rates if auction failures continue, maturity assumptions, and illiquidity premium. Non-rated municipal bonds are valued based on valuation models that are widely accepted in the financial services industry and are categorized as Level 3 as a result of the significance of non-market observable inputs, which may include projections of future cash flows.

Subprime residential mortgage-backed securities (Subprime); Alt-A residential mortgage-backed securities (Alt-A): Subprime and Alt-A are principally valued based on inputs including quoted prices for identical or similar assets in markets that exhibit less liquidity relative to those markets supporting Level 2 fair value measurements. Certain Subprime and Alt-A are valued based on non-binding broker quotes. Due to the reduced availability of actual market prices or relevant observable inputs as a result of

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the decrease in liquidity that has been experienced in the market for these securities, all Subprime and Alt-A are categorized as Level 3.

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

CMBS; Commercial real estate collateralized debt obligations (CRE CDO): CRE CDO, which are reported as CMBS, and other CMBS, are either valued based on non-binding broker quotes or based on inputs including quoted prices for identical or similar assets in markets that exhibit less liquidity relative to those markets supporting Level 2 fair value measurements. Due to the reduced availability of actual market prices or relevant observable inputs as a result of the decrease in liquidity that has been experienced in the market for these securities, certain CMBS are categorized as Level 3.

ABS - credit card, auto, student loans and other: Valued based on inputs including quoted prices for identical or similar assets in markets that are not active. Due to the reduced availability of actual market prices or relevant observable inputs as a result of the decrease in liquidity that has been experienced in the market for these securities, certain ABS are categorized as Level 3.

- Other investments: Certain free-standing OTC derivatives, such as interest rate caps and floors, certain credit default swaps and OTC options (including swaptions), are valued using valuation models that are widely accepted in the financial services industry. Non-market observable inputs such as volatility assumptions may be significant to the valuation of the instruments.

- Contractholder funds: Derivatives embedded in annuity contracts are valued internally using models widely accepted in the financial services industry that determine a single best estimate of fair value for the embedded derivatives within a block of contractholder liabilities. The models use stochastically determined cash flows based on the contractual elements of embedded derivatives and other applicable market data. These are categorized as Level 3 as a result of the significance of non-market observable inputs.

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

Mortgage loans and other investments written-down to fair value in connection with recognizing other-than-temporary impairments are valued using valuation models that are widely accepted in the financial services industry. Inputs to the valuation models include non-market observable inputs such as credit spreads. Limited partnership interests written-down to fair value in connection with recognizing other-than-temporary impairments are valued using net asset values and other sources.

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The following table summarizes the Company s assets and liabilities measured at fair value on a recurring and non-recurring basis as of June 30, 2009:

($ in millions)	**Quoted prices in active markets for identical assets (Level 1)**	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Counterparty and cash collateral netting (1)**	**Balance as of June 30, 2009**
Assets					
Fixed income securities:					
U.S. government and agencies	$ 973	$ 3,212	$ --		$ 4,185
Municipal	--	20,584	2,513		23,097
Corporate	--	20,101	9,837		29,938
Foreign government	--	2,723	--		2,723
RMBS	--	5,126	2,377		7,503
CMBS	--	2,293	944		3,237
ABS	--	323	1,728		2,051
Redeemable preferred stock	--	30	2		32
Total fixed income securities	973	54,392	17,401		72,766
Equity securities	3,004	223	70		3,297
Short-term investments	442	5,628	--		6,070
Other investments:					
Free-standing derivatives	--	779	296	$ (627)	448
Separate account assets	8,193	--	--		8,193
Other assets	1	--	2		3
Total recurring basis assets	12,613	61,022	17,769	(627)	90,777
Non-recurring basis (2)	--	--	273		273
Total assets at fair value	$ 12,613	$ 61,022	$ 18,042	$ (627)	$ 91,050
% of total assets at fair value	13.9 %	67.0 %	19.8 %	(0.7)%	100.0 %
Liabilities					
Contractholder funds:					
Derivatives embedded in annuity contracts	$ --	$ (120)	$ (155)		$ (275)
Other liabilities:					
Free-standing derivatives	(4)	(611)	(137)	$ 383	(369)
Total liabilities at fair value	**$** (4)	$ (731)	$ (292)	$ 383	$ (644)
% of total liabilities at fair value	0.6 %	113.5 %	45.3 %	(59.4)%	100.0 %

(1) The Company nets all fair value amounts recognized for derivative instruments and fair value amounts recognized for the right to reclaim cash collateral or the obligation to return cash collateral executed with the same counterparty under a master netting agreement. At June 30, 2009, the right to reclaim cash collateral was offset by securities held, and the obligation to return collateral was $244 million.

(2) Includes $144 million of mortgage loans, $85 million of limited partnership interests and $44 million of other investments written-down to fair value in connection with recognizing other-than-temporary impairments.

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The following table summarizes the Company s assets and liabilities measured at fair value on a recurring and non-recurring basis as of December 31, 2008:

($ in millions)	**Quoted prices in active markets for identical assets (Level 1)**	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Counterparty and cash collateral netting (1)**	**Balance as of December 31, 2008**
Assets					
Fixed income securities:					
U.S. government and agencies	$ 662	$ 3,572	$ --		$ 4,234
Municipal	--	19,385	2,463		21,848
Corporate	--	17,432	10,195		27,627
Foreign government	--	2,675	--		2,675
RMBS	--	3,577	2,988		6,565
CMBS	--	3,389	457		3,846
ABS	--	73	1,714		1,787
Redeemable preferred stock	--	24	2		26
Total fixed income securities	662	50,127	17,819		68,608
Equity securities	2,477	254	74		2,805
Short-term investments	563	8,343	--		8,906
Other investments:					
Free-standing derivatives	--	812	13	$ (525)	300
Separate account assets	8,239	--	--		8,239
Other assets	--	--	1		1
Total recurring basis assets	11,941	59,536	17,907	(525)	88,859
Non-recurring basis (2)	--	--	301		301
Total assets at fair value	$ 11,941	$ 59,536	$ 18,208	$ (525)	$ 89,160
% of total assets at fair value	13.4 %	66.8 %	20.4 %	(0.6)%	100.0 %
Liabilities					
Contractholder funds:					
Derivatives embedded in annuity contracts	$ --	$ (37)	$ (265)		$ (302)
Other liabilities:					
Free-standing derivatives	--	(1,177)	(114)	$ 505	(786)
Total liabilities at fair value	**$** --	$ (1,214)	$ (379)	$ 505	$ (1,088)
% of total liabilities at fair value	-- %	111.6 %	34.8 %	(46.4)%	100.0 %

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(1) The Company nets all fair value amounts recognized for derivative instruments and fair value amounts recognized for the right to reclaim cash collateral or the obligation to return cash collateral executed with the same counterparty under a master netting agreement. At December 31, 2008, the right to reclaim cash collateral was offset by securities held, and the obligation to return collateral was $20 million.

(2) Includes $165 million of mortgage loans, $121 million of limited partnership interests and $15 million of other investments written-down to fair value in connection with recognizing other-than-temporary impairments.

When the inputs used to measure fair value fall within different levels of the hierarchy, the level within which the fair value measurement is categorized is based on the lowest level input that is significant to the fair value measurement in its entirety. Thus, a Level 3 fair value measurement may include inputs that are observable (Level 1 or Level 2) and unobservable (Level 3).

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The following table provides a summary of changes in fair value during the three-month period ended June 30, 2009 of Level 3 assets and liabilities held at fair value on a recurring basis. Net transfers in and/or out of Level 3 are reported as having occurred at the beginning of the quarter the transfer occurred; therefore, for all transfers into Level 3, all realized and changes in unrealized gains and losses in the quarter of transfer are reflected in the table below.

($ in millions)		Total realized and unrealized gains (losses) included in:					Total gains (losses) included in net income for financial instruments still held at June 30, 2009 (3)
	Balance as of March 31, 2009	Net income (1)	OCI on Statement of Financial Position	Purchases, sales, issuances and settlements, net	Net transfers in and/or (out) of Level 3	Balance as of June 30, 2009	
Assets							
Fixed income securities:							
Municipal	$ 2,395	$ (4)	$ 95	$ (44)	$ 71	$ 2,513	$ (4)
Corporate	9,818	(2)	586	(554)	(11)	9,837	(15)
RMBS	2,506	(55)	115	--	(189)	2,377	(57)
CMBS	775	(72)	253	1	(13)	944	(72)
ABS	1,379	(26)	270	145	(40)	1,728	(27)
Redeemable preferred stock	2	--	--	--	--	2	--
Total fixed income securities	16,875	(159)	1,319	(452)	(182)	17,401	(175)
Equity securities	73	--	--	--	(3)	70	--
Other investments:							
Free-standing derivatives, net	(103)	213	--	49	--	159 (2)	246
Other assets	3	(1)	--	--	--	2	(1)
Total recurring Level 3 assets	$ 16,848	$ 53	$ 1,319	$ (403)	$ (185)	$ 17,632	$ 70
Liabilities							
Contractholder funds:							
Derivatives embedded in annuity contracts	$ (291)	$ 131	$ --	$ 5	$ --	$ (155)	$ 131
Total recurring Level 3 liabilities	$ (291)	$ 131	$ --	$ 5	$ --	$ (155)	$ 131

(1) The effect to net income totals $184 million and is reported in the Condensed Consolidated Statements of Operations as follows: $38 million in realized capital gains and losses, $15 million in net investment income and $(131) million in life and annuity contract benefits.

(2) Comprises $296 million of assets and $(137) million of liabilities.

(3) The amounts represent gains and losses included in net income for the period of time that the asset or liability was determined to be in Level 3. These gains and losses total $201 million and are reported in the Condensed Consolidated Statements of Operations as follows: $52 million in realized capital gains and losses, $17 million in net investment income, $(1) million in interest credited to contractholder funds, and $(131) million in life and annuity contract benefits.

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The following table provides a summary of changes in fair value during the six-month period ended June 30, 2009 of Level 3 assets and liabilities held at fair value on a recurring basis.

($ in millions)		Total realized and unrealized gains (losses) included in:					
	Balance as of December 31, 2008	Net income (1)	OCI on Statement of Financial Position	Purchases, sales, issuances and settlements, net	Net transfers in and/or (out) of Level 3	Balance as of June 30, 2009	Total gains (losses) included in net income for financial instruments still held at June 30, 2009 (3)
Assets							
Fixed income securities:							
Municipal	$ 2,463	$ (3)	$ 61	$ (35)	$ 27	$ 2,513	$ (3)
Corporate	10,195	(52)	638	(880)	(64)	9,837	(65)
RMBS	2,988	(59)	(209)	(143)	(200)	2,377	(73)
CMBS	457	(106)	172	(4)	425	944	(94)
ABS	1,714	(166)	288	9	(117)	1,728	(153)
Redeemable preferred stock	2	--	--	--	--	2	--
Total fixed income securities	17,819	(386)	950	(1,053)	71	17,401	(388)
Equity securities	74	--	(4)	3	(3)	70	--
Other investments:							
Free-standing derivatives, net	(101)	219	--	41	--	159 (2)	254
Other assets	1	1	--	--	--	2	1
Total recurring Level 3 assets	$ 17,793	$ (166)	$ 946	$ (1,009)	$ (68)	$ 17,632	$ (133)
Liabilities							
Contractholder funds:							
Derivatives embedded in annuity contracts	$ (265)	$ 105	$ --	$ 5	$ --	$ (155)	$ 105
Total recurring Level 3 liabilities	$ (265)	$ 105	$ --	$ 5	$ --	$ (155)	$ 105

(1) The effect to net income totals $(61) million and is reported in the Condensed Consolidated Statements of Operations as follows: $(230) million in realized capital gains and losses, $65 million in net investment income, $1 million in interest credited to contractholder funds, and $(105) million in life and annuity contract benefits.

(2) Comprises $296 million of assets and $(137) million of liabilities.

(3) The amounts represent gains and losses included in net income for the period of time that the asset or liability was determined to be in Level 3. These gains and losses total $(28) million and are reported in the Condensed Consolidated Statements of Operations as follows: $(196) million in realized capital gains and losses, $62 million in net investment income, $(1) million in interest credited to contractholder funds, and $(105) million in life and annuity contract benefits.

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The following table provides a summary of changes in fair value during the three-month period ended June 30, 2008 of Level 3 assets and liabilities held at fair value on a recurring basis.

($ in millions)		Total realized and unrealized gains (losses) included in:					
	Balance as of March 31, 2008	Net income (1)	OCI on Statement of Financial Position	Purchases, sales, issuances and settlements, net	Net transfers in and/or (out) of Level 3	Balance as of June 30, 2008	Total gains (losses) included in net income for financial instruments still held at June 30, 2008 (3)
Assets							
Fixed income securities:							
Municipal	$ 1,477	$ (2)	$ (62)	$ (26)	$ 1,502	$ 2,889	$ (2)
Corporate	12,804	(40)	(187)	(479)	(75)	12,023	(64)
Foreign government	14	--	--	5	(14)	5	--
RMBS	4,434	(427)	267	(312)	--	3,962	(410)
CMBS	670	(349)	307	(48)	4	584	(323)
ABS	3,166	(8)	(67)	(363)	95	2,823	(2)
Redeemable preferred stock	1	--	--	--	--	1	--
Total fixed income securities	22,566	(826)	258	(1,223)	1,512	22,287	(801)
Equity securities	128	(4)	(3)	36	(82)	75	(2)
Other investments:							
Free-standing derivatives, net	(39)	10	--	10	--	(19) (2)	41
Other assets	2	--	--	--	--	2	--
Total recurring Level 3 assets	$ 22,657	$ (820)	$ 255	$ (1,177)	$ 1,430	$ 22,345	$ (762)
Liabilities							
Contractholder funds:							
Derivatives embedded in annuity contracts	$ (10)	$ (11)	$ --	$ 1	$ --	$ (20)	$ (11)
Total recurring Level 3 liabilities	$ (10)	$ (11)	$ --	$ 1	$ --	$ (20)	$ (11)

(1) The effect to net income totals $(831) million and is reported in the Condensed Consolidated Statements of Operations as follows: $(834) million in realized capital gains and losses, $15 million in net investment income, $(1) million in interest credited to contractholder funds, and $(11) million in life and annuity contract benefits.

(2) Comprises $59 million of assets and $(78) million of liabilities.

(3) The amounts represent gains and losses included in net income for the period of time that the asset or liability was determined to be in Level 3. These gains and losses total $(773) million and are reported in the Condensed Consolidated Statements of Operations as follows: $(777) million in realized capital gains and losses, $15 million in net investment income, and $(11) million in life and annuity contract benefits.

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The following table provides a summary of changes in fair value during the six-month period ended June 30, 2008 of Level 3 assets and liabilities held at fair value on a recurring basis.

($ in millions)		Total realized and unrealized gains (losses) included in:					
	Balance as of January 1, 2008	Net income (1)	OCI on Statement of Financial Position	Purchases, sales, issuances and settlements, net	Net transfers in and/or (out) of Level 3	Balance as of June 30, 2008	Total gains (losses) included in net income for financial instruments still held at June 30, 2008 (3)
Assets							
Fixed income securities:							
Municipal	$ 1,477	$ 3	$ (78)	$ (35)	$ 1,522	$ 2,889	$ (2)
Corporate	12,868	(167)	(189)	(594)	105	12,023	(206)
Foreign government	19	1	--	(1)	(14)	5	1
RMBS	5,405	(629)	(226)	(567)	(21)	3,962	(593)
CMBS	833	(347)	155	(62)	5	584	(320)
ABS	3,769	(20)	(381)	(640)	95	2,823	(20)
Redeemable preferred stock	1	--	--	--	--	1	4
Total fixed income securities	24,372	(1,159)	(719)	(1,899)	1,692	22,287	(1,136)
Equity securities	129	(5)	(9)	49	(89)	75	(3)
Other investments:							
Free-standing derivatives, net	10	(42)	--	13	--	(19) (2)	3
Other assets	2	--	--	--	--	2	--
Total recurring Level 3 assets	$ 24,513	$ (1,206)	$ (728)	$ (1,837)	$ 1,603	$ 22,345	$ (1,136)
Liabilities							
Contractholder funds:							
Derivatives embedded in annuity contracts	$ 4	$ (25)	$ --	$ 1	$ --	$ (20)	$ (25)
Total recurring Level 3 liabilities	$ 4	$ (25)	$ --	$ 1	$ --	$ (20)	$ (25)

(1) The effect to net income totals $(1.23) billion and is reported in the Condensed Consolidated Statements of Operations as follows: $(1.23) billion in realized capital gains and losses, $28 million in net investment income, $(4) million in interest credited to contractholder funds, and $(25) million in life and annuity contract benefits.

(2) Comprises $59 million of assets and $(78) million of liabilities.

(3) The amounts represent gains and losses included in net income for the period of time that the asset or liability was determined to be in Level 3. These gains and losses total $(1.16) billion and are reported in the Condensed Consolidated Statements of Operations as follows: $(1.16) billion in realized capital gains and losses, $28 million in net investment income, $(1) million in interest credited to contractholder funds, and $(25) million in life and annuity contract benefits.

Presented below are the carrying values and fair value estimates of financial instruments not carried at fair value as of June 30, 2009.

Financial assets

($ in millions)	**June 30, 2009**		**December 31, 2008**	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Mortgage loans	$ 9,406	$ 7,736	$ 10,229	$ 8,903
Limited partnership interests cost basis	1,065	971	1,228	1,217
Bank loans	695	600	1,038	713

The fair value of mortgage loans is based on discounted contractual cash flows or if the loans are impaired due to credit reasons, the lower of discounted contractual cash flows or fair value of collateral less costs to sell. Risk adjusted discount rates are selected using current rates at which similar loans would be made to borrowers with similar characteristics, using similar types of properties as collateral. The fair value of limited partnership interests accounted for on the cost basis is determined using reported net asset values of the underlying funds. The fair value of bank loans, which are reported in other investments on the Condensed Consolidated Statements of Financial Position, are valued based on broker quotes from brokers familiar with the loans and current market conditions.

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Financial liabilities

($ in millions)	June 30, 2009		December 31, 2008	
	Carrying value	Fair value	Carrying value	Fair value
Contractholder funds on investment contracts	$ 42,334	$ 39,749	$ 46,972	$ 43,479
Long-term debt	6,658	6,199	5,659	4,944
Liability for collateral	870	870	340	340

The fair value of contractholder funds on investment contracts is based on the terms of the underlying contracts utilizing prevailing market rates for similar contracts adjusted for credit risk. Deferred annuities included in contractholder funds are valued using discounted cash flow models which incorporate market value margins, which are based on the cost of holding economic capital, and the Company s own credit risk. Immediate annuities without life contingencies and fixed rate funding agreements are valued at the present value of future benefits using market implied interest rates which include the Company s own credit risk.

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

6. Derivative Financial Instruments

The Company primarily uses derivatives for risk management and asset replication. In addition, the Company has derivatives embedded in non-derivative host contracts, which are required to be separated from the host contracts and accounted for at fair value as derivative instruments. With the exception of non-hedge derivatives used for asset replication and non-hedge embedded derivatives, all of the Company s derivatives are evaluated for their ongoing effectiveness as either accounting hedge or non-hedge derivative financial instruments on at least a quarterly basis. The Company does not use derivatives for trading purposes. Non-hedge accounting is generally used for portfolio level hedging strategies where the terms of the individual hedged items do not meet the strict homogeneity requirements prescribed in SFAS No. 133 to permit the application of SFAS No. 133 s hedge accounting model.

The Company uses derivatives to partially mitigate potential adverse impacts from changes in risk-free interest rates, negative equity market valuations and increases in credit spreads. Property-Liability uses interest rate swaption contracts and exchange traded options on Treasury futures to offset potential declining fixed income market values resulting from potential rising interest rates. Property-Liability also uses interest rate swaps to mitigate municipal bond interest rate risk within the municipal bond portfolio. Exchange traded equity put options are utilized by Property-Liability for overall equity portfolio protection from significant declines in equity market values below a targeted level. Equity index futures are used by Property-Liability to offset valuation losses in our equity portfolio during periods of declining equity market values. Credit default swaps are typically used to mitigate the credit risk within the Property-Liability and Allstate Financial fixed income portfolios.

Portfolio duration management is a risk management strategy that is principally employed by Property-Liability wherein, depending on the current portfolio duration relative to a designated target and the expectations of future interest rate movements, the Company uses financial futures and interest rate swaps to change the duration of the portfolio in order to mitigate the economic effect that interest rates would otherwise have on the fair value of its fixed income securities.

Property-Liability also uses futures to hedge the market risk related to deferred compensation liability contracts and forward contracts to hedge foreign currency risk. Allstate Financial uses foreign currency swaps primarily to reduce the foreign currency risk associated with issuing foreign currency denominated funding agreements and holding foreign currency denominated investments.

Asset-liability management is a risk management strategy that is principally employed by Allstate Financial to balance the respective interest-rate sensitivities of its assets and liabilities. Depending upon the attributes of the assets acquired and liabilities issued, derivative instruments such as interest rate swaps, caps, floors and futures are acquired to change the interest rate characteristics of existing assets and liabilities to ensure the relationship is maintained within specified ranges and to reduce exposure to rising or falling interest rates. Allstate Financial uses financial futures and interest rate swaps to hedge anticipated asset purchases and liability issuances and financial futures and options for

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

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

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

The Company s primary embedded derivatives are conversion options in fixed income securities, which provide the Company with the right to convert the instrument into a predetermined number of shares of common stock; equity options in Allstate Financial annuity product contracts, which provide equity returns to contractholders; and equity-indexed notes containing equity call options, which provide a coupon payout that is determined using one or more equity-based indices.

The notional amounts specified in the contracts are used to calculate the exchange of contractual payments under the agreements and are generally not representative of the potential for gain or loss on these agreements. However, the notional amounts specified in selling protection credit default swaps represent the maximum amount of potential loss, assuming no recoveries.

Fair value, which is equal to the carrying value, is the estimated amount that the Company would receive (pay) to terminate the derivative contracts at the reporting date. The carrying value amounts for OTC free-standing derivatives have been further adjusted for the effects, if any, of legally enforceable master netting agreements and are presented on a net basis in the Condensed Consolidated Statements of Financial Position. For certain exchange traded derivatives, the exchange requires margin deposits as well as daily cash settlements of margin accounts. As of June 30, 2009, the Company pledged $76 million of securities in the form of margin deposits.

The net impact to pre-tax income for derivatives includes valuation and settlements of derivatives. For those derivatives which qualify for fair value hedge accounting, net income includes the changes in the fair value of the hedged risk, and therefore reflects any hedging ineffectiveness. For cash flow hedges, gains and losses amortized from accumulated other comprehensive income are reported in net income. For embedded derivatives in convertible fixed income securities and equity-indexed notes, net income includes the change in fair value of the embedded derivative and accretion income related to the host instrument.

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The following table provides a summary of the volume and fair value positions of derivative instruments as well as their reporting location in the Condensed Consolidated Statements of Financial Position at June 30, 2009.

($ in millions, except number of contracts)		**Asset derivatives**				
		Volume (1)				
	Balance sheet location	Notional amount	Number of contracts	Fair value, net	Gross asset	Gross liability
Derivatives designated as accounting hedging instruments						
Interest rate swap agreements	Other investments	$ 1,054	n/a	$ (104)	$ --	$ (104)
Foreign currency swap agreements	Other investments	38	n/a	(4)	--	(4)
Foreign currency and interest rate swap agreements	Other investments	723	n/a	212	212	--
Total		$ 1,815	n/a	$ 104	$ 212	$ (108)
Derivatives not designated as accounting hedging instruments						
Interest rate contracts						
Interest rate swap agreements	Other investments	$ 4,116	n/a	$ 163	$ 187	$ (24)
Interest rate swaption agreements	Other investments	14,000	n/a	219	219	--
Interest rate cap and floor agreements	Other investments	2,619	n/a	--	13	(13)
Financial futures contracts and options	Other investments	n/a	29,600	6	6	--
Financial futures contracts and options	Other assets	n/a	2,727	--	--	--
Equity and index contracts						
Options, financial futures and warrants	Other investments	79	137,730	233	233	--
Options, financial futures and warrants	Other assets	n/a	3,007	1	1	--
Foreign currency contracts						
Foreign currency swap agreements	Other investments	75	n/a	2	3	(1)
Foreign currency forwards and options	Other investments	169	n/a	4	8	(4)
Embedded derivative financial instruments						
Conversion options in fixed income securities	Fixed income securities	990	n/a	254	261	(7)
Equity-indexed call options in fixed income securities	Fixed income securities	665	n/a	77	77	--
Other embedded derivative financial instruments	Other investments	1,000	n/a	1	1	--
Credit default contracts						
Credit Default Swaps Buying Protection	Other investments	424	n/a	6	13	(7)
Credit Default Swaps Selling Protection	Other investments	218	n/a	(45)	--	(45)
Other contract						
Other contracts	Other investments	75	n/a	--	--	--

Other contracts	Other assets		6	n/a		2		2		--
Total		$	24,436	173,064	$	923	$	1,024	$	(101)
Total derivative assets		$	26,251	173,064	$	1,027	$	1,236	$	(209)

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

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($ in millions, except number of contracts)		**Liability derivatives**				
		Volume (1)				
	Balance sheet location	Notional amount	Number of contracts	Fair value, net	Gross asset	Gross liability
Derivatives designated as accounting hedging instruments						
Interest rate swap agreements	Other liabilities & accrued expenses	$ 2,099	n/a	$ (205)	$ --	$ (205)
Foreign currency swap agreements	Other liabilities & accrued expenses	189	n/a	(8)	5	(13)
Foreign currency and interest rate swap agreements	Other liabilities & accrued expenses	147	n/a	29	29	--
Foreign currency and interest rate swap agreements	Contractholder funds	n/a	n/a	18	18	--
Total		$ 2,435	n/a	$ (166)	$ 52	$ (218)
Derivatives not designated as accounting hedging instruments						
Interest rate contracts						
Interest rate swap agreements	Other liabilities & accrued expenses	$ 4,465	n/a	$ (64)	$ 53	$ (117)
Interest rate swaption agreements	Other liabilities & accrued expenses	3,000	n/a	46	46	--
Interest rate cap and floor agreements	Other liabilities & accrued expenses	3,091	n/a	(5)	16	(21)
Financial futures contracts and options	Other liabilities & accrued expenses	n/a	500	--	--	--
Equity and index contracts						
Options, financial futures and warrants	Other liabilities & accrued expenses	24	33,086	(91)	--	(91)
Foreign currency contracts						
Foreign currency swap agreements	Other liabilities & accrued expenses	40	n/a	--	--	--
Foreign currency forwards and options	Other liabilities & accrued expenses	n/a	n/a	--	--	--
Embedded derivative financial instruments						
Guaranteed accumulation benefits	Contractholder funds	1,000	n/a	(93)	--	(93)
Guaranteed withdrawal benefits	Contractholder funds	744	n/a	(62)	--	(62)
Other embedded derivative financial instruments	Contractholder funds	4,264	n/a	(121)	--	(121)
Credit default contracts						
Credit Default Swaps Buying Protection	Other liabilities & accrued expenses	816	n/a	(12)	14	(26)
Credit Default Swaps Selling Protection	Other liabilities & accrued expenses	454	n/a	(77)	--	(77)
Total		$ 17,898	33,586	$ (479)	$ 129	$ (608)
Total derivative liabilities		$ 20,333	33,586	$ (645)	$ 181	$ (826)
Total derivatives		$ 46,584	206,650	$ 382		

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

The following table provides a summary of the impacts of the Company s foreign currency contracts in cash flow hedging relationships in the Condensed Consolidated Statements of Operations and the Condensed Consolidated Statements of Financial Position. Amortization of net gains from accumulated other comprehensive income related to cash flow hedges is expected to be $1 million during the next twelve months.

($ in millions)

Effective portion	**Three months ended June 30, 2009**	**Six months ended June 30, 2009**
Loss recognized in OCI on derivatives during the period	$ (28)	$ (24)
Loss recognized in OCI on derivatives during the term of the hedging relationship	$ (15)	$ (15)
Gain reclassified from AOCI into income (net investment income)	$ --	$ 1
Gain reclassified from AOCI into income (realized capital gains and losses)	$ 1	$ 1
Ineffective portion and amount excluded from effectiveness testing		
Gain recognized in income on derivatives (realized capital gains and losses)	$ --	$ --

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

($ in millions)	Three months ended June 30, 2009					
	Net investment income	Realized capital gains and losses	Life and annuity contract benefits	Interest credited to contractholder funds	Operating costs and expenses	Total gain (loss) recognized in net income on derivatives
Derivatives in fair value accounting hedging relationships						
Interest rate contracts	$ 71	$ 6	$ --	$ (1)	$ --	$ 76
Foreign currency and interest rate contracts	--	(2)	--	90	--	88
Subtotal	71	4	--	89	--	164
Derivatives not designated as accounting hedging instruments						
Interest rate contracts	--	540	--	--	--	540
Equity and index contracts	--	(132)	--	32	16	(84)
Embedded derivative financial instruments	--	52	133	(68)	--	117
Foreign currency contracts	--	(7)	--	--	(12)	(19)
Credit default contracts	--	(38)	--	--	--	(38)
Other contracts	(1)	--	--	(4)	--	(5)
Subtotal	(1)	415	133	(40)	4	511
Total	$ 70	$ 419	$ 133	$ 49	$ 4	$ 675

	Six months ended June 30, 2009					
	Net investment income	Realized capital gains and losses	Life and annuity contract benefits	Interest credited to contractholder funds	Operating costs and expenses	Total gain (loss) recognized in net income on derivatives
Derivatives in fair value accounting hedging relationships						
Interest rate contracts	$ 78	$ 10	$ --	$ (13)	$ --	$ 75
Foreign currency and interest rate contracts	--	(3)	--	60	--	57
Subtotal	78	7	--	47	--	132
Derivatives not designated as accounting hedging instruments						
Interest rate contracts	--	579	--	--	--	579
Equity and index contracts	--	(85)	--	9	3	(73)
Embedded derivative financial instruments	--	29	110	(85)	--	54
Foreign currency contracts	--	(6)	--	--	(12)	(18)

Credit default contracts	--	(10)	--	--	--	(10)
Other contracts	(1)	--	--	(1)	--	(2)
Subtotal	(1)	507	110	(77)	(9)	530
Total	$ 77	$ 514	$ 110	$ (30)	$ (9)	$ 662

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The following table provides a summary of the changes in fair value of the Company s fair value hedging relationships in the Condensed Consolidated Statements of Operations.

($ in millions)	Three months ended June 30, 2009			
	Gain (loss) on derivatives		Gain (loss) on hedged risk	
Location of gain or (loss) recognized in net income on derivatives	Interest rate contracts	Foreign currency & interest rate contracts	Contractholder funds	Investments
Interest credited to contractholder funds	$ --	$ 79	$ (79)	$ --
Net investment income	105	--	--	(105)
Realized capital gains and losses	6	(2)	--	--
Total	$ 111	$ 77	$ (79)	$ (105)

	Six months ended June 30, 2009			
	Gain (loss) on derivatives		Gain (loss) on hedged risk	
Location of gain or (loss) recognized in net income on derivatives	Interest rate contracts	Foreign currency & interest rate contracts	Contractholder funds	Investments
Interest credited to contractholder funds	$ (26)	$ 44	$ (18)	$ --
Net investment income	145	--	--	(145)
Realized capital gains and losses	10	(3)	--	--
Total	$ 129	$ 41	$ (18)	$ (145)

The Company manages its exposure to credit risk by utilizing highly rated counterparties, establishing risk control limits, executing legally enforceable master netting agreements (MNAs) and obtaining collateral where appropriate. The Company uses MNAs for OTC derivative transactions, including interest rate swap, foreign currency swap, interest rate cap, interest rate floor, credit default swap, forward and certain option agreements (including swaptions). These agreements permit either party to net payments due for transactions covered by the agreements. Under the provisions of the agreements, collateral is either pledged or obtained when certain predetermined exposure limits are exceeded. As of June 30, 2009, counterparties pledged $246 million in cash and $91 million in securities to the Company, and the Company pledged $218 million in securities to counterparties which includes $161 million of collateral posted under MNAs for contracts containing credit-risk-contingent provisions that are in a liability position and $57 million of collateral posted under MNAs for contracts without credit-risk-contingent liabilities. The Company has not incurred any losses on derivative financial instruments due to counterparty nonperformance. Other derivatives including futures and certain option contracts are traded on organized exchanges, which require margin deposits and guarantee the execution of trades, thereby mitigating any potential credit risk associated with transactions executed on organized exchanges.

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

The following table summarizes the counterparty credit exposure by counterparty credit rating as it relates to interest rate swap, foreign currency swap, interest rate cap, interest rate floor, credit default swap, forward and certain option agreements (including swaptions).

($ in millions)	June 30, 2009				December 31, 2008			
Rating (1)	Number of counter-parties	Notional amount (2)	Credit exposure (2)	Exposure, net of collateral (2)	Number of counter-parties	Notional amount (2)	Credit exposure (2)	Exposure, net of collateral (2)
AA-	2	$ 6,640	$ 149	$ 36	3	$ 4,749	$ 21	$ 21
A+	6	14,961	216	46	5	6,951	15	15
A	3	1,748	81	27	3	3,730	58	38
A-	1	166	21	21	1	216	25	25
Total	12	$ 23,515	$ 467	$ 130	12	$ 15,646	$ 119	$ 99

(1) Rating is the lower of Standard & Poor s (S&P) or Moody s ratings.

(2) Only OTC derivatives with a net positive fair value are included for each counterparty.

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Market risk is the risk that the Company will incur losses due to adverse changes in market rates and prices. Market risk exists for all of the derivative financial instruments the Company currently holds, as these instruments may become less valuable due to adverse changes in market conditions. To limit this risk, the Company s senior management has established risk control limits. In addition, changes in fair value of the derivative financial instruments that the Company uses for risk management purposes are generally offset by the change in the fair value or cash flows of the hedged risk component of the related assets, liabilities or forecasted transactions.

Certain of the Company s derivative instruments contain credit-risk-contingent termination events, cross-default provisions and credit support annex agreements. Credit-risk-contingent termination events allow the counterparties to terminate the derivative on certain dates if AIC s, ALIC s or Allstate Life Insurance Company of New York s (ALNY) financial strength credit ratings by Moody s or S&P fall below a certain level or in the event AIC, ALIC or ALNY are no longer rated by both Moody s and S&P. Credit-risk-contingent cross-default provisions allow the counterparties to terminate the derivative instruments if the Company defaults by pre-determined threshold amounts on certain debt instruments. Credit-risk-contingent credit support annex agreements specify the amount of collateral the Company must post to counterparties based on AIC s, ALIC s or ALNY s financial strength credit ratings by Moody s or S&P, or in the event AIC, ALIC or ALNY are no longer rated by both Moody s and S&P.

The following summarizes the fair value of derivative instruments with termination, cross-default or collateral credit-risk-contingent features that are in a liability position as of June 30, 2009, as well as the fair value of assets and collateral that are netted against the liability in accordance with provisions within legally enforceable MNAs.

($ in millions)		
Gross liability fair value of contracts containing credit-risk-contingent features	$	605
Gross asset fair value of contracts containing credit-risk-contingent features and subject to MNAs		(362)
Collateral posted under MNAs for contracts containing credit-risk-contingent features		(161)
Maximum amount of additional exposure for contracts with credit-risk-contingent features if all features were triggered concurrently	$	82

Credit derivatives selling protection

Credit default swaps (CDS) are utilized for selling credit protection against a specified credit event. A credit default swap is a derivative instrument, representing an agreement between two parties to exchange the credit risk of a specified entity (or a group of entities), or an index based on the credit risk of a group of entities (all commonly referred to as the reference entity or a portfolio of reference entities), for a periodic premium. In selling protection, CDS are used to replicate fixed income securities and to complement the cash market when credit exposure to certain issuers is not available or when the derivative alternative is less expensive than the cash market alternative. CDS typically have a five-year term.

The following table shows the CDS notional amounts by credit rating and fair value of protection sold as of June 30, 2009:

($ in millions)	**Notional amount credit rating underlying notional**						
	AAA	**AA**	**A**	**BBB**	**BB and lower**	**Total**	**Fair value**
Single name							
Investment grade corporate debt	$ --	$ 10	$ 82	$ 105	$ 30	$ 227	$ (20)
Municipal	--	135	--	--	--	135	(16)
Subtotal	--	145	82	105	30	362	(36)
First-to-default							
Investment grade corporate debt	--	--	45	45	--	90	(3)
Municipal	--	20	135	--	--	155	(40)
Subtotal	--	20	180	45	--	245	(43)
Index							
Investment grade corporate debt	1	5	21	25	13	65	(43)
Total	$ 1	$ 170	$ 283	$ 175	$ 43	$ 672	$ (122)

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The following table shows the CDS notional amounts by credit rating and fair value of protection sold as of December 31, 2008:

($ in millions)	Notional amount credit rating underlying notional						
	AAA	AA	A	BBB	BB and lower	Total	Fair value
Single name							
Investment grade corporate debt	$ 20	$ --	$ 142	$ 140	$ --	$ 302	$ (26)
High yield debt	--	--	--	--	10	10	(3)
Municipal	--	135	--	--	--	135	(20)
Sovereign	--	--	--	20	5	25	(1)
Subtotal	20	135	142	160	15	472	(50)
First-to-default							
Investment grade corporate debt	--	--	30	60	--	90	(5)
Municipal	--	120	35	--	--	155	(43)
Subtotal	--	120	65	60	--	245	(48)
Index							
Investment grade corporate debt	6	5	101	181	46	339	(16)
Total	$ 26	$ 260	$ 308	$ 401	$ 61	$ 1,056	$ (114)

In selling protection with CDS, the Company sells credit protection on an identified single name, a basket of names in a first-to-default (FTD) structure or credit derivative index (CDX) that is generally investment grade, and in return receives periodic premiums through expiration or termination of the agreement. With single name CDS, this premium or credit spread generally corresponds to the difference between the yield on the referenced entity s public fixed maturity cash instruments and swap rates, at the time the agreement is executed. With FTD baskets, because of the additional credit risk inherent in a basket of named credits, the premium generally corresponds to a high proportion of the sum of the credit spreads of the names in the basket and the correlation between the names. CDX index is utilized to take a position on multiple (generally 125) reference entities. Credit events are typically defined as bankruptcy, failure to pay, or restructuring, depending on the nature of the reference credit. If a credit event occurs, the Company settles with the counterparty, either through physical settlement or cash settlement. In a physical settlement, a reference asset is delivered by the buyer of protection to the Company, in exchange for cash payment at par, whereas in a cash settlement, the Company pays the difference between par and the prescribed value of the reference asset. When a credit event occurs in a single name or FTD basket (for FTD, the first credit event occurring for any one name in the basket), the contract terminates at time of settlement. For CDX index, the reference entity s name incurring the credit event is removed from the index while the contract continues until expiration. The maximum payout on a CDS is the contract notional amount. A physical settlement may afford the Company with recovery rights as the new owner of the asset.

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

7. Reserve for Property-Liability Insurance Claims and Claims Expense

The Company establishes reserves for claims and claims expense (loss) on reported and unreported claims of insured losses. The Company s reserving process takes into account known facts and interpretations of circumstances and factors including the Company s experience with similar cases, actual claims paid, historical trends involving claim payment patterns and pending levels of unpaid claims, loss management programs, product mix and contractual terms, law changes, court decisions, changes to regulatory requirements and economic conditions. In the normal course of business, the Company may also supplement its claims processes by utilizing third party adjusters, appraisers, engineers, inspectors, other professionals and information sources to assess and settle catastrophe and non-catastrophe related claims. The effects of inflation are implicitly considered in the reserving process.

Because reserves are estimates of unpaid portions of losses that have occurred, including incurred but not reported (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 amounts, which are

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based on management s best estimates. The highest degree of uncertainty is associated with reserves for losses incurred in the current reporting period as it contains the greatest proportion of losses that have not been reported or settled. The Company regularly updates its reserve estimates as new information becomes available and as events unfold that may affect the resolution of unsettled claims. Changes in prior year reserve estimates, which may be material, are reported in property-liability insurance claims and claims expense in the Condensed Consolidated Statements of Operations in the period such changes are determined.

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

8. Reinsurance

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

($ in millions)	**Three months ended June 30,**		**Six months ended June 30,**	
	2009	**2008**	**2009**	**2008**
Property-liability insurance premiums earned	$ 264	$ 294	$ 529	$ 624
Life and annuity premiums and contract charges	202	225	406	459

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

($ in millions)	**Three months ended June 30,**		**Six months ended June 30,**	
	2009	**2008**	**2009**	**2008**
Property-liability insurance claims and claims expense	$ 67	$ 47	$ 178	$ 120
Life and annuity contract benefits	157	169	618	362
Interest credited to contractholder funds	9	8	15	18

9. Capital Structure

A universal shelf registration statement was filed with the Securities and Exchange Commission (SEC) on May 8, 2009. The Company can use the current shelf registration to issue an unspecified amount of debt securities, common stock, preferred stock, depositary shares, warrants, stock purchase contracts, stock purchase units and securities of trust subsidiaries. The specific terms of any securities the Company issues under this registration statement will be provided in the applicable prospectus supplements.

On May 11, 2009, the Company issued $300 million of 6.20% Senior Notes due 2014 and $700 million of 7.45% Senior Notes due 2019, utilizing the registration statement filed with the SEC on May 8, 2009. The proceeds of this issuance are being used for general corporate purposes, as well as to facilitate the repayment of the $750 million of 7.20% Senior Notes scheduled to mature on December 1, 2009.

10. Company Restructuring

The Company undertakes various programs to reduce expenses. These programs generally involve a reduction in staffing levels, and in certain cases, office closures. Restructuring and related charges include employee termination and relocation benefits, and post-exit rent expenses in connection with these programs, and non-cash charges resulting from pension benefit payments made to agents in connection with the 1999 reorganization of Allstate s multiple agency programs to a single exclusive agency program. The expenses related to these activities are included in the Condensed Consolidated Statements of Operations as restructuring and related charges, and totaled $32 million and $(5) million for the three-month periods ended June 30, 2009 and 2008, respectively, and $77 million and $(6) million for the six-month periods ended June 30, 2009 and 2008, respectively.

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The following table illustrates the changes in the restructuring liability during the six-month period ended June 30, 2009:

($ in millions)	**Employee costs**	**Exit costs**	**Total liability**
Balance at the beginning of the year	$ 10	$ 1	$ 11
Expense incurred	57	3	60
Payments applied against liability	(29)	(1)	(30)
Balance at the end of the period	$ 38	$ 3	$ 41

The payments applied against the liability for employee costs primarily reflect severance costs.

11. Guarantees and Contingent Liabilities

State facility assessments

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

Shared markets

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

Guarantees

The Company owns certain fixed income securities that obligate the Company to exchange credit risk or to forfeit principal due, depending on the nature or occurrence of specified credit events for the referenced entities. In the event all such specified credit events were to occur, the Company s maximum amount at risk on these fixed income securities, as measured by the amount of the aggregate initial investment, was $172 million at June 30, 2009. The obligations associated with these fixed income securities expire at various times during the next five years.

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

The Company provides residual value guarantees on Company leased automobiles. If all outstanding leases were terminated effective June 30, 2009, the Company s maximum obligation pursuant to these guarantees, assuming the automobiles have no residual value, would be $15 million at June 30, 2009. The remaining term of each residual value guarantee is equal to the term of the underlying lease that ranges from less than one year to three years. Historically, the Company has not made any material payments pursuant to these guarantees.

In the normal course of business, the Company provides standard indemnifications to contractual counterparties in connection with numerous transactions, including acquisitions and divestitures. The types of indemnifications typically provided include indemnifications for breaches of representations and warranties, taxes and certain other liabilities, such as third party lawsuits. The indemnification clauses are often standard contractual terms and are entered into in the normal course of business based on an assessment that the risk of loss would be remote. The terms of the

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indemnifications vary in duration and nature. In many cases, the maximum obligation is not explicitly stated and the contingencies triggering the obligation to indemnify have not occurred and are not expected to occur. Consequently, the maximum amount of the obligation under such indemnifications is not determinable. Historically, the Company has not made any material payments pursuant to these obligations.

The aggregate liability balance related to all guarantees was not material as of June 30, 2009.

Regulation

The Company is subject to changing social, economic and regulatory conditions. From time to time, regulatory authorities or legislative bodies seek to influence and restrict premium rates, require premium refunds to policyholders, restrict the ability of insurers to cancel or non-renew policies, require insurers to continue to write new policies or limit their ability to write new policies, limit insurers ability to change coverage terms or to impose underwriting standards, impose additional regulations regarding agent and broker compensation and otherwise expand overall regulation of insurance products and the insurance industry. The ultimate changes and eventual effects of these initiatives on the Company s business, if any, are uncertain.

The National Association of Insurance Commissioners is conducting a multi-state examination of Allstate s claims handling practices and has designated Florida, Illinois, Iowa and New York as lead states. The official notice of the exam was issued by the Illinois Department of Insurance (formerly Illinois Division of Insurance) on March 30, 2009.

Legal and regulatory proceedings and inquiries

Background

The Company and certain subsidiaries are involved in a number of lawsuits, regulatory inquiries, and other legal proceedings arising out of various aspects of its business. As background to the Proceedings subsection below, please note the following:

- These matters raise difficult and complicated factual and legal issues and are subject to many uncertainties and complexities, including the underlying facts of each matter; novel legal issues; variations between jurisdictions in which matters are being litigated, heard, or investigated; differences in applicable laws and judicial interpretations; the length of time before many of these matters might be resolved by settlement, through litigation or otherwise; the fact that some of the lawsuits are putative class actions in which a class has not been certified and

in which the purported class may not be clearly defined; the fact that some of the lawsuits involve multi-state class actions in which the applicable law(s) for the claims at issue is in dispute and therefore unclear; and the current challenging legal environment faced by large corporations and insurance companies.

- The outcome of these matters may also be affected by decisions, verdicts, and settlements, and the timing of such decisions, verdicts, and settlements, in other individual and class action lawsuits that involve the Company, other insurers, or other entities and by other legal, governmental, and regulatory actions that involve the Company, other insurers, or other entities.

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

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

- For the reasons specified above, it is often not possible to make meaningful estimates of the amount or range of loss that could result from the matters described below in the Proceedings subsection. The Company reviews these matters on an ongoing basis and follows the provisions of SFAS No. 5, *Accounting for Contingencies,* when making accrual and disclosure decisions. When assessing reasonably possible and

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probable outcomes, the Company bases its decisions on its assessment of the ultimate outcome following all appeals.

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

Proceedings

There are a number of state and nationwide class action lawsuits pending in various state courts challenging the legal propriety of Allstate s medical bill review processes on a number of grounds, including the manner in which Allstate determines reasonableness and necessity. These lawsuits, which to a large degree mirror similar lawsuits filed against other carriers in the industry, allege these processes are used by Allstate systematically to undervalue claims. Plaintiffs seek monetary damages in the form of contractual and extra-contractual damages. The Company denies these allegations. One nationwide class action was certified. Allstate has received preliminary approval of a settlement of this class action which is immaterial in amount. The Company continues to vigorously defend the other pending lawsuits.

There is a nationwide putative class action pending against Allstate that challenges Allstate s use of a vendor s automated database in valuing total loss automobiles. To a large degree, this lawsuit mirrors similar lawsuits filed against other carriers in the industry. Plaintiffs allege that Allstate systematically underpays first party total loss vehicle claims. The plaintiffs are seeking actual and punitive damages. The lawsuit is in the early stages of discovery and Allstate is vigorously defending it.

The Company is defending a number of matters filed in the aftermath of Hurricanes Katrina and Rita, including individual lawsuits, and several statewide putative class action lawsuits pending in Mississippi and Louisiana. These matters are in various stages of development. The lawsuits and developments in litigation arising from the hurricanes include the following:

• The Mississippi Attorney General filed a suit asserting that the flood exclusion found in Allstate s and other insurance companies policies is either ambiguous, unenforceable as unconscionable or contrary to public policy, or inapplicable to the damage suffered in the wake of Hurricane Katrina. In December 2008, the trial court ruled that, as a matter of law, the flood exclusions are not ambiguous, unconscionable or against public policy and do not constitute a deceptive trade practice. The Court also ruled that the Attorney General lacks standing necessary to bring the suit, as he is not a party to the insurance contracts at issue. All of the claims filed against the Company were dismissed. The Attorney General has not appealed this dismissal. The dismissal order is now considered final.

- Six members of the Mississippi Windstorm Underwriters Association (MWUA) have filed two separate lawsuits against the MWUA board members and the companies they represent, including an Allstate subsidiary, alleging that the Board purchased insufficient reinsurance to protect the MWUA members. One of these lawsuits (filed by four MWUA members) is pending in federal court and was filed as a class action. In that case, plaintiffs motion for class certification was denied. The case proceeded to trial on March 3, 2009 on the four plaintiffs individuals claims. At the end of the March 2009 trial, judgment was entered in favor of all the defendants. Plaintiffs filed a Notice of Appeal, but then dismissed that appeal in return for the defendants agreement not to seek costs and fees at the trial court. After the court denied class certification in the first case, two MWUA members that are not named plaintiffs in the first case filed another virtually identical lawsuit in Mississippi state court. Plaintiffs dismissed their state court lawsuit as part of the agreement to resolve the first case.

- The Company has also been sued in a putative class action in the United States District Court for the Western District of Louisiana. The plaintiffs allege that they were entitled to, but did not receive, payment for general contractor overhead and profit (GCOP) or that the GCOP they received was not adequate to compensate them for the entire costs of a general contractor. The plaintiffs also alleged that Allstate incorrectly calculated

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depreciation on property losses. The Court granted partial summary judgment, and dismissed the claim challenging the method of calculating depreciation. In October 2008, the Court heard plaintiffs motion to certify three subclasses: the first class would impose a three trade rule , meaning any time three or more trades are reflected on the estimate, GCOP must be paid; the second class encompassed the alleged miscalculation of GCOP when both general and specialty contractors are involved; and the third class sought to impose on the Company statutory penalties for its alleged breach of contract with regard to the first two subclasses. The Court denied plaintiffs motion on the certification of the two subclasses regarding the three trade rule and statutory penalties. The plaintiffs motion for certification of the third subclass alleging that GCOP is not properly calculated when both general and specialty contractors are involved is pending.

- The Louisiana Attorney General filed a class action lawsuit in state court against Allstate and other insurers on behalf of Road Home fund recipients alleging that the insurers have failed to pay all damages owed under their policies. The insurers removed the matter to federal court. The district court denied plaintiffs motion to remand the matter to state court and the U.S. Court of Appeals for the Fifth Circuit affirmed that ruling. The defendants filed a motion to dismiss and the plaintiffs filed a motion to remand the claims involving a Road Home subrogation agreement. In March 2009, the district court denied the State s request that its claims be remanded to state court. As for the defendant insurers motion, the judge granted it in part and denied it in part. Dismissal of all of the extra-contractual claims, including the bad faith and breach of fiduciary duty claims, was granted. Dismissal also was granted of all claims based on the Valued Policy Law and all flood loss claims based on the levee breaches finding that the insurers flood exclusions precluded coverage. The remaining claims are for breach of contract and for declaratory relief on the alleged underpayment of claims by the insurers. The judge did not dismiss the class action allegations. The defendants also moved to dismiss the complaint on grounds that the State had no standing to bring the lawsuit as an assignee of insureds because of anti-assignment language in the insurers policies. The judge denied the defendants motion for reconsideration on the assignment issue but found the matter was ripe for consideration by the federal appellate court. The defendants have filed a petition for permission to appeal to the Fifth Circuit. The Fifth Circuit has accepted review.

The various suits described above seek a variety of remedies, including actual and/or punitive damages in unspecified amounts and/or declaratory relief. The Company has been vigorously defending these suits and other matters related to Hurricanes Katrina and Rita.

In addition, the Company provided documents to federal and state authorities conducting investigations into the insurance industry s handling of claims in the aftermath of Hurricanes Katrina and Rita. Other insurers have received similar subpoenas and requests for information.

Allstate is defending various lawsuits involving worker classification issues. These lawsuits include a certified class action challenging a state wage and hour law. In these cases, plaintiffs seek monetary relief, such as penalties and liquidated damages, and non-monetary relief, such as injunctive relief. Allstate is continuing to vigorously defend its worker classification lawsuits.

The Company is defending certain matters relating to the Company s agency program reorganization announced in 1999. These matters are in various stages of development.

• These matters include a lawsuit filed in 2001 by the U.S. Equal Employment Opportunity Commission (EEOC) alleging retaliation under federal civil rights laws (the EEOC I suit) and a class action filed in 2001 by former employee agents alleging retaliation and age discrimination under the Age Discrimination in Employment Act (ADEA), breach of contract and ERISA violations (the Romero I suit). In 2004, in the consolidated EEOC I and Romero I litigation, the trial court issued a memorandum and order that, among other things, certified classes of agents, including a mandatory class of agents who had signed a release, for purposes of effecting the court s declaratory judgment that the release is voidable at the option of the release signer. The court also ordered that an agent who voids the release must return to Allstate any and all benefits received by the [agent] in exchange for signing the release. The court also stated that, on the undisputed facts of record, there is no basis for claims of age discrimination. The EEOC and plaintiffs have asked the court to clarify and/or reconsider its memorandum and order and in January 2007, the judge denied their request. In June 2007, the court granted the Company s motions for summary judgment. Following plaintiffs filing of a notice of appeal, the U.S. Court of Appeals for the Third Circuit issued an order in December 2007 stating that the notice of appeal was not taken from a final order within the meaning of the

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federal law and thus not appealable at this time. In March 2008, the Third Circuit decided that the appeal should not summarily be dismissed and that the question of whether the matter is appealable at this time will be addressed by the Third Circuit along with the merits of the appeal. In July 2009, the Third Circuit vacated the decision which granted the Company s summary judgment motions, remanded the cases to the trial court for additional discovery, and directed that the cases be reassigned to another trial court judge.

• The EEOC also filed another lawsuit in 2004 alleging age discrimination with respect to a policy limiting the rehire of agents affected by the agency program reorganization (the EEOC II suit). In EEOC II, in 2006, the court granted partial summary judgment to the EEOC. Although the court did not determine that the Company was liable for age discrimination under the ADEA, it determined that the rehire policy resulted in a disparate impact, reserving for trial the determination on whether the Company had reasonable factors other than age to support the rehire policy. The Company s interlocutory appeal from the partial summary judgment was granted. In June 2008, the U.S. Court of Appeals for the Eighth Circuit affirmed summary judgment in the EEOC s favor. In September 2008, the Eighth Circuit granted the Company s petition for rehearing *en banc* and vacated its earlier decision affirming the trial court s grant of summary judgment in favor of the EEOC. The Eighth Circuit then dismissed the Company s appeal, determining that it lacked jurisdiction to consider the appeal at this stage in the litigation.

• A putative nationwide class action has also been filed by former employee agents alleging various violations of ERISA, including a worker classification issue. These plaintiffs are challenging certain amendments to the Agents Pension Plan and are seeking to have exclusive agent independent contractors treated as employees for benefit purposes. This matter was dismissed with prejudice by the trial court, was the subject of further proceedings on appeal, and was reversed and remanded to the trial court in 2005. In June 2007, the court granted the Company s motion to dismiss the case. Following plaintiffs filing of a notice of appeal, the U.S. Court of Appeals for the Third Circuit issued an order in December 2007 stating that the notice of appeal was not taken from a final order within the meaning of the federal law and thus not appealable at this time. In March 2008, the Third Circuit decided that the appeal should not summarily be dismissed and that the question of whether the matter is appealable at this time will be addressed by the Third Circuit along with the merits of the appeal. In July 2009, the Third Circuit vacated the decision which granted the Company s motion to dismiss the case, remanded the case to the trial court for additional discovery, and directed that the case be reassigned to another trial court judge.

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

In New Mexico, Allstate is defending a certified class action challenging the method by which Allstate discloses installment fees. The class members are limited to New Mexico policyholders based on the trial court s acceptance of plaintiffs amended complaint. The plaintiffs contend that installment fees must be disclosed on the insurance policy itself, which would include the declarations page, because the fees allegedly meet the legal definition of premium . Plaintiffs seek repayment of installment fees since October 1996.

Other Matters

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

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

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Shareholder demand letter

On April 16, 2009, Allstate received the Service Employees International Union (SEIU) Pension Plans Master Trust s shareholder demand for board action concerning the Company s past executive compensation practices. The Company believes as many as 28 other companies may have received similar letters from the SEIU. The SEIU correspondence has been referred to the Allstate Board of Directors for its consideration and disposition.

Asbestos and environmental

Allstate s reserves for asbestos claims were $1.19 billion and $1.23 billion, net of reinsurance recoverables of $682 million and $704 million, at June 30, 2009 and December 31, 2008, respectively. Reserves for environmental claims were $189 million and $195 million, net of reinsurance recoverables of $54 million and $56 million, at June 30, 2009 and December 31, 2008, respectively. Approximately 64% of the total net asbestos and environmental reserves at both June 30, 2009 and December 31, 2008 were for incurred but not reported estimated losses.

Management believes its net loss reserves for asbestos, environmental and other discontinued lines exposures are appropriately established based on available facts, technology, laws and regulations. However, establishing net loss reserves for asbestos, environmental and other discontinued lines claims is subject to uncertainties that are greater than those presented by other types of claims. The ultimate cost of losses may vary materially from recorded amounts, which are based on management s best estimate. Among the complications are lack of historical data, long reporting delays, uncertainty as to the number and identity of insureds with potential exposure and unresolved legal issues regarding policy coverage; unresolved legal issues regarding the determination, availability and timing of exhaustion of policy limits; plaintiffs evolving and expanding theories of liability, availability and collectability of recoveries from reinsurance, retrospectively determined premiums and other contractual agreements; and estimating the extent and timing of any contractual liability, and other uncertainties. There are also complex legal issues concerning the interpretation of various insurance policy provisions and whether those losses are covered, or were ever intended to be covered, and could be recoverable through retrospectively determined premium, reinsurance or other contractual agreements. Courts have reached different and sometimes inconsistent conclusions as to when losses are deemed to have occurred and which policies provide coverage; what types of losses are covered; whether there is an insurer obligation to defend; how policy limits are determined; how policy exclusions and conditions are applied and interpreted; and whether clean-up costs represent insured property damage. Management believes these issues are not likely to be resolved in the near future, and the ultimate cost may vary materially from the amounts currently recorded resulting in an increase in loss reserves. In addition, while the Company believes that improved actuarial techniques and databases have assisted in its ability to estimate asbestos, environmental, and other discontinued lines net loss reserves, these refinements may subsequently prove to be inadequate indicators of the extent of probable losses. Due to the uncertainties and factors described above, management believes it is not practicable to develop a meaningful range for any such additional net loss reserves that may be required.

12. Income Taxes

A reconciliation of the statutory federal income tax rate to the effective income tax rate on income from operations for the six-month period ended June 30 is as follows:

($ in millions)		**2009**			**2008**	
Statutory federal income tax rate - expense	$	116	35.0 %	$	119	35.0 %
Tax-exempt income		(134)	(40.6)		(141)	(41.5)
Dividends received deduction		(8)	(2.3)		(18)	(5.3)
(Increase) decrease in cash surrender value of company-owned life insurance		(1)	(0.4)		7	2.1
Deferred foreign tax credit		11	3.4		1	0.2
Adjustment to prior year tax liabilities		(19)	(5.7)		(3)	(1.0)
State income taxes		7	2.2		12	3.5
Other		(5)	(1.5)		(9)	(2.6)
Valuation allowance		248	75.1		--	--
Effective income tax rate - expense (benefit)	$	215	65.2 %	$	(32)	(9.6)%

The valuation allowance for deferred tax assets decreased to $6 million as of June 30, 2009 from $49 million at December 31, 2008, primarily due to a reduction in capital losses that have not been recognized for tax purposes

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and a reduction in gross unrealized losses on equity securities. Income tax expense for the six months ended June 30, 2009 includes expense of $254 million attributable to an increase in the valuation allowance relating to the deferred tax asset on capital losses recorded in the first quarter of 2009. This valuation allowance was released in connection with the adoption of FSP FAS 115-2 on April 1, 2009; however, the release was recorded as an increase to retained income and therefore did not reverse the amount recorded in income tax expense on a year-to-date basis. The release of the valuation allowance is related to the reversal of previously recorded other-than-temporary impairment write-downs that would not have been recorded under FSP FAS 115-2. Although realization is not assured, management believes it is more likely than not that the deferred tax assets, net of valuation allowances, will be realized based on the Company s assessment that the deductions ultimately recognized for tax purposes will be fully utilized.

During the second quarter of 2009, the Company received the Internal Revenue Service s (IRS) audit report related to the examination of federal income tax returns filed for years 2005 and 2006. The Company has protested certain adjustments to the Appeals Division of the IRS. The liability balance for unrecognized tax benefits at June 30, 2009 was $22 million. The Company believes it is reasonably possible that the liability will be reduced by $22 million within the next twelve months upon the resolution of an outstanding issue resulting from the 2005-2006 examination. Because of the impact of deferred tax accounting, recognition of previously unrecognized tax benefits is not expected to impact the Company s effective tax rate.

13. Components of Net Periodic Pension and Postretirement Benefit Costs

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

($ in millions)	**Three months ended June 30,**		**Six months ended June 30,**	
	2009	**2008**	**2009**	**2008**
Pension benefits				
Service cost	$ 31	$ 37	$ 63	$ 73
Interest cost	83	79	165	157
Expected return on plan assets	(99)	(100)	(198)	(200)
Amortization of:				
Prior service credit	--	(1)	(1)	(1)
Net actuarial loss	4	9	8	18
Settlement loss	16	11	32	22
Net periodic pension cost	$ 35	$ 35	$ 69	$ 69
Postretirement benefits				
Service cost	$ 3	$ 4	$ 7	$ 9
Interest cost	15	15	29	29
Amortization of:				
Prior service costs	1	1	1	1
Net actuarial gain	(8)	(6)	(16)	(12)

Net periodic postretirement benefit cost	$ 11	$ 14	$ 21	$ 27

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14. Business Segments

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

($ in millions)	**Three months ended June 30,**		**Six months ended June 30,**	
	2009	**2008**	**2009**	**2008**
Revenues				
Property-Liability				
Property-liability insurance premiums earned				
Standard auto	$ 4,162	$ 4,292	$ 8,326	$ 8,583
Non-standard auto	247	282	493	574
Homeowners	1,523	1,549	3,058	3,108
Other personal lines	628	627	1,266	1,249
Allstate Protection	6,560	6,750	13,143	13,514
Discontinued Lines and Coverages	--	--	(1)	--
Total property-liability insurance premiums earned	6,560	6,750	13,142	13,514
Net investment income	334	431	678	901
Realized capital gains and losses	201	(238)	(113)	(432)
Total Property-Liability	7,095	6,943	13,707	13,983
Allstate Financial				
Life and annuity premiums and contract charges				
Traditional life insurance	100	98	200	193
Immediate annuities with life contingencies	34	36	68	66
Accident, health and other	114	99	226	202
Total life and annuity premiums	248	233	494	461
Interest-sensitive life insurance	235	224	461	435
Fixed annuities	11	13	23	26
Variable annuities	--	1	--	1
Total contract charges	246	238	484	462
Total life and annuity premiums and contract charges	494	471	978	923
Net investment income	764	943	1,583	1,958
Realized capital gains and losses	121	(965)	78	(1,397)
Total Allstate Financial	1,379	449	2,639	1,484
Corporate and Other				
Service fees	1	3	4	5
Net investment income	10	38	23	79
Realized capital gains and losses	6	(12)	4	(41)
Total Corporate and Other before reclassification of service fees	17	29	31	43
Reclassification of service fees (1)	(1)	(3)	(4)	(5)

Total Corporate and Other	16	26	27	38
Consolidated revenues	$ 8,490	$ 7,418	$ 16,373	$ 15,505

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

THE ALLSTATE CORPORATION AND SUBSIDIARIES

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

($ in millions)	**Three months ended June 30,**		**Six months ended June 30,**	
	2009	**2008**	**2009**	**2008**
Net income				
Property-Liability				
Underwriting income				
Allstate Protection	$ 1	$ 381	$ 215	$ 796
Discontinued Lines and Coverages	(4)	(3)	(10)	(10)
Total underwriting (loss) income	(3)	378	205	786
Net investment income	334	431	678	901
Income tax expense on operations	(40)	(217)	(176)	(467)
Realized capital gains and losses, after-tax	131	(153)	(185)	(278)
Property-Liability net income	422	439	522	942
Allstate Financial				
Life and annuity premiums and contract charges	494	471	978	923
Net investment income	764	943	1,583	1,958
Periodic settlements and accruals on non-hedge derivative financial instruments	(3)	7	(2)	16
Contract benefits and interest credited to contractholder funds	(927)	(994)	(1,856)	(2,021)
Operating costs and expenses and amortization of deferred policy acquisition costs	(235)	(255)	(465)	(490)
Restructuring and related charges	(2)	--	(20)	--
Income tax expense on operations	(26)	(54)	(68)	(125)
Operating income	65	118	150	261
Realized capital gains and losses, after-tax	82	(627)	(88)	(908)
DAC and DSI (amortization) accretion related to realized capital gains and losses, after-tax	(131)	134	(150)	173
DAC and DSI unlocking related to realized capital gains and losses, after-tax	--	--	(224)	--
Reclassification of periodic settlements and accruals on non-hedge financial instruments, after-tax	2	(4)	1	(10)
Gain (loss) on disposition of operations, after-tax	1	--	3	(6)
Allstate Financial net income (loss)	19	(379)	(308)	(490)
Corporate and Other				
Service fees (1)	1	3	4	5
Net investment income	10	38	23	79
Operating costs and expenses	(104)	(93)	(197)	(187)
Income tax benefit on operations	36	25	68	51
Operating loss	(57)	(27)	(102)	(52)
Realized capital gains and losses, after-tax	5	(8)	3	(27)

Corporate and Other net loss	(52)	(35)	(99)	(79)
Consolidated net income	$ 389	$ 25	$ 115	$ 373

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

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15. Other Comprehensive Income

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

($ in millions)	Three months ended June 30,					
	2009			2008		
	Pre-tax	Tax	After-tax	Pre-tax	Tax	After-tax
Unrealized net holding gains and losses arising during the period, net of related offsets	$ 3,239	$ (1,043)	$ 2,196	$ (1,248)	$ 432	$ (816)
Less: reclassification adjustment of realized capital gains and losses	(57)	20	(37)	(1,264)	442	(822)
Unrealized net capital gains and losses	3,296	(1,063)	2,233	16	(10)	6
Unrealized foreign currency translation adjustments	30	(10)	20	3	(1)	2
Unrecognized pension and other postretirement benefit cost	(12)	4	(8)	2	(1)	1
Other comprehensive income	$ 3,314	$ (1,069)	2,245	$ 21	$ (12)	9
Net income			389			25
Comprehensive income			$ 2,634			$ 34

	Six months ended June 30,					
	2009			2008		
	Pre-tax	Tax	After-tax	Pre-tax	Tax	After-tax
Unrealized net holding gains and losses arising during the period, net of related offsets	$ 2,896	$ (999)	$ 1,897	$ (3,440)	$ 1,204	$ (2,236)
Less: reclassification adjustment of realized capital gains and losses	(473)	166	(307)	(1,652)	578	(1,074)
Unrealized net capital gains and losses	3,369	(1,165)	2,204	(1,788)	626	(1,162)
Unrealized foreign currency translation adjustments	18	(6)	12	(22)	8	(14)
Unrecognized pension and other postretirement benefit cost	(13)	4	(9)	(111)	36	(75)
Other comprehensive income (loss)	$ 3,374	$ (1,167)	2,207	$ (1,921)	$ 670	(1,251)
Net income			115			373
Comprehensive income (loss)			$ 2,322			$ (878)

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of

The Allstate Corporation

Northbrook, IL 60062

We have reviewed the accompanying condensed consolidated statements of financial position of The Allstate Corporation and subsidiaries (the Company) as of June 30, 2009, and the related condensed consolidated statements of operations for the three-month and six-month periods ended June 30, 2009 and 2008, and the condensed consolidated statements of cash flows for the six-month periods ended June 30, 2009 and 2008. These interim financials statements are the responsibility of the Company s management.

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

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

As discussed in Note 1 to the condensed consolidated financial statements, the Company changed its presentation and method of accounting for other-than-temporary impairments of debt securities.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statement of financial position of The Allstate Corporation and subsidiaries as of December 31, 2008, and the related consolidated statements of operations, comprehensive income, shareholders equity, and cash flows for the year then ended (not presented herein); and in our report dated February 25, 2009, which report includes an explanatory paragraph relating to a change in the Company s method of accounting for uncertainty in income taxes and accounting for deferred acquisition costs associated with internal replacements in 2007 and defined pension and other postretirement plans in 2006, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated statement of financial position as of December 31, 2008 is fairly stated, in all material respects, in relation to the consolidated statement of financial position from which it has been derived.

/s/ Deloitte & Touche LLP

Chicago, Illinois

August 5, 2009

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Item 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE THREE-MONTH AND SIX-MONTH PERIODS ENDED JUNE 30, 2009 AND 2008

OVERVIEW

The following discussion highlights significant factors influencing the consolidated financial position and results of operations of The Allstate Corporation (referred to in this document as we , our , us , the Company or Allstate). It should be read in conjunction with the condensed consolidated financial statements and notes thereto found under Part I. Item 1. contained herein, and with the discussion, analysis, consolidated financial statements and notes thereto in Part I. Item 1. and Part II. Item 7. and Item 8. of The Allstate Corporation Annual Report on Form 10-K for 2008. Further analysis of our insurance segments is provided in the Property-Liability Operations (which includes the Allstate Protection and the Discontinued Lines and Coverages segments) and in the Allstate Financial Segment sections of Management s Discussion and Analysis (MD&A). The segments are consistent with the way in which we use financial information to evaluate business performance and to determine the allocation of resources.

Allstate is focused on three priorities: protecting Allstate s financial strength, improving customer loyalty, and continuing to reinvent protection and retirement for the consumer. In addition, we will continue to monitor market conditions and will consider business start-ups, acquisitions and alliances that would forward our business objectives and represent prudent uses of corporate capital.

HIGHLIGHTS

- Consolidated net income was $389 million in the second quarter of 2009 compared to $25 million in the second quarter of 2008, and $115 million in the first six months of 2009 compared to $373 million in the first six months of 2008. Net income per diluted share was $0.72 in the second quarter of 2009 compared to $0.05 in the second quarter of 2008, and $0.21 in the first six months of 2009 compared to $0.67 in the first six months of 2008.

- Property-Liability net income was $422 million in the second quarter of 2009 compared to $439 million in the second quarter of 2008, and $522 million in the first six months of 2009 compared to $942 million in the first six months of 2008.

- The Property-Liability combined ratio was 100.0 in the second quarter of 2009 compared to 94.4 in the second quarter of 2008, and 98.4 in the first six months of 2009 compared to 94.2 in the first six months of 2008.

- Allstate Financial had net income of $19 million in the second quarter of 2009 compared to a net loss of $379 million in the second quarter of 2008, and a net loss of $308 million in the first six months of 2009 compared to a net loss of $490 million in the first six months of 2008.

- Total revenues were $8.49 billion in the second quarter of 2009 compared to $7.42 billion in the second quarter of 2008, and $16.37 billion in the first six months of 2009 compared to $15.51 billion in the first six months of 2008.

- Property-Liability premiums earned in the second quarter of 2009 totaled $6.56 billion, a decrease of 2.8% from $6.75 billion in the second quarter of 2008, and $13.14 billion in the first six months of 2009, a decrease of 2.8% from $13.51 billion in the first six months of 2008.

- Net realized capital gains were $328 million in the second quarter of 2009 compared to net realized capital losses of $1.22 billion in the second quarter of 2008, and net realized capital losses were $31 million in the first six months of 2009 compared to net realized capital losses of $1.87 billion in the first six months of 2008.

- Investments as of June 30, 2009 totaled $96.46 billion, an increase of 0.5% from $96.00 billion as of December 31, 2008. Net investment income in the second quarter of 2009 was $1.11 billion, a decrease of 21.5% from $1.41 billion in the second quarter of 2008, and $2.28 billion in the first six months of 2009, a decrease of 22.3% from $2.94 billion in the first six months of 2008.

- Financial Accounting Standards Board (FASB) Staff Position No. FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments* (FSP FAS 115-2), was adopted April 1, 2009 resulting in the reclassification of $1.15 billion of previously recorded other-than-temporary impairment write-downs from retained income to unrealized capital losses. The cumulative effect of adoption, net of related deferred policy acquisition costs (DAC), deferred sales inducements (DSI) and tax adjustments, was an increase in retained income of $863 million and a decrease in unrealized net capital gains and losses of $578 million, with a net benefit to equity of $285 million. The benefit to equity resulted from a decrease in the

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deferred tax asset valuation allowance.

- Income tax expense for the six months ended June 30, 2009 includes expense of $254 million attributable to an increase in the valuation allowance relating to the deferred tax asset on capital losses recorded in the first quarter of 2009. This valuation allowance was released in connection with the adoption of FSP FAS 115-2 on April 1, 2009; however, the release was recorded as an increase to retained income and therefore did not reverse the amount recorded in income tax expense on a year-to-date basis.

- Book value per diluted share (ratio of shareholders equity to total shares outstanding and dilutive potential shares outstanding) was $27.87 as of June 30, 2009, a decrease of 22.3% from $35.87 as of June 30, 2008 and an increase of 18.7% from $23.47 as of December 31, 2008.

- For the twelve months ended June 30, 2009, return on the average of beginning and ending period shareholders equity was (11.1)%, a decrease of 21.3 points from 10.2% for the twelve months ended June 30, 2008.

- At June 30, 2009, we held $15.07 billion in capital. This total included $3.38 billion in deployable invested assets at the parent holding company level.

CONSOLIDATED NET INCOME

($ in millions)	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
Revenues				
Property-liability insurance premiums earned	$ 6,560	$ 6,750	$ 13,142	$ 13,514
Life and annuity premiums and contract charges	494	471	978	923
Net investment income	1,108	1,412	2,284	2,938
Realized capital gains and losses:				
Total other-than-temporary impairment losses	(471)	(1,265)	(1,196)	(1,723)
Portion of loss recognized in other comprehensive income	154	--	154	--
Net other-than-temporary impairment losses recognized in earnings	(317)	(1,265)	(1,042)	(1,723)
Sales and other realized capital gains and losses	645	50	1,011	(147)
Total realized capital gains and losses	328	(1,215)	(31)	(1,870)
Total revenues	8,490	7,418	16,373	15,505
Costs and expenses				
Property-liability insurance claims and claims expense	(5,002)	(4,776)	(9,722)	(9,452)
Life and annuity contract benefits	(407)	(395)	(794)	(792)
Interest credited to contractholder funds	(561)	(563)	(1,140)	(1,187)
Amortization of deferred policy acquisition costs	(1,229)	(959)	(2,626)	(2,034)
Operating costs and expenses	(702)	(728)	(1,503)	(1,520)
Restructuring and related charges	(32)	5	(77)	6
Interest expense	(97)	(88)	(185)	(176)
Total costs and expenses	(8,030)	(7,504)	(16,047)	(15,155)

Gain (loss) on disposition of operations	1	--	4	(9)
Income tax (expense) benefit	(72)	111	(215)	32
Net income	$ 389	$ 25	$ 115	$ 373
Property-Liability	$ 422	$ 439	$ 522	$ 942
Allstate Financial	19	(379)	(308)	(490)
Corporate and Other	(52)	(35)	(99)	(79)
Net income	$ 389	$ 25	$ 115	$ 373

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PROPERTY-LIABILITY HIGHLIGHTS

• Premiums written, an operating measure that is defined and reconciled to premiums earned in the Property-Liability Operations section of the MD&A, decreased 2.8% to $6.62 billion in the second quarter of 2009 from $6.80 billion in the second quarter of 2008, and 3.3% to $12.88 billion in the first six months of 2009 from $13.32 billion in the first six months of 2008. Allstate brand standard auto premiums written decreased 2.0% to $3.88 billion in the second quarter of 2009 from $3.96 billion in the second quarter of 2008, and 2.2% to $7.85 billion in the first six months of 2009 from $8.03 billion in the first six months of 2008. Allstate brand homeowners premiums written in the second quarter of 2009 were comparable to $1.53 billion in the second quarter of 2008, and decreased 0.5% to $2.70 billion in the first six months of 2009 from $2.72 billion in the first six months of 2008.

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

1.6% decrease in policies in force (PIF) as of June 30, 2009 compared to June 30, 2008

0.1 point decline in the six month renewal ratio to 89.0% in the second quarter of 2009 compared to 89.1% in the second quarter of 2008, and 0.2 point decline in the six month renewal ratio to 88.8% in the first six months of 2009 compared to 89.0 in the first six months of 2008

0.7% increase in the six month policy term average gross premium before reinsurance to $430 in both the second quarter and first six months of 2009 from $427 in the same periods of 2008

11.0% and 12.9% increase in new issued applications in the second quarter and first six months of 2009, respectively, compared to the same periods of 2008

• Premium operating measures and statistics contributing to the overall Allstate brand homeowners premiums written decline in the first six months of 2009 compared to the same period of 2008 were the following:

4.2% decrease in PIF as of June 30, 2009 compared to June 30, 2008

1.7 point increase in the twelve month renewal ratio to 88.0% in the second quarter of 2009 compared to 86.3% in the second quarter of 2008, and 1.4 point increase in the twelve month renewal ratio to 87.8% in the first six months of 2009 compared to 86.4% in the first six months of 2008

1.4% increase in the twelve month policy term average gross premium before reinsurance to $879 in the second quarter of 2009 from $867 in the second quarter of 2008, and 0.5% increase in the twelve month policy term average gross premium before reinsurance to $871 in the first six months of 2009 from $867 in the first six months of 2008

11.6% and 13.4% decrease in new issued applications in the second quarter and first six months of 2009, respectively, compared to the same periods of 2008

$54 million decrease in catastrophe reinsurance costs to $139 million in the second quarter of 2009 from $193 million in the second quarter of 2008, and $109 million decrease in catastrophe reinsurance costs to $280 million in the first six months of 2009 from $389 million in the first six months of 2008

- Factors contributing to the Allstate brand standard auto loss ratio increase of 3.6 points to 70.7 in the second quarter of 2009 from 67.1 in the second quarter of 2008, and an increase of 3.5 points to 69.8 in the first six months of 2009 from 66.3 in the first six months of 2008 were the following:

5.1% and 3.3% increase in standard auto property damage gross claim frequency (rate of claim occurrence per policy in force) in the second quarter and first six months of 2009, respectively, compared to the same periods of 2008

13.6% and 9.5% increase in standard auto bodily injury gross claim frequency in the second quarter and first six months of 2009 compared to the same periods of 2008

0.9% and 1.5% increase in auto claim severities (average cost per claim) for bodily injury in the second quarter and first six months of 2009 compared to the same periods of 2008

0.5% increase and a 1.0% decrease in auto claim severities for property damage in the second quarter and first six months of 2009 compared to the same periods of 2008

- Factors contributing to the Allstate brand homeowners loss ratio, which includes catastrophes, increase of 8.6 points to 95.1 in the second quarter of 2009 from 86.5 in the second quarter of 2008, and an increase of 5.6 points to 88.9 in the first six months of 2009 from 83.3 in the first six months of 2008 were the following:

7.8 point increase in the effect of catastrophe losses to 45.8 points in the second quarter of 2009 compared

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to 38.0 points in the second quarter of 2008, and 2.8 point increase in the effect of catastrophe losses to 36.6 points in the first six months of 2009 compared to 33.8 points in the first six months of 2008

2.7% and 3.6% increase in homeowner gross claim frequency, excluding catastrophes, in the second quarter and first six months of 2009 compared to the same periods of 2008

7.0% and 5.3% increase in claim severity, excluding catastrophes, in the second quarter and first six months of 2009 compared to the same periods of 2008

- Factors contributing to catastrophe losses increase of $120 million to $818 million in the second quarter of 2009 compared to $698 million in the second quarter of 2008, and an increase of $68 million to $1.33 billion in the first six months of 2009 compared to $1.27 billion in the first six months of 2008 were the following:

$1 million unfavorable prior year reserve reestimates in the second quarter of 2009 compared to $11 million unfavorable reserve reestimates in the second quarter of 2008, and $59 million favorable reserve reestimates in the first six months of 2009 compared to $128 million unfavorable reserve reestimates in the first six months of 2008, primarily related to litigation in Louisiana for Hurricane Katrina

highest second quarter historical catastrophe losses comprised of 31 events with losses of $795 million losses in the second quarter of 2009 compared to 43 events with losses of $702 million in the second quarter of 2008, and 45 events with losses of $1.39 billion in the first six months of 2009 compared to 70 events with losses of $1.14 billion in the first six months of 2008

- Factors contributing to prior year reserve reestimates of $20 million unfavorable in the second quarter of 2009 compared to $9 million unfavorable in the second quarter of 2008, and prior year reserve reestimates of $35 million favorable in the first six months of 2009 compared to $110 million unfavorable in the first six months of 2008 included:

prior year reserve reestimates related to auto, homeowners and other personal lines in the second quarter of 2009 contributed $4 million favorable, $11 million favorable and $32 million unfavorable, respectively, compared to prior year reserve reestimates in the second quarter of 2008 of $13 million favorable, $18 million unfavorable and $2 million unfavorable, respectively, and prior year reserve reestimates related to auto, homeowners and other personal lines in the first six months of 2009 contributed $39 million favorable, $43 million favorable and $41 million unfavorable, respectively, compared to prior year reserve reestimates in the first six months of 2008 of $67 million favorable, $96 million unfavorable and $74 million unfavorable, respectively

prior year reserve reestimates in the first six months of 2009 and 2008 are largely attributable to prior year catastrophes and a $45 million incurred but not reported (IBNR) reclassification from auto to other personal lines that occurred in the first quarter of 2008

- Property-Liability underwriting loss of $3 million in the second quarter of 2009 compared to an underwriting income of $378 million in the second quarter of 2008, and Property-Liability underwriting income of $205 million in the first six months of 2009 compared to $786 million in the first six months of 2008 included the following primary contributing factors:

Allstate brand standard auto loss ratio increased 3.6 points to 70.7 in the second quarter of 2009 from 67.1 in the second quarter of 2008, and increased 3.5 points to 69.8 in the first six months of 2009 from 66.3 in the first six months of 2008

Allstate brand homeowners loss ratio, which includes catastrophes, increased 8.6 points to 95.1 in the second quarter of 2009 from 86.5 in the second quarter of 2008, and increased 5.6 points to 88.9 in the first six months of 2009 from 83.3 in the first six months of 2008

Underwriting (loss) income, a measure not based on accounting principles generally accepted in the United States of America (GAAP), is defined below.

- Property-Liability investments as of June 30, 2009 were $33.20 billion, an increase of 7.7% from $30.84 billion as of December 31, 2008. Net investment income was $334 million in the second quarter of 2009, a decrease of 22.5% from $431 million in the second quarter of 2008, and $678 million in the first six months of 2008, a decrease of 24.8% from $901 million in the first six months of 2008.

- Net realized capital gains were $201 million in the second quarter of 2009 compared to net realized capital losses of $238 million in the second quarter of 2008, and net realized capital losses were $113 million in the first six months of 2009 compared to net realized capital losses of $432 million in the first six months of 2008.

- Income tax expense for the six months ended June 30, 2009 includes expense of $112 million attributable to an

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increase in the valuation allowance relating to the deferred tax asset on capital losses recorded in the first quarter of 2009. This valuation allowance was released in connection with the adoption of FSP FAS 115-2 on April 1, 2009; however, the release was recorded as an increase to retained income and therefore did not reverse the amount recorded in income tax expense on a year-to-date basis.

PROPERTY-LIABILITY OPERATIONS

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

Underwriting (loss) income, a measure that is not based on GAAP and is reconciled to net income 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 is the GAAP measure most directly comparable to underwriting (loss) income. Underwriting (loss) income should not be considered as a substitute for net income and does not reflect the overall profitability of the business.

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

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

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

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

- Effect of prior year reserve reestimates on combined ratio the percentage of prior year reserve reestimates included in claims and claims expense to premiums earned. This ratio includes prior year reserve reestimates of catastrophe losses.
- Effect of restructuring and related charges on combined ratio the percentage of restructuring and related charges to premiums earned.
- Effect of Discontinued Lines and Coverages on combined ratio the ratio of claims and claims expense and other costs and expenses in the Discontinued Lines and Coverages segment to Property-Liability premiums earned. The sum of the effect of Discontinued Lines and Coverages on the combined ratio and the Allstate Protection combined ratio is equal to the Property-Liability combined ratio.

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

($ in millions, except ratios)	**Three months ended June 30,**		**Six months ended June 30,**	
	2009	**2008**	**2009**	**2008**
Premiums written	$ 6,615	$ 6,803	$ 12,884	$ 13,317
Revenues				
Premiums earned	$ 6,560	$ 6,750	$ 13,142	$ 13,514
Net investment income	334	431	678	901
Realized capital gains and losses	201	(238)	(113)	(432)
Total revenues	7,095	6,943	13,707	13,983
Costs and expenses				
Claims and claims expense	(5,002)	(4,776)	(9,722)	(9,452)
Amortization of DAC	(940)	(1,000)	(1,889)	(2,011)
Operating costs and expenses	(591)	(601)	(1,269)	(1,271)
Restructuring and related charges	(30)	5	(57)	6
Total costs and expenses	(6,563)	(6,372)	(12,937)	(12,728)
Income tax expense	(110)	(132)	(248)	(313)
Net income	$ 422	$ 439	$ 522	$ 942
Underwriting (loss) income	$ (3)	$ 378	$ 205	$ 786
Net investment income	334	431	678	901
Income tax expense on operations	(40)	(217)	(176)	(467)
Realized capital gains and losses, after-tax	131	(153)	(185)	(278)
Net income	$ 422	$ 439	$ 522	$ 942
Catastrophe losses (1)	$ 818	$ 698	$ 1,334	$ 1,266
GAAP operating ratios				
Claims and claims expense ratio	76.2	70.8	74.0	70.0
Expense ratio	23.8	23.6	24.4	24.2
Combined ratio	100.0	94.4	98.4	94.2
Effect of catastrophe losses on combined ratio (1)	12.5	10.3	10.2	9.4
Effect of prior year reserve reestimates on combined ratio (1)	0.3	0.1	(0.3)	0.8
Effect of restructuring and related charges on combined ratio	0.5	(0.1)	0.4	--
Effect of Discontinued Lines and Coverages on combined ratio	--	--	--	0.1

(1) Reserve reestimates included in catastrophe losses totaled $1 million unfavorable and $59 million favorable in the three months and six months ended June 30, 2009, respectively, compared to $11 million and $128 million unfavorable in the three months and six months ended June 30, 2008, respectively.

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

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

($ in millions)	**Three months ended June 30,**		**Six months ended June 30,**	
	2009	**2008**	**2009**	**2008**
Premiums written:				
Allstate Protection	$ 6,615	$ 6,803	$ 12,885	$ 13,317
Discontinued Lines and Coverages	--	--	(1)	--
Property-Liability premiums written	6,615	6,803	12,884	13,317
(Increase) decrease in unearned premiums	(70)	(154)	267	140
Other	15	101	(9)	57
Property-Liability premiums earned	$ 6,560	$ 6,750	$ 13,142	$ 13,514
Premiums earned:				
Allstate Protection	$ 6,560	$ 6,750	$ 13,143	$ 13,514
Discontinued Lines and Coverages	--	--	(1)	--
Property-Liability	$ 6,560	$ 6,750	$ 13,142	$ 13,514

ALLSTATE PROTECTION SEGMENT

Premiums written by brand are shown in the following tables.

($ in millions)	**Three months ended June 30,**					
	Allstate brand		**Encompass brand**		**Allstate Protection**	
	2009	**2008**	**2009**	**2008**	**2009**	**2008**
Standard auto	$ 3,876	$ 3,957	$ 217	$ 272	$ 4,093	$ 4,229
Non-standard auto	232	261	5	11	237	272
Homeowners	1,532	1,531	112	129	1,644	1,660
Other personal lines (1)	613	613	28	29	641	642
Total	$ 6,253	$ 6,362	$ 362	$ 441	$ 6,615	$ 6,803

($ in millions)	Six months ended June 30, Allstate brand 2009	Allstate brand 2008	Encompass brand 2009	Encompass brand 2008	Allstate Protection 2009	Allstate Protection 2008
Standard auto	$ 7,854	$ 8,034	$ 421	$ 542	$ 8,275	$ 8,576
Non-standard auto	473	535	13	23	486	558
Homeowners	2,703	2,716	209	242	2,912	2,958
Other personal lines (1)	1,159	1,167	53	58	1,212	1,225
Total	$ 12,189	$ 12,452	$ 696	$ 865	$ 12,885	$ 13,317

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

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Premiums earned by brand are shown in the following tables.

	Three months ended June 30,					
($ in millions)	**Allstate brand**		**Encompass brand**		**Allstate Protection**	
	2009	**2008**	**2009**	**2008**	**2009**	**2008**
Standard auto	$ 3,928	$ 4,014	$ 234	$ 278	$ 4,162	$ 4,292
Non-standard auto	240	270	7	12	247	282
Homeowners	1,409	1,420	114	129	1,523	1,549
Other personal lines	600	593	28	34	628	627
Total	$ 6,177	$ 6,297	$ 383	$ 453	$ 6,560	$ 6,750

	Six months ended June 30,					
($ in millions)	**Allstate brand**		**Encompass brand**		**Allstate Protection**	
	2009	**2008**	**2009**	**2008**	**2009**	**2008**
Standard auto	$ 7,845	$ 8,025	$ 481	$ 558	$ 8,326	$ 8,583
Non-standard auto	477	548	16	26	493	574
Homeowners	2,826	2,846	232	262	3,058	3,108
Other personal lines	1,210	1,185	56	64	1,266	1,249
Total	$ 12,358	$ 12,604	$ 785	$ 910	$ 13,143	$ 13,514

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

- PIF: Policy counts are based on items rather than customers. A multi-car customer would generate multiple item (policy) counts, even if all cars were insured under one policy.

- Average premium-gross written: Gross premiums written divided by issued item count. Gross premiums written do not include the impacts from mid-term premium adjustments, ceded reinsurance premiums, or premium refund accruals. Allstate brand average gross premiums represent the appropriate policy term for each line, which is 6 months for standard and non-standard auto and 12 months for homeowners. Encompass brand average gross premiums represent the appropriate policy term for each line, which is 12 months for standard auto and homeowners and 6 months for non-standard auto.

- Renewal ratio: Renewal policies issued during the period, based on contract effective dates, divided by the total policies issued 6 months prior for standard and non-standard auto (12 months prior for Encompass brand standard auto) or 12 months prior for homeowners.

- New issued applications: Item counts of automobiles or homeowners insurance applications for insurance policies that were issued during the period. Does not include automobiles that are added by existing customers.

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Standard auto premiums written totaled $4.09 billion in the second quarter of 2009, a decrease of 3.2% from $4.23 billion in the second quarter of 2008, and $8.28 billion in the first six months of 2009, a decrease of 3.5% from $8.58 billion in the first six months of 2008.

Standard Auto	Allstate brand		Encompass brand (2)	
Three months ended June 30,	**2009**	**2008**	**2009**	**2008**
PIF (thousands)	17,836	18,124	984	1,119
Average premium-gross written (1)	$ 430	$ 427	$ 966	$ 962
Renewal ratio (%) (1)	89.0	89.1	69.4	74.1
Six months ended June 30,				
PIF (thousands)	17,836	18,124	984	1,119
Average premium-gross written (1)	$ 430	$ 427	$ 961	$ 962
Renewal ratio (%) (1)	88.8	89.0	69.8	74.5

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

(2) Premium operating measures and statistics exclude the discontinuation of a large national broker arrangement.

Allstate brand standard auto premiums written totaled $3.88 billion in the second quarter of 2009, a decrease of 2.0% from $3.96 billion in the second quarter of 2008, and $7.85 billion in the first six months of 2009, a decrease of 2.2% from $8.03 billion in the first six months of 2008. Contributing to the Allstate brand standard auto premiums written decrease in the second quarter and first six months of 2009 compared to the same periods of 2008 were the following:

decrease in PIF as of June 30, 2009 compared to June 30, 2008 due to a lower renewal ratio and fewer policies available to renew partially offset by new issued applications

11.0% increase in new issued applications on a countrywide basis to 496 thousand in the second quarter of 2009 from 447 thousand in the second quarter of 2008, and 12.9% increase to 1,017 thousand in the first six months of 2009 from 901 thousand in the first six months of 2008

increase in average gross premium in the second quarter and first six months of 2009 compared to the same periods of 2008, primarily due to rate changes, partially offset by customers electing to change protection levels of their policy

Encompass brand standard auto premiums written totaled $217 million in the second quarter of 2009, a decrease of 20.2% from $272 million in the second quarter of 2008, and $421 million in the first six months of 2009, a decrease of 22.3% from $542 million in the first six months of 2008. Contributing to the Encompass brand standard auto premiums written decrease in the second quarter and first six months of 2009 compared to the same periods of 2008 were the following:

decrease in PIF as of June 30, 2009 compared to June 30, 2008, driven by lower new business production and lower retention

the discontinuation of a large national broker arrangement in the second quarter of 2008; Encompass brand standard auto premiums written excluding the terminated national broker s business decreased 19.8% to $421 million in the first six months of 2009 from $525 million during the first six months of 2008

Decreases are expected in Encompass brand standard auto PIF as profit improvement actions have been implemented. Some of these actions involve improving business quality by strengthening underwriting guidelines, terminating relationships with certain independent agencies and rate changes.

Item 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE THREE-MONTH AND SIX-MONTH PERIODS ENDED JUNE 30, 2009 AND 2008

Rate increases that are indicated based on loss trend analysis to achieve a targeted return will continue to be pursued. The following table shows the net rate changes that were approved for standard auto during the three months and six months ended June 30, 2009 and 2008, respectively. These rate changes do not reflect initial rates filed for insurance subsidiaries initially writing business in a state.

	Three months ended June 30,					
	# of States		Countrywide (%) (1)		State Specific (%) (2) (3)	
	2009	2008	2009	2008	2009	2008
Allstate brand (4)	12	15	0.8	(0.4)	4.3	(1.2)
Encompass brand	8	9	1.0	0.8	8.3	3.4

	Six months ended June 30,					
	# of States		Countrywide (%) (1)		State Specific (%) (2) (3)	
	2009	2008	2009	2008	2009	2008
Allstate brand (4)	25 (5)	23	1.7	0.4	4.6	0.9
Encompass brand	30	24	4.6	1.1	8.0	2.5

(1) Represents the impact in the states where rate changes were approved during the three months and six months ended June 30, 2009 and 2008, respectively, as a percentage of total countrywide prior year-end premiums written.

(2) Represents the impact in the states where rate changes were approved during the three months and six months ended June 30, 2009 and 2008, respectively, as a percentage of total prior year-end premiums written in those states.

(3) Based on historical premiums written in those states, rate changes approved for standard auto totaled $131 million and $309 million in the three months and six months ended June 30, 2009, respectively, compared to $(56) million and $80 million in the three months and six months ended June 30, 2008, respectively.