ALLSTATE CORP
Form 10-Q
October 31, 2011

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 September 30, 2011

OR

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

SECURITIES EXCHANGE ACT OF 1934

For the transition period from ______ to ______

Commission file number 1-11840

THE ALLSTATE CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**36-3871531**

(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

2775 Sanders Road, Northbrook, Illinois 60062

(Address of principal executive offices) (Zip Code)

(847) 402-5000

(Registrant s telephone number, including area code)

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

Yes X No ___

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

Yes X No ___

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

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

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

Yes ___ No X

As of October 18, 2011, the registrant had 505,352,126 common shares, $.01 par value, outstanding.

THE ALLSTATE CORPORATION

INDEX TO QUARTERLY REPORT ON FORM 10-Q

September 30, 2011

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

THE ALLSTATE CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

($ in millions, except per share data)	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
	(unaudited)		(unaudited)	
Revenues				
Property-liability insurance premiums	$ 6,432	$ 6,499	$ 19,337	$ 19,515
Life and annuity premiums and contract charges	552	548	1,668	1,637
Net investment income	994	1,005	2,996	3,104
Realized capital gains and losses:				
Total other-than-temporary impairment losses	(197)	(99)	(435)	(637)
Portion of loss recognized in other comprehensive income	(6)	(68)	(37)	(91)
Net other-than-temporary impairment losses recognized in earnings	(203)	(167)	(472)	(728)
Sales and other realized capital gains and losses	467	23	889	(215)
Total realized capital gains and losses	264	(144)	417	(943)
	8,242	7,908	24,418	23,313
Costs and expenses				
Property-liability insurance claims and claims expense	5,132	4,603	15,963	14,109
Life and annuity contract benefits	455	445	1,331	1,372
Interest credited to contractholder funds	405	445	1,240	1,358
Amortization of deferred policy acquisition costs	1,122	1,006	3,191	2,969
Operating costs and expenses	825	828	2,465	2,446
Restructuring and related charges	8	9	28	33
Interest expense	92	91	275	275
	8,039	7,427	24,493	22,562
Gain (loss) on disposition of operations	--	9	(17)	12
Income (loss) from operations before income tax expense (benefit)	203	490	(92)	763
Income tax expense (benefit)	38	123	(156)	131
Net income	$ 165	$ 367	$ 64	$ 632
Earnings per share:				
Net income per share - Basic	$ 0.32	$ 0.68	$ 0.12	$ 1.17
Weighted average shares - Basic	512.0	540.9	520.4	540.6
Net income per share - Diluted	$ 0.32	$ 0.68	$ 0.12	$ 1.16
Weighted average shares - Diluted	514.2	543.0	522.9	542.7
Cash dividends declared per share	$ 0.21	$ 0.20	$ 0.63	$ 0.60

See notes to condensed consolidated financial statements.

THE ALLSTATE CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

($ in millions, except par value data)	**September 30, 2011** (unaudited)	**December 31, 2010**
Assets		
Investments		
Fixed income securities, at fair value (amortized cost $73,935 and $78,786)	$ 76,394	$ 79,612
Equity securities, at fair value (cost $4,252 and $4,228)	4,157	4,811
Mortgage loans	6,956	6,679
Limited partnership interests	4,407	3,816
Short-term, at fair value (amortized cost $3,517 and $3,279)	3,517	3,279
Other	2,094	2,286
Total investments	97,525	100,483
Cash	1,026	562
Premium installment receivables, net	4,988	4,839
Deferred policy acquisition costs	4,444	4,769
Reinsurance recoverables, net	6,720	6,552
Accrued investment income	854	809
Deferred income taxes	792	784
Property and equipment, net	908	921
Goodwill	874	874
Other assets	2,037	1,605
Separate Accounts	6,791	8,676
Total assets	$ 126,959	$ 130,874
Liabilities		
Reserve for property-liability insurance claims and claims expense	$ 20,395	$ 19,468
Reserve for life-contingent contract benefits	14,308	13,482
Contractholder funds	43,776	48,195
Unearned premiums	10,002	9,800
Claim payments outstanding	960	737
Other liabilities and accrued expenses	6,691	5,564
Long-term debt	5,907	5,908
Separate Accounts	6,791	8,676
Total liabilities	108,830	111,830
Commitments and Contingent Liabilities (Note 10)		
Equity		
Preferred stock, $1 par value, 25 million shares authorized, none issued	--	--
Common stock, $.01 par value, 2.0 billion shares authorized and 900 million issued, 505 million and 533 million shares outstanding	9	9
Additional capital paid-in	3,177	3,176
Retained income	31,704	31,969
Deferred ESOP expense	(43)	(44)
Treasury stock, at cost (395 million and 367 million shares)	(16,693)	(15,910)
Accumulated other comprehensive income:		
Unrealized net capital gains and losses:		
Unrealized net capital losses on fixed income securities with OTTI	(155)	(190)
Other unrealized net capital gains and losses	1,683	1,089
Unrealized adjustment to DAC, DSI and insurance reserves	(496)	36
Total unrealized net capital gains and losses	1,032	935
Unrealized foreign currency translation adjustments	49	69
Unrecognized pension and other postretirement benefit cost	(1,135)	(1,188)
Total accumulated other comprehensive loss	(54)	(184)
Total shareholders equity	18,100	19,016
Noncontrolling interest	29	28
Total equity	18,129	19,044

Total liabilities and equity	$	126,959	$	130,874

See notes to condensed consolidated financial statements.

THE ALLSTATE CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

($ in millions)	**Nine Months Ended September 30,**	
	2011	**2010**
Cash flows from operating activities	(unaudited)	
Net income	$ 64	$ 632
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and other non-cash items	149	55
Realized capital gains and losses	(417)	943
Loss (gain) on disposition of operations	17	(12)
Interest credited to contractholder funds	1,240	1,358
Changes in:		
Policy benefits and other insurance reserves	546	143
Unearned premiums	220	172
Deferred policy acquisition costs	138	(138)
Premium installment receivables, net	(158)	(137)
Reinsurance recoverables, net	(275)	(229)
Income taxes	(188)	178
Other operating assets and liabilities	335	58
Net cash provided by operating activities	1,671	3,023
Cash flows from investing activities		
Proceeds from sales		
Fixed income securities	23,916	17,345
Equity securities	1,116	4,262
Limited partnership interests	762	387
Mortgage loans	74	121
Other investments	149	98
Investment collections		
Fixed income securities	3,864	3,672
Mortgage loans	491	784
Other investments	105	96
Investment purchases		
Fixed income securities	(21,900)	(20,712)
Equity securities	(1,066)	(2,721)
Limited partnership interests	(1,159)	(1,040)
Mortgage loans	(896)	(55)
Other investments	(199)	(99)
Change in short-term investments, net	64	104
Change in other investments, net	(357)	(464)
Purchases of property and equipment, net	(160)	(114)
Disposition of operations	1	7
Net cash provided by investing activities	4,805	1,671
Cash flows from financing activities		
Repayment of long-term debt	(1)	(1)
Contractholder fund deposits	1,606	2,297
Contractholder fund withdrawals	(6,439)	(6,779)
Dividends paid	(327)	(322)
Treasury stock purchases	(858)	(5)
Shares reissued under equity incentive plans, net	18	26
Excess tax benefits on share-based payment arrangements	(4)	(7)
Other	(7)	(15)
Net cash used in financing activities	(6,012)	(4,806)
Net increase (decrease) in cash	464	(112)
Cash at beginning of period	562	612
Cash at end of period	$ 1,026	$ 500

See notes to condensed consolidated financial statements.

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 September 30, 2011 and for the three-month and nine-month periods ended September 30, 2011 and 2010 are unaudited. The condensed consolidated financial statements reflect all adjustments (consisting only of normal recurring accruals) which are, in the opinion of management, necessary for the fair presentation of the financial position, results of operations and cash flows for the interim periods. These condensed consolidated financial statements and notes should be read in conjunction with the consolidated financial statements and notes thereto included in the Company s Annual Report on Form 10-K for the year ended December 31, 2010. The results of operations for the interim periods should not be considered indicative of results to be expected for the full year.

Adopted accounting standards

Consolidation Analysis Considering Investments Held through Separate Accounts

In April 2010, the Financial Accounting Standards Board (FASB) issued guidance clarifying that an insurer is not required to combine interests in investments held in a qualifying separate account with its interests in the same investments held in the general account when performing a consolidation evaluation. The adoption of this guidance as of January 1, 2011 had no impact on the Company s results of operations or financial position.

Disclosure of Supplementary Pro Forma Information for Business Combinations

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

Criteria for Classification as a Troubled Debt Restructuring (TDR)

In April 2011, the FASB issued clarifying guidance related to determining whether a loan modification or restructuring should be classified as a TDR. The additional guidance provided pertains to the two criteria used to determine whether a TDR exists, specifically whether the creditor has granted a concession and whether the debtor is experiencing financial difficulties. The guidance related to the identification of a TDR is to be applied retrospectively to the beginning of the annual period of adoption. The measurement of impairment on a TDR identified under this guidance is effective prospectively. Disclosures about the credit quality of financing receivables and the allowance for credit losses previously deferred for TDRs, is also effective for reporting periods beginning on or after June 15, 2011. The adoption of this guidance as of July 1, 2011 did not have a material effect on the Company s results of operations or financial position.

Pending accounting standards

Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts

In October 2010, the FASB issued guidance modifying the definition of the types of costs incurred by insurance entities that can be capitalized in the acquisition of new and renewal contracts. The guidance specifies that the costs must be based on successful efforts. The guidance also specifies that advertising costs should be included as deferred acquisition costs only when the direct-response advertising accounting criteria are met. If application of the guidance would result in the capitalization of acquisition costs that had not been capitalized prior to adoption, the entity may elect not to capitalize those additional costs. The new guidance is effective for reporting periods beginning after December 15, 2011 and should be applied prospectively, with retrospective application permitted. The Company plans to adopt the new guidance retrospectively. Upon adoption on January 1, 2012, the deferred policy acquisition costs (DAC) balance will be reduced with a corresponding decrease to retained income, net of taxes. In periods subsequent to January 1, 2012, a lower amount of acquisition costs will be capitalized which will increase operating costs and expenses and the smaller DAC balance will result in decreased amortization of DAC. The Company is in the process of completing the retrospective adoption calculations and measuring the impact of adoption on the Company s results of operations and financial position.

Criteria for Determining Effective Control for Repurchase Agreements

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

Amendments to Fair Value Measurement and Disclosure Requirements

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

Presentation of Comprehensive Income

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

Intangibles Goodwill and Other

In September 2011, the FASB issued guidance providing the option to first assess qualitative factors, such as macroeconomic conditions and industry and market considerations, to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If indicated by the qualitative assessment, then it is necessary to perform the two-step goodwill impairment test. If the option is not elected, the guidance requiring the two-step goodwill impairment test is unchanged. The new guidance is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011, with early adoption permitted. The impact of adoption is not expected to be material to the Company s results of operations and financial position.

2. Earnings per share

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

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

($ in millions, except per share data)	Three months ended September 30, 2011	Three months ended September 30, 2010	Nine months ended September 30, 2011	Nine months ended September 30, 2010
Numerator:				
Net income	$ 165	$ 367	$ 64	$ 632
Denominator:				
Weighted average common shares outstanding	512.0	540.9	520.4	540.6
Effect of dilutive potential common shares:				
Stock options	1.6	1.9	2.0	2.0
Restricted stock units (non-participating)	0.6	0.2	0.5	0.1
Weighted average common and dilutive potential common shares outstanding	514.2	543.0	522.9	542.7
Earnings per share - Basic	$ 0.32	$ 0.68	$ 0.12	$ 1.17
Earnings per share - Diluted	$ 0.32	$ 0.68	$ 0.12	$ 1.16

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 27.6 million and 27.6 million Allstate common shares, with exercise prices ranging from $24.70 to $62.84 and $27.36 to $62.84, were outstanding for the three-month periods ended September 30, 2011 and 2010, respectively, but were not included in the computation of diluted earnings per share in those periods. Options to purchase 27.6 million and 26.6 million Allstate common shares, with exercise prices ranging from $25.91 to $62.84 and $27.36 to $64.53, were outstanding for the nine-month periods ended September 30, 2011 and 2010, respectively, but were not included in the computation of diluted earnings per share in those periods.

3. Supplemental Cash Flow Information

Non-cash investment exchanges, including modifications of certain mortgage loans (primarily refinances at maturity with no concessions granted to the borrower), fixed income securities, limited partnerships and other investments, as well as mergers completed with equity securities, totaled $564 million and $544 million for the nine months ended September 30, 2011 and 2010, respectively.

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

($ in millions)	Nine months ended September 30, 2011	Nine months ended September 30, 2010
Net change in proceeds managed		
Net change in short-term investments	$ (301)	$ 187
Operating cash flow (used) provided	(301)	187
Net change in cash	1	2
Net change in proceeds managed	$ (300)	$ 189

Net change in liabilities		
Liabilities for collateral, beginning of year	$ (484)	$ (658)
Liabilities for collateral, end of period	(784)	(469)
Operating cash flow provided (used)	$ 300	$ (189)

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
September 30, 2011				
U.S. government and agencies	$ 4,009	$ 337	$ --	$ 4,346
Municipal	14,445	816	(262)	14,999
Corporate	42,335	2,644	(450)	44,529
Foreign government	1,941	197	(5)	2,133
Residential mortgage-backed securities (RMBS)	5,027	146	(541)	4,632
Commercial mortgage-backed securities (CMBS)	2,045	37	(258)	1,824
Asset-backed securities (ABS)	4,110	87	(291)	3,906
Redeemable preferred stock	23	2	--	25
Total fixed income securities	$ 73,935	$ 4,266	$ (1,807)	$ 76,394
December 31, 2010				
U.S. government and agencies	$ 8,320	$ 327	$ (51)	$ 8,596
Municipal	16,201	379	(646)	15,934
Corporate	36,260	1,816	(421)	37,655
Foreign government	2,821	347	(10)	3,158
RMBS	8,509	216	(732)	7,993
CMBS	2,213	58	(277)	1,994
ABS	4,425	113	(294)	4,244
Redeemable preferred stock	37	1	--	38
Total fixed income securities	$ 78,786	$ 3,257	$ (2,431)	$ 79,612

Scheduled maturities

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

($ in millions)	Amortized cost	Fair value
Due in one year or less	$ 3,441	$ 3,507
Due after one year through five years	20,985	21,764
Due after five years through ten years	20,860	22,097
Due after ten years	19,512	20,488
	64,798	67,856
RMBS and ABS	9,137	8,538
Total	$ 73,935	$ 76,394

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

Net investment income

Net investment income is as follows:

($ in millions)	Three months ended September 30, 2011	Three months ended September 30, 2010	Nine months ended September 30, 2011	Nine months ended September 30, 2010
Fixed income securities	$ 862	$ 926	$ 2,661	$ 2,840
Equity securities	23	17	76	63
Mortgage loans	91	92	267	295
Limited partnership interests	33	6	61	19
Short-term investments	2	2	5	6
Other	27	5	64	12
Investment income, before expense	1,038	1,048	3,134	3,235
Investment expense	(44)	(43)	(138)	(131)
Net investment income	$ 994	$ 1,005	$ 2,996	$ 3,104

Realized capital gains and losses

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

($ in millions)	Three months ended September 30, 2011	Three months ended September 30, 2010	Nine months ended September 30, 2011	Nine months ended September 30, 2010
Fixed income securities	$ 603	$ 84	$ 615	$ (240)
Equity securities	(77)	83	60	142
Mortgage loans	(28)	(1)	(37)	(54)
Limited partnership interests	8	(20)	129	(15)
Derivatives	(234)	(286)	(354)	(779)
Other	(8)	(4)	4	3
Realized capital gains and losses	$ 264	$ (144)	$ 417	$ (943)

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

($ in millions)	Three months ended September 30, 2011	Three months ended September 30, 2010	Nine months ended September 30, 2011	Nine months ended September 30, 2010
Impairment write-downs	$ (190)	$ (137)	$ (374)	$ (599)
Change in intent write-downs	(13)	(30)	(98)	(129)
Net other-than-temporary impairment losses recognized in earnings	(203)	(167)	(472)	(728)
Sales	692	319	1,116	552
Valuation of derivative instruments	(254)	(133)	(282)	(571)
Settlements of derivative instruments	20	(152)	(72)	(209)

Equity method of accounting (EMA) limited partnership income		9		(11)		127		13
Realized capital gains and losses	$	264	$	(144)	$	417	$	(943)

Gross gains of $709 million and $387 million and gross losses of $32 million and $173 million were realized on sales of fixed income securities during the three months ended September 30, 2011 and 2010, respectively. Gross gains of $1.10 billion and $673 million and gross losses of $218 million and $360 million were realized on sales of fixed income securities during the nine months ended September 30, 2011 and 2010, respectively.

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

($ in millions)	Three months ended September 30, 2011			Nine months ended September 30, 2011		
	Gross	Included in OCI	Net	Gross	Included in OCI	Net
Fixed income securities:						
Municipal	$ (8)	$ --	$ (8)	$ (50)	$ (3)	$ (53)
Corporate	(14)	--	(14)	(19)	1	(18)
Foreign government	--	--	--	(1)	--	(1)
RMBS	(57)	(3)	(60)	(164)	(28)	(192)
CMBS	(1)	(3)	(4)	(27)	(10)	(37)
ABS	--	--	--	(7)	3	(4)
Total fixed income securities	(80)	(6)	(86)	(268)	(37)	(305)
Equity securities	(81)	--	(81)	(114)	--	(114)
Mortgage loans	(29)	--	(29)	(42)	--	(42)
Limited partnership interests	(2)	--	(2)	(4)	--	(4)
Other	(5)	--	(5)	(7)	--	(7)
Other-than-temporary impairment losses	$ (197)	$ (6)	$ (203)	$ (435)	$ (37)	$ (472)

	Three months ended September 30, 2010			Nine months ended September 30, 2010		
	Gross	Included in OCI	Net	Gross	Included in OCI	Net
Fixed income securities:						
Municipal	$ (1)	$ --	$ (1)	$ (106)	$ 4	$ (102)
Corporate	(14)	(1)	(15)	(67)	1	(66)
RMBS	(56)	(41)	(97)	(268)	(43)	(311)
CMBS	(1)	(26)	(27)	(44)	(37)	(81)
ABS	--	--	--	(9)	(16)	(25)
Total fixed income securities	(72)	(68)	(140)	(494)	(91)	(585)
Equity securities	(14)	--	(14)	(51)	--	(51)
Mortgage loans	(3)	--	(3)	(50)	--	(50)
Limited partnership interests	(10)	--	(10)	(42)	--	(42)
Other-than-temporary impairment losses	$ (99)	$ (68)	$ (167)	$ (637)	$ (91)	$ (728)

The total amount of other-than-temporary impairment losses included in accumulated other comprehensive income at the time of impairment for fixed income securities, which were not included in earnings, are presented in the following table. The amount excludes $211 million and $322 million as of September 30, 2011 and December 31, 2010, respectively, of net unrealized gains related to changes in valuation of the fixed income securities subsequent to the impairment measurement date.

($ in millions)	September 30, 2011	December 31, 2010
Municipal	$ (12)	$ (27)
Corporate	(36)	(31)

RMBS	(372)	(467)
CMBS	(8)	(49)
ABS	(22)	(41)
Total	$ (450)	$ (615)

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

($ in millions)	Three months ended September 30, 2011	Three months ended September 30, 2010	Nine months ended September 30, 2011	Nine months ended September 30, 2010
Beginning balance	$ (912)	$ (1,309)	$ (1,046)	$ (1,187)
Cumulative effect of change in accounting principle	--	81	--	81
Additional credit loss for securities previously other-than-temporarily impaired	(56)	(101)	(133)	(265)
Additional credit loss for securities not previously other-than-temporarily impaired	(25)	(9)	(82)	(197)
Reduction in credit loss for securities disposed or collected	66	104	313	330
Reduction in credit loss for securities the Company has made the decision to sell or more likely than not will be required to sell	--	42	15	43
Change in credit loss due to accretion of increase in cash flows	4	1	10	4
Ending balance	$ (923)	$ (1,191)	$ (923)	$ (1,191)

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

Unrealized net capital gains and losses

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

($ in millions)	**Fair**	**Gross unrealized**		**Unrealized net**
September 30, 2011	**value**	**Gains**	**Losses**	**gains (losses)**
Fixed income securities	$ 76,394	$ 4,266	$ (1,807)	$ 2,459
Equity securities	4,157	250	(345)	(95)
Short-term investments	3,517	--	--	--
Derivative instruments (1)	(10)	2	(17)	(15)
EMA limited partnership interests (2)				7
Unrealized net capital gains and losses, pre-tax				2,356
Amounts recognized for:				
Insurance reserves (3)				(641)
DAC and DSI (4)				(122)
Amounts recognized				(763)
Deferred income taxes				(561)
Unrealized net capital gains and losses, after-tax				$ 1,032

(1) Included in the fair value of derivative instruments are $(6) million classified as assets and $4 million classified as liabilities.

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

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

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

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

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

Change in unrealized net capital gains and losses

The change in unrealized net capital gains and losses for the nine months ended September 30, 2011 is as follows:

($ in millions)		
Fixed income securities	$	1,633
Equity securities		(678)
Derivative instruments		7
EMA limited partnership interests		7
Total		969
Amounts recognized for:		
Insurance reserves		(600)
DAC and DSI		(219)
Amounts recognized		(819)
Deferred income taxes		(53)
Increase in unrealized net capital gains and losses	$	97

Portfolio monitoring

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

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

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

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

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

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

($ in millions)	**Less than 12 months**			**12 months or more**			**Total**
	Number of issues	**Fair value**	**Unrealized losses**	**Number of issues**	**Fair value**	**Unrealized losses**	**unrealized losses**
September 30, 2011							
Fixed income securities							
U.S. government and agencies	6	$ 151	$ --	--	$ --	$ --	$ --
Municipal	173	1,243	(26)	303	1,958	(236)	(262)
Corporate	509	6,073	(219)	104	1,327	(231)	(450)
Foreign government	18	346	(5)	--	--	--	(5)
RMBS	110	284	(13)	289	1,193	(528)	(541)
CMBS	69	566	(58)	74	530	(200)	(258)
ABS	49	683	(8)	114	1,062	(283)	(291)
Total fixed income securities	934	9,346	(329)	884	6,070	(1,478)	(1,807)
Equity securities	2,453	2,067	(339)	49	20	(6)	(345)
Total fixed income and equity securities	3,387	$ 11,413	$ (668)	933	$ 6,090	$ (1,484)	$ (2,152)
Investment grade fixed income securities	633	$ 6,733	$ (182)	567	$ 4,147	$ (728)	$ (910)
Below investment grade fixed income securities	301	2,613	(147)	317	1,923	(750)	(897)
Total fixed income securities	934	$ 9,346	$ (329)	884	$ 6,070	$ (1,478)	$ (1,807)
December 31, 2010							
Fixed income securities							
U.S. government and agencies	32	$ 2,081	$ (51)	--	$ --	$ --	$ (51)
Municipal	847	4,130	(175)	411	2,715	(471)	(646)
Corporate	438	5,994	(186)	150	1,992	(235)	(421)
Foreign government	33	277	(9)	1	10	(1)	(10)
RMBS	280	583	(12)	422	1,939	(720)	(732)
CMBS							