The Allstate Corporation

Notice of 2007 Annual Meeting
+
Proxy Statement
+
2006 Annual Report

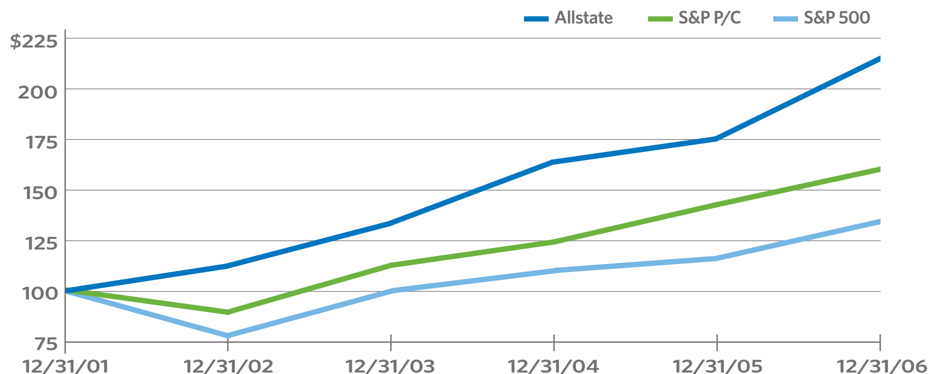
Allstate®
You're in good hands.

The Allstate Corporation

The Allstate Corporation

The following performance graph compares the performance of Allstate common stock total return during the five-year period from December 31, 2001, through December 31, 2006, with the performance of the S&P 500 Property/Casualty Index and the S&P 500 Index.

The graph plots the cumulative changes in value of an initial $100 investment as of December 31, 2001, over the indicated time periods, assuming all dividends are reinvested quarterly.



Value at each year-end of a $100 initial investment made on December 31, 2001

	12/31/01	12/31/02	12/31/03	12/31/04	12/31/05	12/31/06
Allstate	$100.00	$112.26	$133.38	$163.82	$175.32	$215.66
S&P P/C	$100.00	$ 89.14	$112.38	$124.00	$142.57	$160.58
S&P 500	$100.00	$ 78.03	$100.16	$110.92	$116.28	$134.43

Allstate's product choices protect customers today and prepare them for tomorrow.

Insurance Products — Products and services that help customers protect their assets, wealth and family.

Asset Protection
Auto
Homeowners
Condominium
Renters
Scheduled Personal Property
Business Umbrella
Commercial Auto
Commercial Inland Marine
Small Business Owner Customizer and Business Package Policy
Landlord Package
Manufactured Home
Mobile Home
Motor Home
Motorcycle
Boat
Personal Umbrella
Comprehensive Personal Liability
Recreational Vehicle
Off-Road Vehicle
Motor Club
Loan Protection
Flood*

Wealth Transfer
Estate Planning Products
Business Succession Planning Products
Fixed Survivorship Life
Variable Survivorship Life

Family Protection Insurance
Term Life
Universal Life
Variable Universal Life
Long-Term Care*
Supplemental Health

Financial Products — Financial services products that help customers prepare for the future.

Asset Management and Accumulation
Fixed Annuities
Variable Annuities*
Equity Indexed Annuities
Single Premium Immediate Annuities
Term Life
Universal Life
Variable Universal Life
Single Premium Life
Structured Settlement Annuities
Mutual Funds*
Qualified Plans*, such as IRAs, 401(k)s, 403(b)s
Education Plans* (529 and Coverdell Education Savings Accounts)
Institutional Funding Agreements

Asset Management Short-Term Financial Objectives
Checking Accounts
Savings Accounts
Certificates of Deposit
Money Market Accounts
Mortgages

*Non-proprietary products distributed by Allstate

The Allstate Corporation

THE ALLSTATE CORPORATION

2775 Sanders Road

Northbrook, Illinois 60062-6127

April 2, 2007

Notice of 2007 Annual Meeting and Proxy Statement

Dear Stockholder:

You are invited to attend Allstate's 2007 annual meeting of stockholders to be held on Tuesday, May 15, 2007 at 11 a.m. local time, in the Chase Auditorium of Chase Tower, Chicago, Illinois.

We encourage you to review the notice of annual meeting, proxy statement, financial statements and management's discussion and analysis provided in this booklet to learn more about your corporation.

As always, your vote is important. You are encouraged to vote as soon as possible, either by telephone, Internet or mail. Please use one of these methods to vote before the meeting even if you plan to attend the meeting.

Sincerely,

Edward M. Liddy
Chairman

THE ALLSTATE CORPORATION

2775 Sanders Road

Northbrook, Illinois 60062-6127

April 2, 2007

Notice of 2007 Annual Meeting of Stockholders

The annual meeting of stockholders of The Allstate Corporation (''Allstate,'' or ''Corporation'') will be held in the Chase Auditorium located on the Plaza Level of Chase Tower, 10 South Dearborn, Chicago, Illinois on Tuesday, May 15, 2007, at 11 a.m. for the following purposes:

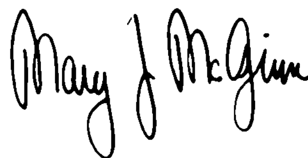
1. To elect to the Board of Directors thirteen directors to serve until the 2008 annual meeting;
2. To ratify the appointment of Deloitte & Touche LLP as Allstate's independent registered public accountant for 2007; and
3. To approve the proposed amendments to the Corporation's Restated Certificate of Incorporation to eliminate the supermajority vote requirements.

In addition, any other business properly presented may be acted upon at the meeting.

Registration and seating will begin at 9:45 a.m. Each stockholder may be asked to present picture identification and proof of stock ownership. Stockholders holding Allstate stock through a bank, brokerage or other nominee account will need to bring their account statement showing ownership as of the record date, March 16, 2007. Cameras, recording devices or other electronic devices will not be allowed in the meeting.

Allstate began mailing its proxy statement and annual report, and proxy card/ voting instruction form to stockholders and to participants in its profit sharing fund on April 2, 2007.

By Order of the Board,



Mary J. McGinn
Secretary

Proxy Statement

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Proxy and Voting Information

Who is asking for your vote and why

The annual meeting will be held only if there is a quorum, which means that a majority of the outstanding common stock entitled to vote is represented at the meeting by proxy or in person. If you vote before the meeting or if you attend the meeting in person, your shares will be counted for the purpose of determining whether there is a quorum. To ensure that there will be a quorum, the Allstate Board of Directors is requesting that you vote before the meeting and allow your Allstate stock to be represented at the annual meeting by the proxies named on the enclosed proxy card/voting instruction form. Voting before the meeting will not prevent you from voting in person at the meeting. If you vote in person at the meeting, your previous vote will be automatically revoked.

Who can vote

You are entitled to vote if you were a stockholder of record at the close of business on March 16, 2007. On March 16, 2007, there were 612,587,379 Allstate common shares outstanding and entitled to vote at the annual meeting.

How to vote

If you hold your shares in your own name as a record holder, you may instruct the proxies how to vote your shares in any of the following ways:

- By using the toll-free telephone number printed on the proxy card/voting instruction form
- By using the Internet voting site and instructions listed on the proxy card/voting instruction form
- By signing and dating the proxy card/voting instruction form and mailing it in the enclosed postage-paid envelope, or by returning it to The Allstate Corporation, c/o ADP, 51 Mercedes Way, Edgewood, N.Y. 11717

You may vote by telephone or Internet 24 hours a day, seven days a week. Such votes are valid under Delaware law.

If you hold your shares through a bank, broker, or other record holder, you may vote your shares by following the instructions they have provided.

Providing voting instructions and discretionary voting authority of proxies

In the election of directors, with respect to all or one or more of the director nominees, you may instruct the proxies to vote "FOR" or to "WITHHOLD" your vote, or you may instruct the proxies to "ABSTAIN" from voting. With respect to each of the other items, you may instruct the proxies to vote "FOR" or "AGAINST," or you may instruct the proxies to "ABSTAIN" from voting.

The Board recommends you vote on the matters set forth in this proxy statement as follows:

- *FOR* all of the nominees for director listed in this proxy statement
- *FOR* the ratification of the appointment of Deloitte & Touche LLP as Allstate's independent registered public accountant for 2007
- *FOR* the approval of the amendments to the Restated Certificate of Incorporation to eliminate the supermajority vote requirements

If any other matters are properly presented at the meeting, the proxies may vote your shares in accordance with their best judgment. Other than the matters referred to in this proxy statement, Allstate knows of no other matters to be brought before the meeting.

If you return a signed proxy card/voting instruction form to allow your shares to be represented at the annual meeting, but do not indicate how your shares should be voted on one or more matters, then the proxies will vote your shares as the Board of Directors recommends for those matters.

How votes are counted to elect directors and approve items

Each share of our common stock outstanding on the record date will be entitled to one vote on each of the thirteen director nominees and one vote on each other matter.

Item 1. Election of Directors. To be elected by stockholders, each director must receive the affirmative vote of the majority of the votes cast. A majority of votes cast means the number of shares voted "FOR" a director exceeds 50% of the votes cast with respect to that director. Each nominee for director receiving more "FOR" votes than "WITHHOLD" will be elected. Votes cast include votes to withhold proxy authority. Abstentions and broker non-votes will not be counted as votes cast for purposes of director elections and will have no impact on the outcome of the vote.

Item 2. Ratification of Appointment of Independent Registered Public Accountant. To ratify the appointment of Allstate's independent registered public accountant, the proposal requires the affirmative vote of a majority of the shares present in person or represented by proxy at the meeting and entitled to vote on the item. Abstentions will be counted as shares present at the meeting and will have the effect of a vote against the matter. Broker non-votes will not be counted as shares entitled to vote on the matter and will have no impact on the outcome of the vote.

Item 3. Approval of the Amendments to the Restated Certificate of Incorporation. To approve the amendment to Article Sixth, the affirmative vote of a majority of the outstanding shares is required. To approve the amendment to Article Seventh, the affirmative vote of 66 ⅔% of the outstanding shares is required. Abstentions and broker non-votes will be counted as shares outstanding and will have the effect of a vote against the matter.

Broker non-votes are shares that are held by brokers that do not have discretionary authority to vote on the matter and have not received voting instructions from their clients.

How to change your vote

Before your shares have been voted at the annual meeting by the proxies, you may change or revoke your vote in the following ways:

- Voting again by telephone, by Internet or in writing
- Attending the meeting and voting your shares in person

Unless you attend the meeting and vote your shares in person, you should use the same method as when you first voted — telephone, Internet or writing. That way, the inspector of election will be able to identify your latest vote.

Confidentiality

All proxies, ballots and tabulations that identify the vote of a particular stockholder are kept confidential, except as necessary to allow the inspector of election to certify the voting results or to meet certain legal requirements. A representative of IVS Associates, Inc. will act as the inspector of election and will count the votes. The representative is independent of Allstate and its directors, officers and employees.

Comments written on proxy cards, voting instruction forms or ballots may be provided to the Secretary of Allstate with the name and address of the stockholder. The comments will be provided without reference to the vote of the stockholder, unless the vote is mentioned in the comment or unless disclosure of the vote is necessary to understand the comment. At Allstate's request, the transfer agent or the solicitation agent may provide Allstate with periodic status reports on the aggregate vote. These status reports may include a list of stockholders who have not voted and breakdowns of vote totals by different types of stockholders, as long as Allstate is not able to determine how a particular stockholder voted.

Profit Sharing Fund Participants

If you hold Allstate common shares through The Savings and Profit Sharing Fund of Allstate Employees (the profit sharing fund), your proxy card/voting instruction form for those shares will instruct the profit sharing fund trustee how to vote those shares. If you are an employee who received your annual meeting materials electronically, and you hold Allstate common shares both through the profit sharing fund and also directly as a registered stockholder, the voting instructions you provide electronically on the proxy card/voting instruction form will be applied to both your profit sharing fund shares and your registered shares. If you return a signed proxy card/voting instruction form or vote by telephone or the Internet on a timely basis, the trustee shall vote as instructed for all Allstate common shares allocated to your profit sharing fund account unless to do so would be inconsistent with the trustee's duties.

If your voting instructions are not received on a timely basis for the shares allocated to your profit sharing fund account, those shares will be considered "unvoted." If you return a signed proxy card/voting instruction form but do not indicate how your shares should be voted on a matter, the shares represented by your signed proxy card/voting instruction form will be voted as the Board of Directors recommends. The trustee will vote all unvoted shares and all unallocated shares held by the profit sharing fund as follows:

- If the trustee receives instructions (through voting instruction forms or through telephonic or Internet instruction) on a timely basis for at least 50% of the votable allocated shares in the profit sharing fund, then it will vote all unvoted shares and unallocated shares in the same proportion and in the same manner as the shares for which timely instructions have been received, unless to do so would be inconsistent with the trustee's duties.
- If the trustee receives instructions for less than 50% of the votable shares, the trustee shall vote all unvoted and unallocated shares in its sole discretion. However, the trustee will not use its discretionary authority to vote on adjournment of the meeting in order to solicit further proxies.

Profit sharing fund votes receive the same level of confidentiality as all other votes. You may not vote the shares allocated to your profit sharing fund account by attending the meeting and voting in person. You must instruct The Northern Trust Company, as trustee for the profit sharing fund, on how you want your profit sharing fund shares voted.

If You Receive More Than One Proxy Card/Voting Instruction Form

If you receive more than one proxy card/voting instruction form, your shares are probably registered in more than one account or you may hold shares both as a registered stockholder and through The Savings and Profit Sharing Fund of Allstate Employees. You should vote each proxy card/voting instruction form you receive.

Proxy Statement and Annual Report Delivery

Allstate has adopted the "householding" procedure approved by the Securities and Exchange Commission that allows us to deliver one proxy statement and annual report to a household of stockholders instead of delivering a set of documents to each stockholder in the household. This procedure is more cost effective because it reduces the number of materials to be printed and mailed. It also reduces our impact on the environment. Stockholders who share the same last name and address, or where shares are held through the same nominee or record holder (for example, when you have multiple accounts at the same brokerage firm), will receive one proxy statement and annual report per address unless we receive, or have previously received, contrary instructions. Stockholders will continue to receive separate proxy cards/voting instruction forms to vote their shares.

If you would like to receive a separate copy of the proxy statement and annual report for this year, please write or call us at the following address or phone number: Investor Relations, The Allstate Corporation, 2775 Sanders Road, Suite F3 SE, Northbrook, IL 60062-6127, (800) 416-8803. Upon receipt of your request, we will promptly deliver the requested materials to you.

If you and other Allstate stockholders of record with whom you share an address currently receive multiple sets of the proxy statement and annual report, and you would like to receive only a single copy of each in the future, please contact our distribution agent, ADP by calling (800) 542-1061 or by writing to ADP Householding Department, 51 Mercedes Way, Edgewood, NY 11717. If you hold your shares in street name (that is, through a bank, brokerage account or other record holder), please contact your bank, broker or other record holder to request information about householding.

You may also revoke your consent to householding by contacting ADP at the phone number and address listed above. You will be removed from the householding program within 30 days of receipt of the revocation of your consent.

Corporate Governance Practices

Allstate has a history of strong corporate governance practices which are firmly grounded in the belief that corporate governance best practices are critical to our goal of driving sustained stockholder value.

Code of Ethics

Allstate is committed to operating its business with honesty and integrity and maintaining the highest level of ethical conduct. These absolute values of the Corporation are embodied in its Code of Ethics and require that every customer, employee and member of the public be treated accordingly. Allstate's Code of Ethics applies to all employees, including the Chief Executive Officer, the Chief Financial Officer, the Controller, other senior financial and executive officers as well as the Board of Directors. The Code is available on the Corporate Governance portion of the Corporation's website, allstate.com, and is also available in print upon request made to the Office of the Secretary, The Allstate Corporation, 2775 Sanders Road, Suite A3, Northbrook, Illinois 60062-6127.

Determinations of Independence of Nominees for Election

The Board of Directors has determined that each nominee for election, with the exception of Mr. Wilson in his capacity as President and Chief Executive Officer and Mr. Liddy in his capacity as Chairman, is independent according to applicable law, the listing standards of the New York Stock Exchange and the *Director Independence Standards* adopted by the Board of Directors which are posted

on the Corporate Governance portion of the Corporation's website, allstate.com. The Board determined that the following categories of relationships with the Corporation are among those that do not interfere with the director's exercise of independent judgment and do not, to the extent consistent with applicable law or regulation and Section 3 of Allstate's *Corporate Governance Guidelines*, disqualify a director or nominee from being considered independent. In making the independence determinations, the Board considered transactions, relationships, or arrangements described in category 1 with respect to each independent director except Mr. Ackerman; categories 2, 3 and 6 with respect to Mr. Ackerman; and categories 4 and 5 with respect to relationships between the Corporation and charitable organizations in which each of Messrs. Ackerman, Beyer, Farrell, Greenberg, LeMay, Reyes and Riley are involved. In determining that Mr. Brennan, who retired from the Board in May 2006, was independent, the Board considered transactions, relationships, or arrangements described in categories 1, 4 and 5.

Categorical Standards of Independence

1. An Allstate director's relationship arising from (i) only such director's position as a director of another corporation or organization; (ii) only such director's direct or indirect ownership of a 5% or less equity interest in another corporation or organization (other than a partnership); (iii) both such position and such ownership; or (iv) such director's position only as a limited partner in a partnership in which he or she has an interest of 5% or less;
2. An Allstate director's relationship arising from an interest of the director, or any entity in which the director is an employee, director, partner, stockholder or officer, in or under any standard-form insurance policy or other financial product offered by the Allstate Group in the ordinary course of business;
3. An Allstate director's relationship with another company that participates in a transaction with the Allstate Group (i) where the rates or charges involved are determined by competitive bid or (ii) where the transaction involves the rendering of services as a common or contract carrier (including any airline) or public utility at rates or charges fixed in conformity with law or governmental authority;
4. An Allstate director's relationship with another company that has made payments to, or received payments from, the Allstate Group for property or services in an amount which, in the last fiscal year, does not exceed the greater of $1 million or 2% of such other company's consolidated gross revenues for such year;
5. An Allstate director's relationship with a charitable entity to which the aggregate amount of discretionary charitable contributions (other than employee matching contributions) made by the Allstate Group and The Allstate Foundation in any of the last three fiscal years of the charitable entity were less than the greater of $1 million or 2% of such entity's consolidated gross revenues for such year; and
6. An Allstate director's relationship with another company (i) in which the Allstate Group makes investments or (ii) which invests in securities issued by the Allstate Group or securities backed by any product issued by the Allstate Group, all in the ordinary course of such entity's investment business and on terms and under circumstances similar to those available to or from entities unaffiliated with such director.

Majority Votes in Director Elections

In February 2007, the Board amended the Corporation's bylaws to incorporate a majority vote standard in the election of directors.

Board Structure, Meetings and Board Committees

The current Board has 13 directors and three committees. The following table identifies each committee, its members and the number of meetings held during 2006. Each committee operates under a written charter that has been approved by the Board. Each charter is available on the Corporate Governance portion of the Corporation's website, allstate.com. Each charter is also available in print upon request made to the Office of the Secretary, The Allstate Corporation, 2775 Sanders Road, Suite A3, Northbrook, Illinois 60062-6127. The charters are included in Appendix A to this proxy statement. All of the members of each committee have been determined to be independent by the Board within the meaning of applicable laws, the listing standards of the New York Stock Exchange and the *Director Independence Standards* as in effect at the time of determination. A summary of each committee's functions and responsibilities follows the table.

The Board held twelve meetings during 2006. Each incumbent director attended at least 75% of the combined board meetings and meetings of committees of which he or she was a member. Attendance at board and committee meetings during 2006 averaged 94% for incumbent directors as a group.

Director	Audit	Compensation and Succession	Nominating and Governance
F. Duane Ackerman	✓	✓	
James G. Andress	✓*		✓
Robert D. Beyer **		✓	
Edward A. Brennan***		✓	✓
W. James Farrell		✓	✓*
Jack M. Greenberg	✓	✓	
Ronald T. LeMay	✓	✓	
Edward M. Liddy			
J. Christopher Reyes			✓
H. John Riley, Jr.		✓*	✓
Joshua I. Smith	✓		✓
Judith A. Sprieser	✓		✓
Mary Alice Taylor	✓	✓	
Thomas J. Wilson **			
Number of Meetings in 2006	8	11	6
* Committee Chair ** Elected to the Board in September 2006 *** Retired as of May 2006			

New Director Orientation

Upon Mr. Beyer's election to the Board of Directors in September 2006, he was invited to participate in each of the board committee meetings in order for him to gain familiarity with the responsibilities of each committee prior to being appointed a member of any committee. Mr. Beyer attended each committee meeting held until his election to the Compensation and Succession Committee in February 2007.

Executive Sessions of the Board

The independent directors meet in regularly scheduled executive sessions without management. When independent directors meet in executive session, the leader is determined by the subject matter of

the session. If the subject is within the scope of authority of one of the standing committees, the chair of that committee leads the executive session. Otherwise, directors who are not committee chairs are appointed on a rotating basis to lead the executive session. The Board believes this practice provides for leadership at all executive sessions without the need to designate a single lead director and it also provides an opportunity for each director to assume the role of lead director from time to time.

Board Attendance Policy

It is expected that Allstate Board members make every effort to attend all meetings of the Board and the committees on which they serve and actively participate in the discussion of the matters before them. It is also expected that Board members make every effort to attend the annual meeting of stockholders. Of the 11 directors who stood for election at the 2006 annual meeting of stockholders, two were unable to attend.

Board Committees

Audit Committee.

Allstate's Board of Directors has established an audit committee in accordance with the requirements of Section 3(a)(58)(A) of the Securities Exchange Act of 1934. As shown above, the Audit Committee is chaired by Mr. Andress and includes Ms. Sprieser and Mrs. Taylor and Messrs. Ackerman, Greenberg, LeMay and Smith. The Board has determined that Ms. Sprieser and Messrs. Andress and Greenberg are each individually qualified as an audit committee financial expert, as defined in Regulation S-K, Item 407(d)(5) under the Securities Exchange Act of 1934 and each member of the committee is independent under the listing standards of the New York Stock Exchange. Mrs. Taylor currently serves on the audit committees of more than three public companies. The Board has determined, in light of Mrs. Taylor's active contributions to Allstate's Audit Committee, and her status as retired from active management positions, that this simultaneous service does not impair her ability to function as a member of this committee. Moreover, Mrs. Taylor's position on the audit committee of one company is expected to end when that company is taken private in a transaction scheduled to close before May 2007.

The committee is responsible for, among other things, the selection, appointment, compensation and oversight of the work of the independent registered public accountant in preparing or issuing an audit report or related work. The committee reviews Allstate's annual audited and quarterly financial statements and recommends to the Board of Directors whether the audited financial statements should be included in Allstate's annual report on Form 10-K and in the annual report to stockholders. In connection therewith, the committee examines Allstate's accounting and auditing principles and practices affecting the financial statements and discusses with its independent registered public accountant those matters required to be discussed in accordance with the Public Company Accounting Oversight Board's generally accepted auditing standards, including the requirements under Statement of Auditing Standards No. 61 (Codification of Statements on Auditing Standards, AU §380) and Securities and Exchange Commission Rule 2-07 of Regulation S-X and other matters as it deems appropriate. The committee also reviews the scope of the audits conducted by the independent registered public accountant and the internal auditors as well as the qualifications, independence and performance of the independent registered public accountant. The committee is responsible for the review and approval of Allstate's Code of Ethics as well as the adoption of procedures for the receipt, retention and treatment of complaints regarding accounting, internal accounting controls and auditing matters. The committee conducts independent inquiries when deemed necessary to discharge its duties. The committee has the authority to retain independent outside counsel, accountants and other advisers to assist it in the conduct of its business.

The committee discusses with management the Corporation's processes of risk assessment and risk management, including the Corporation's major financial risk exposures and the steps management has taken to monitor and control them.

The committee provides functional oversight to Allstate's Internal Audit Department. The Internal Audit Department provides objective assurance and consulting services that are used to assure a systematic, disciplined approach to the evaluation and improvement of effective risk management, control and governance processes. The committee reviews the overall adequacy and effectiveness of the Corporation's legal, regulatory, and ethical compliance programs.

Our chairman, chief executive officer, chief financial officer, general counsel, and secretary, as well as the controller and senior internal audit officer participate in the committee's meetings. However, executive sessions of the committee are scheduled and held throughout the course of a year, including sessions in which the committee meets with the independent registered public accountant and the senior internal audit officer.

The committee also conducts an annual review of its performance and its charter. The committee charter is included in Appendix A to this proxy statement and is available on the Corporate Governance portion of the Corporation's website, allstate.com. It is also available in print upon request made to the Office of the Secretary, The Allstate Corporation, 2775 Sanders Road, Suite A3, Northbrook, Illinois 60062-6127. The Audit Committee Report is included herein on page 60.

Compensation and Succession Committee.

The Compensation and Succession Committee is chaired by Mr. Riley and includes Mrs. Taylor and Messrs. Ackerman, Beyer, Farrell, Greenberg, and LeMay and, until his retirement in May of 2006, Mr. Brennan. All members of the committee are independent under the listing standards of the New York Stock Exchange. The committee assists the Board in fulfilling its oversight responsibilities with respect to the compensation of the chief executive officer and other executive officers. The committee annually reviews the management organization and succession plans for Allstate, including each of its significant operating subsidiaries, and recommends nominees for certain officer positions. The committee is responsible for recommending executive officer salaries and compensation packages to the Board. The committee has oversight responsibility for the salary administration program for elected officers of the Corporation and its principal operating subsidiaries.

The committee administers our Annual Covered Employee Incentive Compensation Plan, Annual Executive Incentive Compensation Plan, and Long-Term Executive Incentive Compensation Plan. These are plans pursuant to which officers of The Allstate Corporation and its subsidiaries at the vice president level and above are eligible to earn annual and long-term cash incentive compensation awards. The committee determines the performance measures for earning awards and the amount of awards payable upon the achievement of threshold, target and maximum goals with respect to the performance measures. At the end of the relevant performance period, the committee reviews the extent to which the goals have been achieved and approves the actual amount of the cash incentive awards.

The committee has authority to grant equity awards to eligible employees in accordance with the terms of our Amended and Restated 2001 Equity Incentive Plan. With regard to its authority to grant equity awards, the committee has adopted an equity compensation policy. The committee has delegated its authority to grant equity awards between meetings in connection with the hiring or promotion of an employee or in recognition of an employee's particular achievement. All awards granted pursuant to delegated authority are reported to the committee at the next meeting. A subcommittee has authority to grant restricted stock and restricted stock unit awards to new hires and to determine the size, terms, and conditions of such awards. In addition, both the chairman of the board and the chief executive officer have authority to grant nonqualified stock options to new hires and to current employees in connection with promotions or in recognition of an achievement. Both the chairman and the chief executive officer have authority to determine the number of shares subject to such options, subject to limits set by the committee. Neither the subcommittee, the chairman, nor the chief executive officer is permitted to grant such awards to those who are designated as executive officers for purposes of Section 16 of the

Securities Exchange Act of 1934. Awards made by the subcommittee, the chairman or the chief executive officer must be made pursuant to the terms of award agreements previously approved by the committee.

In addition, the committee administers our deferred compensation plan for eligible employees and makes recommendations to the Board regarding pension benefit enhancements and change-in-control agreements.

The committee also has sole authority to retain and terminate its compensation consultants, including sole authority to approve the consultants' fees and other retention terms for such services provided to the committee. The committee has used Mercer Human Resource Consulting as its executive compensation consultant for several years and directly engaged Mercer's services again in 2006. As part of the 2006 engagement, Mercer assisted the committee in assessing the appropriateness of the list of peer insurance companies that the committee uses to evaluate the competitiveness of Allstate's executive compensation program. In addition, Mercer provided an assessment that benchmarked Allstate's executive pay levels, practices, and overall program design as well as its financial performance against those companies.

Our chairman, chief executive officer, senior human resources officer, general counsel and secretary, and more recently, our chief financial officer, participate in the committee's meetings. However, the committee regularly meets in executive session without members of management present or with only the presence of the senior human resources officer. The chairman and the chief executive officer make recommendations to the committee regarding management organization, succession planning, merit and promotional salary increases (other than their own), performance measures under our annual and long-term cash incentive compensation plans, the use of the committee's authority to adjust awards under such cash incentive compensation plans, and the size and terms of employee equity awards (other than their own).

The committee conducts an annual review of its performance and its charter. The committee charter is included in Appendix A to this proxy statement and is available on the Corporate Governance portion of the Corporation's website, allstate.com. It is also available in print upon request made to the Office of the Secretary, The Allstate Corporation, 2775 Sanders Road, Suite A3, Northbrook, Illinois 60062-6127. The Compensation Committee Report is included herein on page 58.

Nominating and Governance Committee.

The Nominating and Governance Committee is chaired by Mr. Farrell and includes Ms. Sprieser and Messrs. Andress, Reyes, Riley and Smith. Mr. Brennan was the Chair of the Committee until his retirement in May 2006. All members of the committee are independent under the listing standards of the New York Stock Exchange. The committee is responsible for the identification and recommendation of nominees for election to the Board, as described in the Nomination Process for Election to the Board of Directors section below. In connection with its selection process, the committee is responsible for recommending appropriate criteria and independence standards for adoption by the Board. The committee is responsible for making recommendations with respect to the periodic review of the performance of the chief executive officer as well as succession planning to the Board of Directors, including recommending nominees for election as the chief executive officer. The committee advises and makes recommendations to the Board on matters of corporate governance including periodic reviews of the Corporation's *Corporate Governance Guidelines*, which are posted on the Corporate Governance portion of the Corporation's website, allstate.com, and are also available in print upon request made to the Office of the Secretary, The Allstate Corporation, 2775 Sanders Road, Suite A3, Northbrook, Illinois 60062-6127. The committee is also responsible for the triennial review and assessment of the Corporation's structural defenses. The committee determines and recommends the criteria to be used for the assessment of the Board's performance and oversees the assessment of the Board. With Board oversight, the committee also administers non-employee director compensation. The committee may retain independent consultants as needed to assist it with its responsibilities.

The committee also conducts an annual review of its performance and its committee charter. The Nominating and Governance Committee charter is included in Appendix A to this proxy statement and is available on the Corporate Governance portion of the Corporation's website, allstate.com. It is also available in print upon request made to the Office of the Secretary, The Allstate Corporation, 2775 Sanders Road, Suite A3, Northbrook, Illinois 60062-6127.

Our chairman, chief executive officer, general counsel, and secretary participate in the committee's meetings. However, the committee regularly meets in executive session without members of management present. The chairman and the chief executive officer make recommendations to the committee regarding non-employee director compensation.

Nomination Process for Election to the Board of Directors

The Nominating and Governance Committee has responsibility for assessing the need for new Board members to address specific requirements or to fill a vacancy. The committee initiates a search for a new candidate seeking input from the Chairman and other Board members. The committee may also retain a third party search firm if necessary to identify potential candidates for election. Nominees recommended by stockholders are considered by the committee in the same manner as all other candidates. All non-employee candidates must meet the Board's *Guidelines for Selection of Nominees for the Board of Directors,* the Corporation's *Corporate Governance Guidelines* and the *Director Independence Standards*, and comply with the bylaw requirements regarding nominees, each of which is posted on the Corporate Governance portion of the Corporation's website, allstate.com. Candidates who meet the specific requirements and otherwise qualify for membership on the Board are identified and contacts are initiated with preferred candidates. The full Board is kept apprised of the committee's progress with its evaluations. The committee meets to consider and approve final candidates who are then presented to the Board for endorsement and approval. The invitation to join the Board may be extended by the full Board, the committee chairperson or the Chairman of the Board. The Board is ultimately responsible for naming the nominees for election.

Stockholders may propose candidates to the Nominating and Governance Committee for its consideration at any time of the year by writing to the Office of the Secretary, The Allstate Corporation, 2775 Sanders Road, Suite A3, Northbrook, Illinois 60062-6127.

Stockholders may also propose nominees at the annual meeting of stockholders, if adequate advance notice as defined in Allstate's bylaws is provided to the Secretary. Under the bylaws, if a stockholder wishes to nominate a candidate at the 2008 annual meeting of stockholders, he or she must provide advance notice to Allstate that must be received between January 16, 2008 and February 15, 2008. The notice must be sent to the Secretary, The Allstate Corporation, 2775 Sanders Road, Suite A3, Northbrook, Illinois 60062-6127 and must contain the name, age, principal occupation, business and residence address of the proposed nominee, as well as the number of shares of Allstate stock beneficially owned by the nominee. The notice must meet the requirements set forth in the Corporation's bylaws. A copy of the bylaw provisions is available from the Secretary of Allstate upon request or can be accessed on the Corporate Governance portion of Allstate's website, allstate.com.

Communications with the Board

The Board has established a process to facilitate communications by stockholders and other interested parties with directors as a group. Written communications may be sent by mail or by e-mail to the Board. Communications received will be processed under the direction of the General Counsel. The General Counsel reports regularly to the Nominating and Governance Committee on all correspondence received that, in his opinion, involves functions of the Board or its committees or that he otherwise determines requires its attention. The communication process is posted on the Corporate Governance portion of the Corporation's website, allstate.com.

Policy on Rights Plans

The following policy, adopted in 2003, is part of Allstate's *Corporate Governance Guidelines* which are posted on the Corporate Governance portion of Allstate's website, allstate.com.

The Board shall obtain shareholder approval prior to adopting any shareholder rights plan; *provided, however*, that the Board may act on its own to adopt a shareholder rights plan if, under the then current circumstances, in the reasonable business judgment of the independent directors, the fiduciary duties of the Board would require it to adopt a rights plan without prior shareholder approval. The retention of any rights plan so adopted by the Board will be submitted to a vote of shareholders as a separate ballot item at the next subsequent annual meeting of Allstate shareholders and, if not approved, such rights plan will expire within one year after such meeting.

Allstate Charitable Contributions

Each year, The Allstate Foundation donates millions of dollars to support many deserving organizations that serve our communities. The Nominating and Governance Committee reviews all charitable donations to, and other relationships with, any director-affiliated organization to ensure that any and all transactions with director-affiliated charitable organizations are appropriate and raise no issues of independence. No charitable contributions were made to any director-affiliated organization that exceeded the greater of $1 million or 2% of the charitable organization's consolidated gross revenues for any of the previous three fiscal years.

Compensation Committee Interlocks and Insider Participation

During 2006, the Compensation and Succession Committee consisted of Mr. Riley, Chairman, Mrs. Taylor and Messrs. Ackerman, Farrell, Greenberg and LeMay, and, until his retirement in May 2006, Mr. Brennan. None is a current or former officer or employee of Allstate or any of its subsidiaries. There were no committee interlocks with other companies in 2006 within the meaning of the Securities and Exchange Commission's proxy rules.

Items to Be Voted On

Item 1
Election of Directors

Each nominee, except Messrs. Beyer and Wilson who were elected to the Board in September 2006, was previously elected by the stockholders at Allstate's annual meeting of stockholders on May 16, 2006, and has served continuously since then. The terms of all directors will expire at this annual meeting in May 2007. The Board of Directors expects all nominees named in this proxy statement to be available for election. If any nominee is not available, then the proxies may vote for a substitute.

Information as to each nominee follows. Unless otherwise indicated, each nominee has served for at least five years in the business position currently or most recently held.

F. Duane Ackerman (Age 64)
Director since 1999

Chairman Emeritus of BellSouth Corporation, a communication services company, since 2007. Mr. Ackerman previously served as Chairman and Chief Executive Officer of BellSouth Corporation from 2005 through 2006 and as Chairman, President and Chief Executive Officer from 1998 until 2005.

James G. Andress (Age 68)
Director since 1993

Chairman and Chief Executive Officer of Warner Chilcott PLC, a pharmaceutical company, from February 1997 until his retirement in January 2000. Mr. Andress is also a director of Dade Behring, Inc., Sepracor, Inc., Warner Chilcott and Xoma Corporation.

Robert D. Beyer (Age 47)
Director since 2006

Chief Executive Officer of The TCW Group, Inc., an investment management firm, since 2005. Mr. Beyer previously served as President and Chief Investment Officer from 2000 until 2005 of Trust Company of the West, a subsidiary of The TCW Group, Inc. Mr. Beyer is also a director of The Kroger Co., The TCW Group, Inc. and Société Générale Asset Management, S.A.

W. James Farrell (Age 64)
Director since 1999

Chairman of Illinois Tool Works Inc., a manufacturer of highly engineered fasteners, components, assemblies and systems, from May 1996 until his retirement in May 2006. Mr. Farrell previously served as Chief Executive Officer of Illinois Tool Works Inc. from September 1995 until August 2005. He is also a director of Abbott Laboratories, 3M Company and UAL Corporation.

Jack M. Greenberg (Age 64)
Director since 2002

Chairman of The Western Union Company since September 2006. Chairman and Chief Executive Officer of McDonald's Corporation from May 1999 until his retirement in December 2002. Mr Greenberg is also a director of Abbott Laboratories, Hasbro, Inc., Innerworkings, Inc., Manpower, Inc., as well as The Western Union Company.

Ronald T. LeMay (Age 61)
Director since 1999

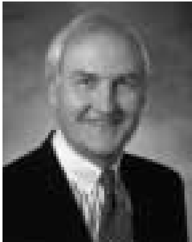
Industrial Partner of Ripplewood Holdings, LLC, a private equity fund, since October 2003. Mr. LeMay also serves as Executive Chairman and as Chief Executive Officer of Last Mile Connections, Inc. since September 2005 and October 2006, respectively, and as Chairman of Aircell Corporation since July 2006. Last Mile Connections and Aircell are Ripplewood Holdings portfolio companies. Mr. LeMay is also Chairman of October Capital, a private investment company. Previously, Mr. LeMay served as Representative Executive Officer of Japan Telecom from November 2003 until the sale of the company in July 2004 and as President and Chief Operating Officer of Sprint Corporation from October 1997 until April 2003. He is also a director of Imation Corporation and Ceridian Corporation.

Edward M. Liddy (Age 61)
Director since 1999

Chairman of The Allstate Corporation since January 1999. Mr. Liddy previously served as Chief Executive Officer from January 1999 until December 2006, President from January 1995 until May 2005 and Chief Operating Officer from January 1995 until January 1999. Mr. Liddy is also a director of The Goldman Sachs Group, Inc. and 3M Company.

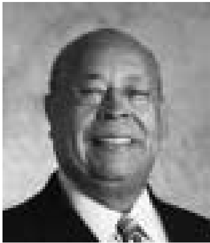
J. Christopher Reyes (Age 53)
Director since 2002

Chairman since January 1998 of Reyes Holdings, L.L.C. and its affiliates, a privately held food and beverage distributor. Mr. Reyes is also a director of Tribune Company and Wintrust Financial Corporation.



***H. John Riley, Jr.* (Age 66)**
Director since 1998

Chairman of Cooper Industries Ltd., a diversified manufacturer of electrical products and tools and hardware, from April 1996 until his retirement in February 2006. Mr. Riley previously served as Chairman and Chief Executive Officer of Cooper Industries, Ltd., from April 1996 until May 2005 and Chairman, President and Chief Executive Officer of Cooper Industries Ltd., from April 1996 until August 2004. He is also a director of Baker Hughes, Inc.



Joshua I. Smith (Age 66)
Director since 1997

Chairman and Managing Partner since 1999 of The Coaching Group, a management consulting firm. As part of the consulting business of The Coaching Group, Mr. Smith was Vice Chairman and Chief Development Officer of iGate, Inc., a manufacturer of broadband convergence products for communications companies from June 2000 through April 2001. Previously, Mr. Smith had been Chairman and Chief Executive Officer of The MAXIMA Corporation, a provider of technology systems support services, from 1978 until 2000. He is also a director of Caterpillar, Inc. and Federal Express Corporation.

Judith A. Sprieser (Age 53)
Director since 1999

Chief Executive Officer of Transora, a technology software and services company from September 2000 until March 2005. Ms. Sprieser was Executive Vice President of Sara Lee Corporation from 1998 until 2000 and also served as its Chief Financial Officer from 1994 to 1998. She is also a director of InterContinentalExchange, Inc., Reckitt Benckiser plc, Royal Ahold NV and USG Corporation.

Mary Alice Taylor (Age 57)
Director since 2000

Mrs. Taylor currently is an active independent business executive. Previously Mrs. Taylor served as Chairman and Chief Executive Officer of HomeGrocer.com until her retirement in October 2000. Mrs. Taylor is also a director of Autodesk, Inc., Blue Nile, Inc. and Sabre Holdings Corporation. Mrs. Taylor will leave the Board of Sabre when it is taken private in a transaction scheduled to close before May 2007.

Thomas J. Wilson (Age 49)
Director since 2006

President and Chief Executive Officer of Allstate since January 2007. Mr. Wilson previously served as President and Chief Operating Officer of Allstate Insurance Company from June 2005 until January 2007. Mr. Wilson also served as President of Allstate Protection from 2002 to 2006, and as Chairman and President of Allstate Financial from 1999 to 2002.

Item 2
Ratification of Appointment of Independent Registered Public Accountant

The Audit Committee of the Board of Directors has recommended the selection and appointment of Deloitte & Touche LLP as Allstate's independent registered public accountant for 2007. The Board has approved the committee's recommendation. While not required, the Board is submitting the selection of Deloitte & Touche LLP, upon the committee's recommendation, to the stockholders for ratification consistent with its long-standing practice. If the selection is not ratified by the stockholders, the committee may reconsider its selection. Even if the selection is ratified, the committee may, in its discretion, appoint a different independent registered public accountant at any time during the year if the committee determines a change would be in the best interests of Allstate and the stockholders.

The Audit Committee has adopted a Policy Regarding Pre-Approval of Independent Auditors' Services. The Policy is attached as Appendix B to this Notice of Annual Meeting and Proxy Statement. One hundred percent of the services provided by Deloitte & Touche LLP in 2006 and 2005 were pre-approved by the committee.

The following fees have been, or are anticipated to be, billed by Deloitte & Touche LLP, the member firms of Deloitte Touche Tohmatsu, and their respective affiliates, for professional services rendered to Allstate for the fiscal years ending December 31, 2006 and December 31, 2005.

	2006	2005
Audit Fees[1]	$8,945,745	$8,806,927
Audit Related Fees[2]	$ 417,420	$ 274,723
Tax Fees[3]	$ 5,900	$ 60,900
All Other Fees	$ –	$ –
Total Fees	$9,369,065	$9,142,550

(1) Fees for audits of annual financial statements, reviews of quarterly financial statements, statutory audits, attest services, comfort letters, consents and review of documents filed with the Securities and Exchange Commission.

(2) Audit Related Fees relate to professional services such as accounting consultations relating to new accounting standards, due diligence assistance and audits and other attest services for non-consolidated entities (i.e. employee benefit plans, various trusts, The Allstate Foundation, etc.) and are set forth below.

	2006	2005
Due Diligence	$ –	$ 11,530
Audits and other Attest Services for Non-consolidated Entities	$381,770	$229,568
Other	$ 35,560	$ 33,625
Audit Related Fees	$417,420	$274,723

(3) Tax fees include income tax return preparation and compliance.

Representatives of Deloitte & Touche LLP will be present at the meeting, will be available to respond to questions and may make a statement if they so desire.

The Audit Committee and the Board of Directors unanimously recommend that stockholders vote *for* the ratification of the appointment of Deloitte & Touche LLP as Allstate's independent registered public accountant for 2007 as proposed.

Item 3
Approve the Amendments to the Restated Certificate of Incorporation to Eliminate the Supermajority Vote Requirements

In furtherance of our continuing review of corporate governance matters, and after careful consideration and upon recommendation by the Nominating and Governance Committee, we have concluded that is advisable and in the best interests of the Corporation and its stockholders to propose amendments to the Corporation's Restated Certificate of Incorporation to eliminate the supermajority voting provisions and to request the stockholder approval of the proposed amendments.

A stockholder proposal was presented in last year's proxy statement that sought the elimination of the supermajority voting provisions from the Corporation's governing documents. That proposal received a high level of support from our stockholders. As part of our regular triennial review of the Corporation's structural defenses, we engaged in a thorough analysis of the need to retain the supermajority voting provisions in our bylaws and certificate of incorporation in light of the strong stockholder sentiment expressed in last year's vote. We recognize that the supermajority voting provisions (provisions that require the affirmative vote of at least 66 ⅔% of the outstanding shares) can limit the ability of a majority of stockholders at any particular time to effect change and that a lower threshold for stockholder votes can increase stockholders' ability to participate effectively in corporate governance. After careful consideration, we deemed it advisable to recommend that the stockholders approve the following amendments to the Corporation's Restated Certificate of Incorporation.

Elimination of the Supermajority Voting Provisions for Stockholder Adoption, Amendment or Repeal of Bylaws

Article Sixth of the Restated Certificate of Incorporation currently provides that the bylaws may be amended by the directors or by the stockholders upon the affirmative vote of 66 ⅔% of the outstanding shares. The proposed amendment to Article Sixth changes the percentage of votes required for stockholders to amend the bylaws from 66 ⅔% to a majority. To be effective, this amendment must be approved by the majority of the outstanding shares.

Elimination of Supermajority Voting Provisions to Remove Directors

Article Seventh of the Restated Certificate of Incorporation currently provides that no director may be removed, with or without cause, by the stockholders except by the affirmative vote of holders of not less than 66 ⅔% of the outstanding shares. Furthermore, Article Seventh provides that it can only be changed by the affirmative vote of at least 66 ⅔% of the outstanding shares. The proposed amendment would eliminate the supermajority voting provisions. To be effective, this amendment must be approved by at least 66 ⅔% of the outstanding shares.

The proposed amendments to the Restated Certificate of Incorporation are set forth in full in Appendix C, with deletions indicated by strikeout and additions indicated by underline. The above descriptions of the current Articles and the proposed amendments to Article Sixth and Article Seventh of the Restated Certificate of Incorporation are qualified in their entirety by reference to the actual text set forth in Appendix C.

If this Item is approved by the majority of the outstanding shares but not by at least 66 ⅔% of the outstanding shares, the amendment to Article Sixth of the Restated Certificate of Incorporation will become effective upon filing with the Delaware Secretary of State promptly after this annual meeting. If this Item is approved by at least 66 ⅔% of the outstanding shares, the amendments to Article Sixth and Article Seventh of the Restated Certificate of Incorporation will become effective upon filing with the Delaware Secretary of State promptly after this annual meeting.

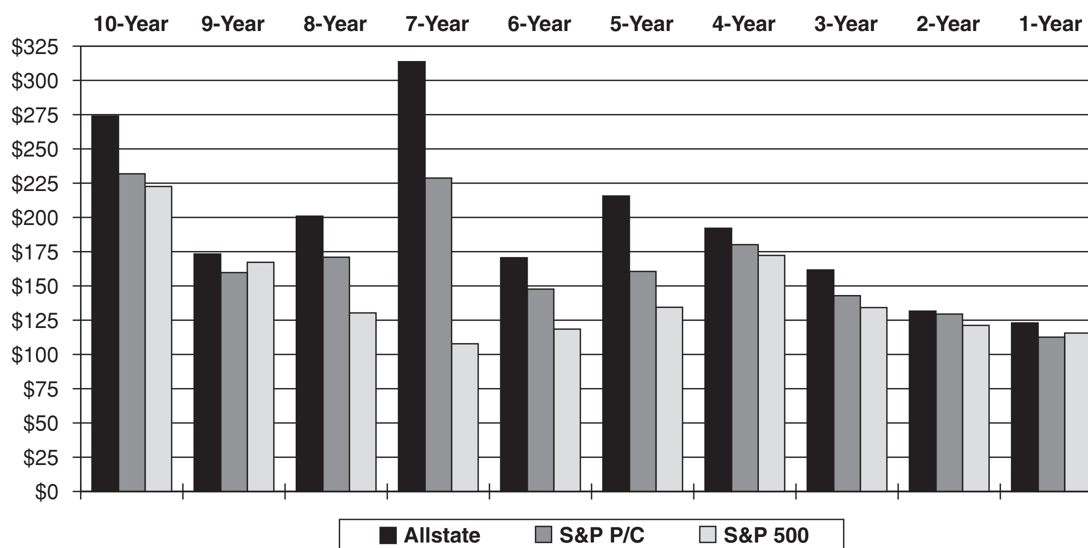
The Board of Directors unanimously recommends that stockholders vote *for* the approval of the amendments to the Restated Certificate of Incorporation.

Compensation Discussion and Analysis

We provide this Compensation and Discussion Analysis ("CD&A") to assist our stockholders in understanding the compensation earned by, awarded to, or paid to our chief executive officer, chief financial officer and three other most highly compensated executive officers ("named executives") in 2006. In addition, we intend the CD&A to put into perspective for our stockholders the compensation tables on pages 29 through 53 and the narrative information that accompanies them. This CD&A contains statements regarding our performance measures and targets. These are disclosed in the limited context of our annual and long-term cash incentive awards and should not be understood to be statements of management's expectations or estimates of results or other guidance. We specifically caution investors not to apply these statements to other contexts.

We believe that our success in creating stockholder value depends on our ability to attract, motivate and retain highly talented executives. Our stockholder return over the last ten years demonstrates our success in creating stockholder value. The following graph shows the cumulative total stockholder return for an initial $100 investment in Allstate common stock made on December 31 of the indicated year and compares it with the performance of the S&P 500 Property/Casualty Index* and the S&P 500 Index, assuming all dividends are reinvested quarterly. The graph provides an investor who has held Allstate common stock for periods ranging from ten years to one year with a comparison of cumulative performance.

Cumulative Total Stockholder Return for $100 Initial Investment
Made on December 31, 1996, 1997, 1998, 1999, 2000, 2001, 2002, 2003, 2004, 2005
Allstate v. Published Indices



Value on December 31, 2006 of a $100 initial investment made on:

	12/31/1996	12/31/1997	12/31/1998	12/31/1999	12/31/2000	12/31/2001	12/31/2002	12/31/2003	12/31/2004	12/31/2005
Allstate	$273.95	$173.35	$200.93	$313.66	$170.59	$215.66	$192.11	$161.69	$131.64	$123.01
S&P P/C	$231.84	$159.76	$170.98	$228.75	$147.70	$160.58	$180.15	$142.89	$129.50	$112.64
S&P 500	$222.59	$167.24	$130.31	$107.80	$118.50	$134.43	$172.27	$134.21	$121.20	$115.61

* Standard and Poor's discontinued the S&P Property/Casualty Index on January 1, 2002 and replaced it with the S&P 500 Property/Casualty Index. Data reflected in the above graphs reflects the performance of the current S&P 500 Property/Casualty Index members (ticker symbol S5PROP).

Our compensation philosophy is based on these central beliefs:

- Executive compensation should be aligned with stockholder value. Accordingly, a significant amount of executive compensation should be in the form of equity.
- The compensation of our executives should vary both with appreciation in the price of Allstate stock and with Allstate's performance in achieving strategic short and long-term business goals designed to drive stock price appreciation.
- Our compensation program should inspire our executives to strive for performance that is better than the industry average.
- A greater percentage of compensation should be at risk for executives who bear higher levels of responsibility for Allstate's performance.
- We should provide competitive levels of compensation for competitive levels of performance and superior levels of compensation for superior levels of performance.

Our executive compensation program has been designed around these beliefs and serves our goal of attracting, motivating, and retaining highly talented executives.

As stated in its charter, one of the Compensation and Succession Committee's most important responsibilities is making recommendations to the Board regarding the chief executive officer's compensation. In making these recommendations, the Committee evaluates the CEO's performance based on Allstate's performance. It analyzes competitive compensation data provided by its executive compensation consultant and company performance data provided by senior management. It reviews the various elements of the CEO's compensation in the context of his total compensation package, including his salary, annual cash incentive award, long-term cash incentive awards, and equity incentive awards (including prior awards under equity compensation plans), and accrued pension benefits—as well as the value of his Allstate stock holdings. The Committee presents its recommendations to the Board in the context of total compensation. In this manner, the Committee fulfills its oversight responsibilities and provides meaningful recommendations to the Board for its consideration.

The Compensation and Succession Committee has used Mercer Human Resource Consulting as its executive compensation consultant for several years and retained Mercer again in 2006. As part of the 2006 engagement, Mercer assisted the Committee in assessing the appropriateness of the list of peer insurance companies that the Committee uses to evaluate the competitiveness of Allstate's executive compensation program. In addition, Mercer provided an assessment that benchmarked Allstate's executive pay levels, practices, and overall program design as well as its financial performance against those companies. A senior Mercer representative met with the full Board and participated in portions of two Committee meetings in 2006. During those meetings, the Committee met with that representative in executive sessions without the chief executive officer and without members of management present other than our senior human resources officer. In the course of preparing for those meetings, the Mercer representative conferred with the Committee Chair and our senior human resources officer. With the Committee's concurrence, Mercer obtained from management Allstate data regarding compensation, benefits, and financial projections and other operational data that is not readily available from public sources. Management has retained Mercer to provide actuarial services for our pension plans, benefit consulting, and administrative services and has reviewed each of those engagements with the Committee.

Our Compensation and Succession Committee reviews the design of our executive compensation program on an annual basis. As part of that review, the Committee benchmarks the following peer insurance companies for executive pay and performance comparisons:

Peer Insurance Companies	
The Chubb Corporation	Safeco Corporation
Cincinnati Financial Corporation	The St. Paul Travelers Companies, Inc.
CNA Financial Corporation	Lincoln National Corporation
The Hartford Financial Services Group, Inc.	MetLife Inc.
The Progressive Corporation	Prudential Financial, Inc.

Using research provided by its executive compensation consultant, the Committee selected these insurance companies based on the fact that they are publicly-traded and their comparability to Allstate in the following categories: product offerings, market segment, annual revenues, assets, annual operating income, and market value. The Committee believes that these are companies against which Allstate competes for executive talent and stockholder investment. In addition, in its executive pay and performance discussions, the Committee considers information regarding American International Group and other companies in the financial services industry.

Elements of Executive Compensation Program

The core elements of our executive compensation program are annual salary, annual cash incentive awards, and long-term cash and equity incentive awards. These are described below under the headings "Salary" and "Incentive Compensation." These elements of compensation are designed to balance both team and individual performance. The compensation goals for incentive awards are aligned with our strategic goal of becoming better, bigger, and broader in personal property and casualty insurance and in life insurance, retirement, and investment products. We believe that this strategy will drive stockholder value. Accordingly, in 2006 annual and long-term incentive awards focused on key strategic, operational, and financial measures including top line growth and profitability.

Our compensation design balances annual and long-term incentive awards to align with short and long-term business goals, respectively. At the target level of performance, annual and long-term incentive awards are designed to constitute a significant percentage of an executive's total core compensation. The target percentages and the actual percentages for salary and annual and long-term incentive awards earned by the named executives in 2006 are listed in the following table.

	TARGET CORE COMPENSATION			ACTUAL 2006 CORE COMPENSATION		
		Tied to Allstate Performance			Tied to Allstate Performance	
Name[1]	Salary	Target annual cash incentive awards	Target long-term (cash and equity) awards	Salary	Actual annual cash incentive awards	Actual long-term (cash and equity) awards
Mr. Liddy	12%	14%	74%	7%	22%	71%
Mr. Hale	19%	16%	65%	12%	25%	63%
Mr. Simonson	17%	16%	67%	13%	22%	65%
Mr. Sylla	17%	16%	67%	11%	28%	61%
Mr. Wilson	15%	15%	70%	10%	22%	68%

(1) Titles as of December 31, 2006: Mr. Liddy, Chairman and Chief Executive Officer; Mr. Hale, Vice President and Chief Financial Officer; Mr. Simonson, President, Allstate Investments, LLC; Mr. Sylla, President, Allstate Financial; Mr. Wilson, President and Chief Operating Officer. Titles in effect after December 31, 2006 and on or before March 15, 2007: Mr. Liddy, Chairman; Mr. Wilson, President and Chief Executive Officer; Mr. Sylla, Chairman of the Board and President of Allstate Life Insurance Company.

Salary

Allstate provides salaries for our executives that are intended to keep us competitive in the market for executive talent. Executive salaries are set by the Board based on the recommendations of the

Compensation and Succession Committee. In recommending executive salary levels, the Committee uses the 50th percentile of our peer insurance companies as a guideline. This practice reflects our belief in providing competitive levels of compensation for competitive levels of performance. However, the Committee recommends salaries in excess of the 50th percentile for the senior executives most crucial to Allstate's success. The Committee and the Board review the salaries of the named executives on an annual basis and at the time of any promotion or change in responsibilities. The salary increase plan is set each year. The salary increase plan includes both merit and promotional increases. The average enterprise-wide merit increase and any promotional increases are based on market data of U.S. industry and the insurance industry and are set at levels intended to be competitive. Annual merit increases for the named executives are based on evaluations of their performance by the chief executive officer, the Committee, and the Board, using the enterprise-wide merit increase. Promotional increases are based on the increased responsibilities of the new position, and the skills and experience of the executive being promoted, as evaluated by the chief executive officer, the Committee, and the Board.

Incentive Compensation

Each year during its February meeting, the Compensation and Succession Committee confers with management and adopts performance measures for both annual and long-term cash incentive awards and sets performance goals. The performance measures and goals are aligned with Allstate's short and long-term objectives, and tied to our better, bigger and broader strategy. They are designed to inspire our executives to strive for performance that is above industry average and reflect objectives that will require significant effort and skill to achieve. In approving the measures and goals, the Committee evaluates information prepared by management regarding industry trends, Allstate's projected results, and the projected impact on stockholder value. The Committee also evaluates the historical alignment among performance measures, incentive compensation payments, and stockholder value.

After the end of the year for annual cash incentive awards and after the end of the three-year cycle for long-term cash incentive awards, the Committee reviews the extent to which we have achieved the various performance measures and approves the actual amount of all cash incentive awards. The Committee may adjust the amount of an award but has no authority to increase the amount of an award payable to any of the five executive officers subject to the Annual Covered Employee Incentive Compensation Plan described below. This includes Messrs. Liddy, Hale, Simonson, Sylla, and Wilson for 2006. We pay the cash incentive awards in March, after the end of the year for the annual cash incentive awards and after the end of the three-year cycle for the long-term cash incentive awards.

Typically the Committee also grants equity awards of restricted stock units and stock options on an annual basis during its February meeting. By making these awards and approving performance measures and goals for the annual and long-term cash incentive awards during the first quarter, the Committee is able to balance these elements of core compensation to align with our business goals.

In general, the Compensation and Succession Committee sets target total core compensation, which includes salary and annual and long-term incentive awards, at the 65th percentile of our peer insurance companies based on the competitive assessment provided by its executive compensation consultant. In doing this, the Committee sets target performance goals for our cash incentive plans at levels intended to require performance better than industry averages. This practice reflects our belief in providing superior levels of compensation for superior levels of performance. The Committee's determination of the amount of the named executives' incentive awards is described below.

Annual Cash Incentive Awards

We maintain two stockholder-approved plans under which executive officers have the opportunity to earn an annual cash incentive award based on the achievement of performance measures over a one-year period. The Annual Covered Employee Incentive Compensation Plan governs awards to the five executive officers whose compensation (other than performance-based compensation) in excess of

$1 million per year is not deductible by us. Annual cash incentive awards to all other executive officers are governed by and made under the Annual Executive Incentive Compensation Plan. These annual incentive plans are designed to provide all of the executive officers with a cash award based on a combination of corporate and business unit performance measures for each of our main business units: Allstate Protection, Allstate Financial, and Investments. The same performance measures apply to both plans.

For 2006, the Compensation and Succession Committee adopted corporate and business unit level annual performance measures and weighted them as applied to each of the named executives in accordance with their responsibilities for our overall corporate performance and the performance of each business unit. There are multiple performance measures for each business unit and each measure is assigned a weight expressed as a percentage of the total annual cash incentive award, with all weights for any particular named executive adding to 100%. The weighting of the performance measures at the corporate and business unit level for each named executive is shown in the following table.

ANNUAL CASH INCENTIVE AWARD PERFORMANCE MEASURES AND WEIGHTING
(ROUNDED TO NEAREST PERCENTAGE POINT.)

	Messrs. Liddy and Hale	Mr. Simonson	Mr. Sylla	Mr. Wilson
Corporate	50%	10%	10%	30%
Allstate Protection	35%			62.5%
Allstate Financial	10%		90%	5.0%
Investments	5%	90%		2.5%

For each performance measure, the Committee approved a threshold, target, and maximum goal. The following table lists the performance measures and related target goals for 2006 as well as the actual results. The performance measures were designed to focus executive attention on key strategic, operational, and financial measures including top line growth and profitability. The target goals require the achievement of, and are designed to promote, better than industry average performance. A description of each performance measure is provided under the ''Performance Measures'' caption at the end of this CD&A.

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Annual Cash Incentive Award Performance Measures

Performance Measure	Target	Actual[1]	Achievement relative to threshold, target, maximum goals
Corporate-Level Performance Measure			
Adjusted operating income per diluted share	$4.90	$8.00	Exceeded maximum
Allstate Protection Performance Measures			
Growth and profit matrices	See Performance Measures	300% of target	Achieved maximum
Financial product sales (production credits)	$272.80 million	$272.67 million	Between threshold and target
Adjusted expense ratio	31.60	31.69	Between threshold and target
Customer loyalty index	8th	10th	Below threshold
Allstate Financial Performance Measures			
Adjusted operating income	$560 million	$617 million	Exceeded maximum
Expense management	$23.00 million	$28.60 million	Between target and maximum
Sales and new business return measure	$370 million	$412 million	Exceeded maximum
Investments Performance Measures			
AIC portfolio excess total return, 1-year	20.00 basis points	66.60 basis points	Exceeded maximum
AIC portfolio excess total return, 3-year	22.00 basis points	34.60 basis points	Between target and maximum
Allstate Financial excess spread	45.00 basis points	45.90 basis points	Between target and maximum
Allstate Financial high value add excess spread	60.00 basis points	68.90 basis points	Between target and maximum
Allstate Financial credit loss	$68.00 million	$3.7 million	Exceeded maximum

(1) Stated as a percent of target goals with a range from 0% to 300%, the actual performance comprises 300% for Corporate-Level performance, 191% for Allstate Protection performance, 289% for Allstate Financial performance and 216% for Investments performance. The weighted results stated as a percentage of the target goals for each named executive are as follows: Messrs. Liddy and Hale-257%, Mr. Simonson-224%, Mr. Sylla-290% and Mr. Wilson-229%.

Target award opportunities approved by the Committee are stated as a percentage of annual base salary. Award opportunities for the named executives are capped at 300% of the target awards. Annual cash incentive awards are calculated using base salary, as adjusted by any merit and promotional increases granted during the year on a prorated basis. For 2006, the annual target award opportunities for the named executives, as a percentage of base salary, were as follows: Mr. Liddy-120%, Messrs. Hale and Simonson-80%, Mr. Sylla-90% and Mr. Wilson-100%.

In calculating the annual cash incentive awards, our achievement with respect to each performance measure is expressed as a percentage of the target goal, with interpolation applied between the threshold, target, and maximum goals. That percentage is multiplied by the weight assigned to that performance measure for an executive and the resulting percentage is multiplied by the executive's target award opportunity. The amount of each executive's annual cash incentive award is the sum of these calculations for each performance measure, unless otherwise adjusted by the Committee. Annual cash incentive awards based on the achievement of the performance measures for 2006 are included in the amounts reported in the Non-Equity Incentive Plan Compensation column of the Summary Compensation Table on page 29 and broken out separately from long-term cash incentive awards in a footnote to that table. In addition, the target and maximum annual award opportunities for 2006 are included in the Estimated Future Payouts under Non-Equity Incentive Plan Awards column in the Grants of Plan-Based Awards table on page 32.

Long-Term Incentive Awards—Balance and Integration of Cash and Equity

As part of total core compensation, we provide three forms of long-term incentive awards: stock options, restricted stock units (RSUs), and long-term cash incentive awards. For each executive, these components are balanced and integrated with each other. The size of each named executive's award is determined by the Committee on the basis of the executive's position and the competitive assessment provided by the Committee's executive compensation consultant. Larger awards are granted to executives in positions with higher levels of responsibility for Allstate's long-term performance, with the chief executive officer's award being the largest. In addition, the size of these awards is aligned to the Compensation and Succession Committee having set target total core compensation at the 65th percentile of our peer insurance companies. The relative mix of various forms of these awards is driven by our objectives in providing the specific form of award, as described below.

Long-Term Incentive Awards—Equity

Stock options are used to align the interests of our executives with long-term stockholder value. Stock options represent the opportunity to buy shares of our stock at a fixed exercise price at a future date. Under our stockholder-approved equity incentive plan, the exercise price cannot be less than the fair market value of a share on the date of grant. This means that our stock options have value for our executives only if the stock price increases after the date the options are granted. In other words, the value of these awards correlates to the value provided to stockholders by increases in our stock price. All stock option awards have been made in the form of nonqualified stock options at exercise prices equal to 100% of the fair market value of Allstate common stock on the date of grant. Our stock options vest over stated vesting periods measured from the date of grant. In general, options are not fully exercisable until four years after the date of grant and expire in ten years, except in certain change-in-control situations or under other special circumstances approved by the Compensation and Succession Committee.

RSUs are linked to stockholder value and are a tool for retaining executive talent. Each RSU represents our promise to transfer one fully vested share of stock in the future if and when the restrictions expire (when the RSU "vests"). Our RSUs vest in one or more installments over stated periods measured from the date of grant, except in certain change-in-control situations or under other special circumstances approved by the Compensation and Succession Committee. The period over which the RSUs vest is typically a four-year period. Our RSUs include the right to receive dividend equivalents in the same amount and at the same time as dividends paid to all Allstate common stockholders. Unlike

options, RSUs retain some value even if the price of the stock declines. Because RSUs are based on and payable in stock, they serve to reinforce the alignment of interests of our executives and our stockholders. In addition, because RSUs have a real, current value that is forfeited, except in some circumstances, if an executive terminates employment before the RSUs vest, they provide a significant retention incentive. Under the terms of the RSU awards, the executives have only the rights of general unsecured creditors of Allstate and no rights as stockholders until delivery of the underlying shares.

We began including RSUs and restricted stock as a component of equity incentive compensation in response to competitive pressures in the market for executive talent. Earlier in the decade other companies began using RSUs and restricted stock, instead of stock options. Based on competitive compensation data, the Compensation and Succession Committee determined that it was important to offer RSUs or restricted stock so that Allstate could continue to attract and retain executive talent. The Committee granted awards of restricted stock for the first time in 2000. In 2005, the Committee switched to RSUs.

As indicated above, the Compensation and Succession Committee grants equity incentive awards on an annual basis during its February meeting. However, from time to time, the Committee makes an award in connection with the hiring of, or a change in the role or responsibilities of, an executive. The Committee grants awards during meetings at which a quorum is present, not by written consent. The February meeting during which the Committee makes the annual equity incentive awards is held after the issuance of our year-end earnings press release. In the event that the Committee is advised that material information about Allstate has not been publicly disclosed, the Committee will postpone the granting of such annual awards until such time as all material information has been publicly disclosed. For additional information on the Committee's practices, see the Corporate Governance section of this proxy statement.

The Compensation and Succession Committee granted two sets of equity awards in February 2006: annual awards and special awards. Each set included both RSUs and options. The aggregate size of each named executive's annual award was determined by the Committee on the basis of the executive's position and the competitive assessment provided by the Committee's executive compensation consultant. For each of the named executives the annual awards were allocated so that substantially more of the grant date value was provided in the form of stock options than in the form of RSUs in order to emphasize the alignment with long-term increases in stockholder value.

The special awards were designed to align the interests of the named executives with our stockholders and to motivate our named executives as they face extraordinary challenges over the next several years in pursuing our better, bigger, and broader goal. After the devastating 2004 and 2005 hurricane seasons, the named executives accelerated the pursuit of a strategy to address our exposure to catastrophes. Emerging consensus in the scientific community indicated that the U.S. is facing a period of more frequent and severe hurricanes due to the Atlantic Multidecadal Oscillation and that this period could extend for several decades. Our Board and senior management concluded that a new, comprehensive, and multi-faceted strategy was required to protect stockholders and customers alike from undue exposure to losses resulting from natural catastrophes while maintaining the vitality of Allstate's property insurance businesses. This strategy would require the sophisticated use of reinsurance, the development of new underwriting and pricing processes, and the pursuit of long-term public policy solutions aimed at forging a public and private partnership to assure the availability of high quality insurance coverage for homeowners at a price that would keep coverage within reach of as many customers as possible. Recognizing that this strategy would require a sustained, long-term focus, that it would present a high degree of achievement difficulty, and that stockholders would be significantly rewarded by the achievement of the strategy's objectives, the Committee determined that additional equity compensation would provide the most effective incentive. The Committee determined that the amount of the special awards, on a grant date fair value basis, should approximate the size of the annual awards in order to underscore the importance to stockholder value of achieving the strategy's objectives, without overshadowing the significance of the annual awards. However, in order to distinguish the special award

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from the annual award and to emphasize the executive retention aspect of the special awards, the Committee divided the grant date fair value equally between options and RSUs.

The amount of each named executive's annual and special equity awards is set forth in the following table.

NAME	RSU AWARDS GRANTED ON FEBRUARY 21, 2006	STOCK OPTION AWARDS GRANTED ON FEBRUARY 21, 2006
Mr. Liddy	Annual RSU 36,500 Special Award RSU 47,500	Annual Stock Option Award 241,000 Special Stock Option Award 169,000
Mr. Hale	Annual RSU 9,400 Special Award RSU 11,000	Annual Stock Option Award 62,000 Special Stock Option Award 40,000
Mr. Simonson	Annual RSU 9,100 Special Award RSU 11,000	Annual Stock Option Award 60,000 Special Stock Option Award 40,000
Mr. Sylla	Annual RSU 11,300 Special Award RSU 11,000	Annual Stock Option Award 75,000 Special Stock Option Award 40,000
Mr. Wilson	Annual RSU 18,700 Special Award RSU 19,000	Annual Stock Option Award 124,000 Special Stock Option Award 66,000

The 2006 annual RSU awards vest in one installment on February 21, 2010 and the special awards vest in four annual installments of 25% on the first four anniversaries of the grant date. The 2006 annual and special awards of stock options become exercisable in four annual installments of 25% on the first four anniversaries of the grant date, were granted with an exercise price equal to the fair market value of Allstate's common stock on the date of grant, and expire ten years from the date of grant.

Stock Ownership Guidelines

The named executives can use their equity incentive awards to satisfy our stock ownership goals. Because we believe strongly in linking the interests of management with those of our stockholders, we instituted stock ownership goals in 1996 that require each of the named executives to own, within five years of the date of assuming a senior management position, common stock worth a multiple of base salary. For the chief executive officer, the goal is seven times salary. For the other named executives, the goal is four times salary. Each of the named executives continued to exceed his respective goals as of the end of 2006. In accordance with our policy on insider trading, the named executives are prohibited from engaging in transactions with respect to any securities issued by Allstate or any of its subsidiaries that might be considered speculative or regarded as hedging, such as selling short or buying or selling options, puts or calls.

Long-Term Incentive Awards—Cash

Long-term cash incentive awards are designed to reward executives for collective efforts exerted over a three-year performance cycle. The Compensation and Succession Committee adopts performance measures and goals for long-term cash incentive awards at the beginning of each three-year cycle and a new cycle starts every year. For the 2004-2006 cycle, there were three performance measures, weighted as shown in the following table. The selection and weighting of these measures is intended to focus executive attention on the collective achievement of Allstate's long-term financial goals across its various product lines. A description of each performance measure is provided under the "Performance Measures" caption at the end of this CD&A.

LONG-TERM CASH INCENTIVE AWARDS, 2004-2006 CYCLE
PERFORMANCE MEASURES, WEIGHTING, AND TARGET GOALS

Performance Measures	Percentage weight of the total potential award[1]	Target	Actual[2]	Achievement relative to threshold, target, maximum goals
Average adjusted return on equity	50%	6th position relative to peers	6th position relative to peers	Achieved target
Allstate Protection growth in policies in force over the 3-year cycle	25%	5.0%	6.6%	Between target and maximum
Allstate Financial growth in retail premiums and deposits over the 3-year cycle	25%	10.0%	-2.6%	Below threshold

(1) Same weight applied for all named executives.

(2) The weighted results stated as a percentage of the target goals for all of the named executives was 95%.

The average adjusted return on equity measure compares Allstate's performance to the peer insurance companies listed on page 20. Allstate's ranked position relative to this peer group determines the percentage of the total target award for this performance measure to be paid, as indicated in the following table. No payment is made unless the average adjusted return on equity exceeds the average risk free rate of return on three-year Treasury notes over the three-year cycle, plus 200 basis points, regardless of Allstate's standing compared to the peer group. For the 2004-2006 cycle, we achieved the 6th position and met the target level of performance. In addition the average adjusted return on equity exceeded the average risk free rate of return by 1,394 basis points.

AVERAGE ADJUSTED RETURN ON EQUITY RELATIVE
TO PEER GROUP, 2004-2006 CYCLE

	Peer Position	% of Target Award
	9-11	0%
Threshold	8	60%
	7	80%
Target	6	100%
	5	150%
	4	200%
	3	250%
Maximum	1-2	300%

Target award opportunities approved by the Committee are stated as a percentage of annual base salary. Award opportunities for the named executives are capped at 300% of the target awards. Awards for each cycle are calculated using base salary in effect at the beginning of the cycle, as adjusted by any promotional increases granted during the course of the cycle on a prorated basis. For the 2004-2006 cycle, the long-term cash incentive target awards for the named executives, as a percentage of base salary, were as follows: Mr. Liddy-155%, Messrs. Hale and Simonson-80%, Mr. Sylla-100% and Mr. Wilson-100% for the portion of the cycle prior to his promotion to chief operating officer in June 2005 and 120% for the remainder of the cycle.

In calculating the long-term cash incentive awards, our achievement with respect to each performance measure for a particular cycle is expressed as a percentage of the target goal, with interpolation applied between the threshold, target, and maximum goals. That percentage is multiplied by the weight assigned to that particular performance measure and the resulting percentage is multiplied by

the executive's target award opportunity for the cycle. The amount of each executive's long-term cash incentive award for a particular cycle is the sum of these calculations for all performance measures for the cycle, unless otherwise adjusted by the Committee. Long-term cash incentive awards based on the achievement of the performance measures for the 2004-2006 cycle were paid in March 2007 and are included in the amounts reported in the Non-Equity Incentive Plan Compensation column of the Summary Compensation Table and broken out separately from annual cash incentive awards in a footnote to that table. The target and maximum long-term cash incentive award opportunities for the 2006-2008 cycle are included in the Estimated Future Payouts under Non-Equity Incentive Plan Awards column in the Grants of Plan-Based Awards table.

Other Elements of Compensation

To remain competitive with other employers and to attract, retain, and motivate highly talented executives, we provide the retirement benefits described on pages 38 - 42 and we make health and welfare benefits such as medical, dental, vision, disability, group life, accidental death and group legal insurance available to all employees through a cafeteria plan without regard to the employees' specific positions.

For the named executives, we provide or pay for the use of cell phones, tax preparation services, financial planning services, ground transportation, and tax gross-ups in limited circumstances. We also provide and pay for physicals as we believe the continued good health of these executives is vital to Allstate and a business necessity. We do not provide executives with separate dining or other facilities, country club memberships, special medical insurance coverage, or individually owned life insurance policies, and we do not maintain real property for the exclusive personal use or enjoyment by executives. Our Board encourages the chairman and chief executive officer to use our corporate aircraft in order to deal with emergency and special situations and to avoid the risks of commercial air travel. In limited circumstances approved by the chief executive officer, members of our senior management team are permitted to use our corporate aircraft for personal purposes.

Impact of Tax Considerations on Compensation

We are subject to a limit of $1 million per executive on the amount of the tax deduction we are entitled to take for compensation paid in a year to our CEO and the four other most highly compensated officers as of the last day of the fiscal year in which the compensation is paid unless the compensation meets specific standards. We may deduct more than $1 million in compensation if the standards are met, including that the compensation is "performance based" and is paid pursuant to a plan that meets certain requirements. The Compensation and Succession Committee considers the impact of this rule in developing, implementing and administering our compensation programs, and balances this rule with our goal of structuring compensation programs that attract, motivate, and retain highly talented executives.

Our compensation programs are designed and administered so that payments to affected executives can be fully deductible. However, in light of the balance mentioned above and the need to maintain flexibility in administering compensation programs, in any year we may authorize compensation in excess of $1 million that does not meet the required standards for deductibility. The amount of compensation paid in 2006 that was not deductible for tax purposes was $495,770.

The Internal Revenue Code was amended effective January 1, 2005 to impose tax, interest and penalties on the recipients of deferred compensation that does not meet specified requirements. (The requirements do not apply to the Allstate Retirement Plan and our 401(k) plan.) We believe that we are operating in good faith compliance with the specified requirements, and intend to structure all deferred compensation so the recipients can avoid being subject to the tax, interest and penalties.

Summary Compensation and Grants of Plan-Based Awards Tables for 2006

The following tables summarize the total compensation of each of Allstate's named executives, including Mr. Liddy and Mr. Hale, Allstate's chief executive officer and chief financial officer, for the fiscal year 2006.

SUMMARY COMPENSATION TABLE[1]

NAME[2]	YEAR	SALARY ($)	STOCK AWARDS ($)[3]	OPTION AWARDS ($)[4]	NON-EQUITY INCENTIVE PLAN COMPENSATION ($)[5]	CHANGE IN PENSION VALUE AND NONQUALIFIED DEFERRED COMPENSATION EARNINGS ($)[6]	ALL OTHER COMPENSATION ($)[7]	TOTAL ($)
Mr. Liddy *Chairman and Chief Executive Officer*	2006	1,211,545	4,969,223	7,224,274	5,338,086	5,132,247[8]	108,408	23,983,783
Mr. Hale *Vice President and Chief Financial Officer*	2006	581,082	1,098,336	1,553,460	1,592,597	64,173[9]	28,533	4,918,181
Mr. Simonson *President, Allstate Investments, LLC*	2006	570,852	1,082,184	1,523,000	1,388,767	324,487[10]	31,187	4,920,477
Mr. Sylla *President, Allstate Financial*	2006	603,815	1,200,632	1,751,450	2,099,606	677,262[11]	29,768	6,362,533
Mr. Wilson *President and Chief Operating Officer*	2006	825,584	1,425,678	2,206,938	2,655,828	605,793[12]	111,234	7,831,055

(1) As described in footnotes 3 and 4, the accounting treatment of stock and option awards is substantially different for the named executives who are retirement eligible compared to those who are not. In order to enhance internal and external comparability, we are providing the following alternative summary compensation table. In calculating the value of the stock and option awards for this alternative table, we assumed that none of the named executives were retirement eligible on December 31, 2006. In all other respects, the values were calculated in accordance with FAS123R.

SUMMARY COMPENSATION TABLE IF NAMED EXECUTIVES WERE NOT RETIREMENT ELIGIBLE

	YEAR	SALARY ($)	STOCK AWARDS ($)	OPTION AWARDS ($)	NON-EQUITY INCENTIVE PLAN COMPENSATION ($)	CHANGE IN PENSION VALUE AND NON QUALIFIED DEFERRED COMPENSATION EARNINGS ($)	ALL OTHER COMPENSATION ($)	TOTAL ($)
Mr. Liddy	2006	1,211,545	2,521,193	4,355,007	5,338,086	5,132,247	108,408	18,666,486
Mr. Hale	2006	581,082	880,379	1,034,759	1,592,597	64,173	28,533	4,181,523
Mr. Simonson	2006	570,852	692,531	999,613	1,388,767	324,487	31,187	4,007,437
Mr. Sylla	2006	603,815	750,091	1,158,355	2,099,606	677,262	29,768	5,318,897
Mr. Wilson	2006	825,584	1,425,678	2,206,938	2,655,828	605,793	111,234	7,831,055

(2) Titles in effect after December 31, 2006 and on or before March 15, 2007: Mr. Liddy, Chairman; Mr. Wilson, President and Chief Executive Officer; Mr. Sylla, Chairman of the Board and President of Allstate Life Insurance Company.

(3) The compensation cost recognized in our 2006 audited financial statements for RSU awards for 2006 and restricted stock and RSU awards in previous years, computed in accordance with FAS 123R. The assumptions used in the valuation are discussed in note 17 to our audited financial statements for 2006. Under FAS 123R, the cost of these RSU awards must be amortized over the shorter of the vesting period or the period ending on the executive's retirement eligibility date. Because each of Messrs. Liddy, Hale, Simonson, and Sylla was or became retirement eligible during 2006, this cost includes the entire grant date fair value of their 2006 RSU awards, even though the restrictions expire in one or more installments over four

years and expiration is not accelerated upon retirement. In addition, because he became retirement eligible in January of 2006, the cost for Mr. Liddy includes the cost for RSU and restricted stock awards that had been granted in 2002 through 2005 but had not been previously recognized in our financial statements. Messrs. Hale, Simonson, and Sylla were all retirement eligible prior to January 1, 2006 and as a result their prior grants had all previously been expensed. Thus, the only expense for them in 2006 was associated with the 2006 grants. None of the named executives forfeited any restricted stock or RSU awards in 2006. The number of RSUs granted in 2006 to each named executive is provided in the table on page 26, above.

(4) The compensation cost recognized in our 2006 audited financial statements for stock option awards for 2006 and previous years, computed in accordance with FAS 123R. The assumptions used in the valuation are discussed in note 17 to our audited financial statements for 2006. Under FAS123R, the cost of these stock option awards must be amortized over the shorter of the vesting period or the period ending on the executive's retirement eligibility date. Because each of Messrs. Liddy, Hale, Simonson, and Sylla was or became retirement eligible during 2006, this cost includes the entire grant date fair value of their 2006 stock option awards, even though the awards vest in installments over four years and vesting is not accelerated upon retirement. In addition, because he became retirement eligible in January of 2006, the cost for Mr. Liddy includes the cost for stock option awards that had been granted in 2002 through 2005 but had not been previously recognized in our financial statements. Messrs. Hale, Simonson, and Sylla were all retirement eligible prior to January 1, 2006 and as a result their prior grants had all previously been expensed, thus, the only expense for them in 2006 was associated with the 2006 grants. None of the named executives forfeited option awards in 2006. The number of options granted in 2006 to each named executive is provided in the table on page 26, above.

(5) Amounts earned under the Annual Covered Employee Incentive Compensation Plan are paid in the year following performance. Amounts earned under Allstate's Long-Term Executive Incentive Compensation Plan are paid in the year following the performance cycle. The amounts shown in the Summary Compensation Table include amounts earned in 2006 and paid under these plans in 2007. The break-down for each component is as follows:

NAME	ANNUAL CASH INCENTIVE AWARD	LONG-TERM CASH INCENTIVE AWARD 2004-2006 CYCLE
Mr. Liddy	$3,733,067	$1,605,019
Mr. Hale	$1,193,597	$ 399,000
Mr. Simonson	$1,023,967	$ 364,800
Mr. Sylla	$1,577,110	$ 522,496
Mr. Wilson	$1,894,112	$ 761,716

(6) Amounts reflect the aggregate increase in actuarial value of the pension benefits as set forth in the Pension Benefits table, accrued during 2006. These are benefits under the Allstate Retirement Plan (ARP), the Allstate Insurance Company Supplemental Retirement Income Plan (SRIP), and pension benefit enhancement plans for Messrs. Liddy and Sylla. Non-qualified deferred compensation earnings are not reflected since our Deferred Compensation Plan does not provide above-market earnings. The pension plan measurement date used for financial statement reporting purposes, October 31, as well as the methodology employed for purposes of Allstate's financial statements, were used in the calculation of the change in present value. (See note 16 to our audited financial statements for 2006.) For the October 31, 2005 measurement date, the December 31, 2004 accrued benefit was adjusted to reflect 10 months of additional service and changes in the participants' social security based covered compensation. This provides a good estimate of the October 31, 2005 accrued benefits as the ARP, the SRIP, and enhancement benefits are based on the average annual compensation at the close of the previous calendar year.

(7) Detailed information is set forth, below, in the All Other Compensation—Supplemental Table.

(8) Reflects increases in the actuarial value of the benefits provided to Mr. Liddy pursuant to the Allstate Retirement Plan, Supplemental Retirement Income Plan, and pension benefit enhancement of $69,146, $3,260,580 and $1,802,521, respectively.

(9) Reflects increases in the actuarial value of the benefits provided to Mr. Hale pursuant to the Allstate Retirement Plan and Supplemental Retirement Income Plan of $7,445 and $56,728, respectively.

(10) Reflects increases in the actuarial value of the benefits provided to Mr. Simonson pursuant to the Allstate Retirement Plan and Supplemental Retirement Income Plan of $44,520, and $279,967, respectively.

(11) Reflects increases in the actuarial value of the benefits provided to Mr. Sylla pursuant to the Allstate Retirement Plan, Supplemental Retirement Income Plan, and pension benefit enhancement of $70,495, $445,318 and $161,449, respectively.

(12) Reflects increases in the actuarial value of the benefits provided to Mr. Wilson pursuant to the Allstate Retirement Plan and Supplemental Retirement Income Plan of $30,510 and $575,283, respectively.

ALL OTHER COMPENSATION—SUPPLEMENTAL TABLE

(In dollars.)

Name	Cell Phone[1]	Tax Preparation Services	Tax Gross-Up[2]	Personal Use of Aircraft[3]	Financial Planning[4]	Ground Transportation[5]	Premium Group Life Insurance[6]	401(k) Match[7]	TOTAL All Other Compensation[8]
Mr. Liddy	470	2,000	1,303	79,493	0	14,060	82	11,000	108,408
Mr. Hale	212	2,000	835	0	0	14,360	126	11,000	28,533
Mr. Simonson[9]	49	2,000	1,303	0	0	16,710	125	11,000	31,187
Mr. Sylla	355	2,000	1,303	0	0	15,110	0	11,000	29,768
Mr. Wilson	833	3,000	1,955	68,667	10,000	15,750	29	11,000	111,234

(1) 30% of each monthly cell phone service bill is included in the income of each named executive. The 30% represents the estimated average personal use by Allstate¹s senior officer group.

(2) The amount reimbursed for the payment of taxes with respect to tax preparation services.

(3) The amount reported for personal use of aircraft is based on the incremental cost method. The incremental cost of aircraft use is calculated based on average variable costs to Allstate, net of taxes. Variable operating costs include fuel, maintenance, weather-monitoring, on-board catering, landing/ramp fees, and other miscellaneous variable costs. The total annual variable costs are divided by the annual number of flight hours flown by the aircraft to derive an average variable cost per flight hour. This average variable cost per flight hour is then multiplied by the flight hours flown for personal use to derive the incremental cost. This method of calculating the incremental cost excludes fixed costs that do not change based on usage, such as pilots' and other employees' salaries, costs incurred in purchasing the aircraft, and non-trip related hangar expenses. For tax purposes, income is imputed to the executive for non-business travel based on a multiple of the Standard Industry Fare Level (SIFL) rates.

(4) Allstate pays for the first $10,000 of financial planning services billed each calendar year; the officer is responsible for any charges in excess of $10,000. The financial planning benefit is valued based on the actual service fee charged.

(5) Car allowance and personal use of Allstate drivers and cars. For 2006 the named executives were provided with a car allowance of $521.54 per pay period for 26 pay periods. Allstate's named executives may use our cars and drivers for business and personal use. The value of any personal use is treated as taxable income. The amount included in this column is the annual car allowance and the incremental cost of any personal use of our car and drivers calculated at $50 per trip.

(6) Allstate makes optional group life insurance available to all employees through a cafeteria plan.

(7) Each of the named executives participated in our 401(k) plan during 2006. The amount shown is the amount allocated to their accounts as employer matching contributions.

(8) In addition to the items of compensation listed in this table, we provide supplemental long-term disability coverage to regular full-time and regular part-time employees whose annual earnings exceed the level which produces the maximum monthly benefit provided by the Allstate Group Long Term Disability Insurance Plan. This coverage is self-insured (funded and paid for by Allstate when obligations are incurred). No obligations for the named executives were incurred in 2006 and so no incremental cost is reflected in the table.

(9) For tax purposes, Mr. Simonson had $12,606 of income imputed to him in 2006 for attendance at a promotional event for which Allstate did not incur any incremental cost and so no incremental cost is reflected in the table and the "All Other Compensation" column of the Summary Compensation Table.

GRANTS OF PLAN-BASED AWARDS AT FISCAL YEAR-END 2006[1]

Name	Grant Date	Plan Name	Estimated Future Payouts Under Non-Equity Incentive Plan Awards[2]			All Other Stock Awards: Number of Shares of Stock or Units (#)	All Other Option Awards: Number of Securities Underlying Options (#)	Exercise or Base Price of Option Awards ($/Shr)[3]	Grant Date Fair Value ($)[4]	
			Threshold ($)	Target ($)	Maximum ($)				Stock Awards	Option Awards
Mr. Liddy	Feb. 21, 2006	Long-term cash incentive, 2006-2008 cycle	364,251	1,821,256	5,463,769	84,000	410,000	53.84	4,522,560	6,244,300
		Annual cash incentive	376,120	1,455,008	4,365,025					
Mr. Hale	Feb. 21, 2006	Long-term cash incentive, 2006-2008 cycle	90,401	452,006	1,356,019	20,400	102,000	53.84	1,098,336	1,553,460
		Annual cash incentive	120,255	465,204	1,395,612					
Mr. Simonson	Feb. 21, 2006	Long-term cash incentive, 2006-2008 cycle	87,360	436,800	1,310,400	20,100	100,000	53.84	1,082,184	1,523,000
		Annual cash incentive	22,860	457,205	1,371,614					
Mr. Sylla	Feb. 21, 2006	Long-term cash incentive, 2006-2008 cycle	117,401	587,004	1,761,012	22,300	115,000	53.84	1,200,632	1,751,450
		Annual cash incentive	108,767	543,831	1,631,494					
Mr. Wilson	Feb. 21, 2006	Long-term cash incentive, 2006-2008 cycle	192,001	960,005	2,880,015	37,700	190,000	53.84	2,029,768	2,893,700
		Annual cash incentive	127,451	826,257	2,478,771					

(1) Awards under the Annual Covered Employee Incentive Compensation Plan, the Long-Term Executive Incentive Compensation Plan, and the 2001 Equity Incentive Plan.

(2) If Messrs. Liddy and Sylla retire before December 31, 2008, as has been announced, they will be entitled to prorated awards in accordance with the terms of our Long-Term Executive Incentive Compensation Plan.

(3) The exercise price of each option is equal to the fair market value of Allstate's common stock on the date of grant. Fair market value is equal to the average of high and low sale prices on the date of grant or, if there was no such sale on the date of grant, then on the last previous day on which there was a sale. For options granted on February 21, 2006, the closing price was less than the average of the high and low stock price on that day.

(4) The aggregate grant date fair value of restricted stock unit (RSU) and stock option awards for 2006, computed in accordance with FAS 123R. The assumptions used in the valuation are discussed in note 17 to our audited financial statements for 2006.

The tables set forth above (Summary Compensation Table, All Other Compensation—Supplemental Table, and Grants of Plan Based Awards table) detail the specific cash and non-cash compensation earned by, awarded to, or paid to the named executives during 2006. The following discussion of incentive compensation for 2006 elaborates on the more general information provided above in the CD&A.

Non-Equity Incentive Compensation

Annual and long-term cash incentive awards earned by the named executives in 2006 are reported in the Non-Equity Incentive Plan Compensation column of the Summary Compensation Table. That column includes each named executive's annual cash incentive award for 2006 and long-term cash incentive award for the 2004-2006 cycle. The amount attributable to annual and long-term, respectively, is provided in a footnote to the Summary Compensation Table.

Proxy Statement

The Estimated Future Payout Under Non-Equity Incentive Plan Awards column of the Grants of Plan-Based Awards at Fiscal Year-End 2006 table includes the threshold, target and maximum award opportunities for 2006 annual cash incentive compensation and correlates to the actual amount of the annual cash incentive awards earned for 2006 included in the amount reported in the Non-Equity Incentive Plan Compensation column of the Summary Compensation Table. The amount specified in the table as the threshold award for each named executive is the amount of the annual cash incentive award that he would have earned if Allstate had achieved the threshold goal on only two performance measures: corporate-level adjusted operating income per diluted share and Allstate Financial adjusted operating income. Annual cash incentive awards were earned by the named executives with respect to the other performance measures only if the threshold goals for those measures were exceeded. If Allstate had not achieved the threshold goal on either corporate-level adjusted operating income per diluted share or Allstate Financial adjusted operating income, it is possible that a lower award would have been earned based on achievement in excess of threshold for one or more other performance measures. Also, if Allstate failed to achieve the threshold goals for all of the performance measures, the threshold awards for all of the named executives would have been zero.

The Estimated Future Payout Under Non-Equity Incentive Plan Awards column of the Grants of Plan-Based Awards at Fiscal Year-End 2006 table also includes the threshold, target and maximum award opportunities for the long-term cash incentive awards for the 2006-2008 cycle. The actual amount of long-term cash incentive awards earned for the 2006-2008 cycle will be reported in the Summary Compensation Table for the fiscal year ended December 31, 2008. The actual amount of long-term cash incentive awards earned for the 2005-2007 cycle will be reported in the Summary Compensation Table for the fiscal year ended December 31, 2007. The amount specified in the table as the threshold award for each named executive is the amount of the long-term cash incentive award that he will earn for the 2006-2008 cycle if Allstate achieves the threshold goal on one performance measure: average adjusted return on equity. Long-term cash incentive awards will be earned by the named executives with respect to the other performance measures only if the threshold goals for those measures are exceeded. If Allstate does not achieve the threshold goal on average adjusted return on equity, it is possible that a lower award will be earned. If Allstate fails to achieve the threshold goals for all of the performance measures, the threshold awards for all of the named executives will be zero.

In general, the long-term cash incentive awards for the 2006-2008 cycle will be earned and calculated in the same manner as those for the 2004-2006 cycle, as described above on pages 26-28. The target awards for the named executives, as a percentage of base salary, are the same as those used for the 2004-2006 cycle, except that Mr. Wilson's will be 120% for the portion of the 2006-2008 cycle prior to his promotion to chief executive officer on January 1, 2007 and 140% for the remainder of the cycle. The performance measures, weighting, and goals for the 2006-2008 cycle are set forth in the following table. A description of each performance measure is provided under the "Performance Measures" caption at the end of this CD&A.

LONG-TERM CASH INCENTIVE AWARDS, 2006-2008 CYCLE
PERFORMANCE MEASURES, WEIGHTING, AND TARGET GOALS

Performance Measures	Percentage weight of the total potential award(1)	Target
Average adjusted return on equity relative to peers	50%	5th position relative to peers
Allstate Protection growth in policies in force over the 3-year cycle	25%	5%
Allstate Financial return on total capital	25%	9.5%

(1) Same weight applied for all named executives.

For the return on equity measure, Allstate's performance will be ranked relative to the peer insurance companies listed on page 20 as indicated in the following table. However, for the 2006-2008 cycle, Cincinnati Financial Corporation was excluded because it pursues a buy-and-hold equity investment strategy different than the other peers that has resulted in a significant build up of unrealized capital gains in its equity portfolio, which impacts its adjusted return on equity.

AVERAGE ADJUSTED RETURN ON EQUITY RELATIVE TO PEER GROUP, 2006-2008 CYCLE

	Peer Position	% of Target Award
	9-10	0%
Threshold	8	40%
	7	60%
	6	80%
Target	5	100%
	4	150%
	3	200%
	2	250%
Maximum	1	300%

Equity Compensation

Restricted stock unit (RSU) awards, restricted stock awards, and stock option awards granted to the named executives are reported in the following columns to these tables:

Equity awards	Tables and Columns		
RSUs/Restricted Stock	Stock Awards column in the Summary Compensation Table	All Other Stock Awards column in the Grants of Plan Based Awards table	Stock Awards column in the Outstanding Equity Awards at Fiscal Year-End table
Stock options	Option Awards column in the Summary Compensation Table	All Other Option Awards column in the Grants of Plan Based Awards table	Option Awards columns in the Outstanding Equity Awards at Fiscal Year-End table

As stated above, the Compensation and Succession Committee granted two sets of equity awards in 2006: annual awards and special awards. Each set included both RSUs and options.

The 2006 annual RSUs vest in one installment on February 21, 2010 and the special awards vest in four annual installments of 25% on the first four anniversaries of the grant date, except in certain change-in-control situations or under other special circumstances approved by the Compensation and Succession Committee. Normally, the named executive must be employed in order for the RSUs to vest. However, RSUs continue to vest following retirement on or after the normal retirement date specified in the award. If the named executive dies, then as of the date of death, all unvested RSUs granted in 2006 will vest and become nonforfeitable. The RSUs include the right to receive dividend equivalents in the same amount and at the same time as dividends paid to all Allstate common stockholders.

The 2006 annual and special awards of stock options become exercisable in four annual installments of 25% on the first four anniversaries of the grant date and expire in ten years, except in certain change-in-control situations or under other special circumstances approved by the Compensation and Succession Committee. Normally, the named executive must be employed at the time of vesting in order for the options to vest. If the named executive terminates on or after his normal retirement date under the

stock option award agreements, stock options not vested will continue to vest as scheduled. When the options become vested, they may be exercised by the named executive at any time on or before the earlier to occur of (i) the expiration date of the option and (ii) the fifth anniversary of the date of the named executive's termination of employment. If the named executive dies or becomes disabled, unvested stock options will vest and may be exercised by the named executive officer (or his personal representative, estate or transferee, as the case may be) at any time on or before the earlier to occur of (i) the expiration date of the option and (ii) the second anniversary of the date of the named executive's termination of employment. The options were granted with an exercise price equal to the fair market value of Allstate's common stock on the date of grant. Each option is a nonqualified stock option. Each option includes tax withholding rights that permit the holder to elect to have shares withheld to satisfy minimum federal, state and local tax withholding requirements. Option holders may exchange shares previously owned to satisfy all or part of the exercise price. The vested portions of all the options may be transferred during the holder's lifetime to, or for the benefit of, family members. Any taxes payable upon a transferee's subsequent exercise of the option remain the obligation of the original option holder.

Outstanding Equity Awards at Fiscal Year-End 2006

The following table summarizes the outstanding equity awards of the named executives as of December 31, 2006.

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END 2006

	Option Awards[1]				Stock Awards	
Name	Number of Securities Underlying Unexercised Options (#) Exercisable[2]	Number of Securities Underlying Unexercised Options (#) UnExercisable[3]	Option Exercise Price	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)[4]	Market Value of Shares or Units of Stock That Have Not Vested[5]
Mr. Liddy	400,000	0	$42.00	May 15, 2011	0	0
	550,000	0	$33.38	Feb. 7, 2012	0	0
	204,000	68,000	$31.78	Feb. 7, 2013	71,000	$ 4,622,810
	136,000	136,000	$45.96	Feb. 6, 2014	40,000	$ 2,604,400
	57,460	172,380	$52.57	Feb. 22, 2015	35,083	$ 2,284,254
	0	43,576*[6]	$61.39	Aug. 14, 2007	0	0
	36,013*	108,039*	$56.96	May 18, 2010	0	0
	0	169,000	$53.84	Feb. 21, 2016	36,500	$ 2,376,515
	0	241,000	$53.84	Feb. 21, 2016	47,500**	$ 3,092,725
						Aggregate Market Value
						$14,980,704
Mr. Hale	50,000	50,000[7]	$38.06	Jan. 7, 2013	25,000[8]	$ 1,627,750
	54,750	18,250	$31.78	Feb. 7, 2013	19,100	$ 1,243,601
	35,150	35,150	$45.96	Feb. 6, 2014	10,400	$ 677,144
	14,900	44,700	$52.57	Feb. 22, 2015	9,097	$ 592,306
	0	40,000	$53.84	Feb. 21, 2016	9,400	$ 612,034
	0	62,000	$53.84	Feb. 21, 2016	11,000**	$ 716,210
						Aggregate Market Value
						$ 5,469,045
Mr. Simonson	62,500	62,500[9]	$36.40	July 29, 2012	20,000[10]	$ 1,302,200
	47,250	15,750	$31.78	Feb. 7, 2013	16,400	$ 1,067,804
	32,150	32,150	$45.96	Feb. 6, 2014	9,500	$ 618,545
	14,216	42,648	$52.57	Feb. 22, 2015	8,680	$ 565,154
	0	40,000	$53.84	Feb. 21, 2016	9,100	$ 592,501
	0	60,000	$53.84	Feb. 21, 2016	11,000**	$ 716,210
						Aggregate Market Value
						$ 4,862,414
Mr. Sylla	88,300	0	$42.00	May 15, 2011	0	0
	0	22,250	$31.78	Feb. 7, 2013	23,300	$ 1,517,063
	47,500	47,500	$45.96	Feb. 6, 2014	12,600	$ 820,386
	18,076	54,228	$52.57	Feb. 22, 2015	11,037	$ 718,619
	0	40,000	$53.84	Feb. 21, 2016	11,300	$ 735,743
	0	75,000	$53.84	Feb. 21, 2016	11,000**	$ 716,210
						Aggregate Market Value
						$ 4,508,021

Name	Option Awards[1]				Stock Awards	
	Number of Securities Underlying Unexercised Options (#) Exercisable[2]	Number of Securities Underlying Unexercised Options (#) UnExercisable[3]	Option Exercise Price	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)[4]	Market Value of Shares or Units of Stock That Have Not Vested[5]
Mr. Wilson	38,934	0	$36.64	Aug. 14, 2007	0	0
	53,850	0	$42.50	Aug. 13, 2008	0	0
	50,000	0	$39.19	Jan. 4, 2009	0	0
	115,340	0	$35.00	Aug. 12, 2009	0	0
	112,892	0	$42.00	May 15, 2011	0	0
	167,000	0	$33.38	Feb. 7, 2012	0	0
	75,750	25,250	$31.78	Feb. 7, 2013	26,400	$ 1,718,904
	48,550	48,550	$45.96	Feb. 6, 2014	14,300	$ 931,073
	24,744	74,232	$52.57	Feb. 22, 2015	16,818	$ 1,095,020
	25,000	75,000[11]	$58.47	June 1, 2015	25,000	$ 1,627,750
	12,213*	36,639*	$59.93	May 18, 2010	0	0
	0	66,000	$53.84	Feb. 21, 2016	18,700	$ 1,217,557
	0	124,000	$53.84	Feb. 21, 2016	19,000**	$ 1,237,090
						Aggregate Market Value
						$ 7,827,394

(1) Options granted before 1998 vest in three installments on the first three anniversaries of the grant date. Options granted in 1998 and thereafter vest in four installments on the first four anniversaries of the grant date except as otherwise noted. The exercise price of each option is equal to the fair market value of Allstate's common stock on the date of grant. Fair market value is equal to the average of high and low sale prices on the date of grant or, if there was no such sale on the date of grant, then on the last previous day on which there was a sale. An asterisk (*) denotes reload options issued to replace shares tendered in payment of the exercise price of prior option awards. These reload options are subject to the same vesting terms and expiration date as the original options including becoming exercisable in three or four annual installments beginning one year after the reload option grant date. For option awards granted after 2003, the Compensation and Succession Committee eliminated the reload feature and no new option awards will be granted that contain a reload feature.

(2) The aggregate value and aggregate number of exercisable in-the-money options as of December 31, 2006 for each of the named executives is as follows: Mr. Liddy—$37,113,274 (1,383,473 aggregate number exercisable), Mr. Hale—$4,037,286 (154,800 aggregate number exercisable), Mr. Simonson—$4,163,159 (156,116 aggregate number exercisable), Mr. Sylla—$3,176,911 (153,876 aggregate number exercisable), and Mr. Wilson—$18,996,764 (724,273 aggregate number exercisable).

(3) The aggregate value and aggregate number of unexercisable in-the-money options as of December 31, 2006 for each of the named executives is as follows: Mr. Liddy—$12,695,806 (937,995 aggregate number unexercisable), Mr. Hale—$4,343,973 (250,100 aggregate number unexercisable), Mr. Simonson—$4,596,801 (253,048 aggregate number unexercisable), Mr. Sylla—$3,627,287 (238,978 aggregate number unexercisable), and Mr. Wilson—$5,531,274 (449,671 aggregate number unexercisable).

(4) Except as otherwise noted, each RSU award vests and the restrictions on each restricted stock award expire in one installment on the fourth anniversary of the grant date. Stock awards made prior to 2005 were made in the form of restricted stock. Stock awards made in 2005 and thereafter were made in the form of RSUs. Double asterisk (**) denotes RSUs that vest in four equal installments on the first four anniversaries of the grant date.

(5) Amount is based on the closing price of our common stock of $65.11 on December 29, 2006.

(6) The final two installments of this reload option cannot be exercised because the underlying option expires before the installments vest.

(7) Stock options awarded as a new hire grant; options vest in two equal installments on the third anniversary, January 7, 2006, and the fifth anniversary, January 7, 2008, of the grant date.

(8) Restricted stock awarded as a new hire grant; restrictions expire in one installment on the fourth anniversary of the grant date, January 7, 2007.

(9) Stock options awarded as a new hire grant; options vest in two equal installments on the third anniversary, July 29, 2005, and the fifth anniversary, July 29, 2007, of the grant date.

(10) Restricted stock awarded as a new hire grant; restrictions expire in one installment on the fifth anniversary of the grant date, July 29, 2007.

(11) Stock options awarded in connection with promotion to President and Chief Operating Officer, June 1, 2005; options vest in four installments of 25% on the first four anniversaries of the grant date.

Option Exercises and Stock Vested at Fiscal Year-End 2006

The following table summarizes the options exercised by the named executives during 2006 and the restricted stock and RSU awards that vested during 2006.

OPTION EXERCISES AND STOCK VESTED AT FISCAL YEAR-END 2006

	Option Awards (as of 12/29/06)		Stock Awards[1]	
Name	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise ($)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting ($)
Mr. Liddy	646,788	16,471,027	0	0
Mr. Hale	0	0	0	0
Mr. Simonson	0	0	0	0
Mr. Sylla	215,750	5,597,520	0	0
Mr. Wilson	16,492	301,912	0	0

(1) For fiscal year 2006, there was no vesting of restricted stock or RSU awards.

Retirement Benefits

Each named executive officer participates in two different defined benefit pension plans, and two of the named executive officers participate in a third arrangement that provides additional supplemental pension benefits which is referred to as the pension benefit enhancement.

ARP and SRIP

The first plan is the Allstate Retirement Plan (ARP), which is a tax qualified defined benefit pension plan available to all of our regular full-time and regular part-time employees who meet certain age and service requirements. The purpose of the ARP is to provide an assured retirement income related to an employee's level of compensation and length of service at no cost to the employee. This benefit can supplement other sources of income such as our 401(k) plan, social security, personal savings, and other assets. As the ARP is a tax qualified plan, federal tax law places limits on (1) the amount of an individual's compensation that can be used to calculate plan benefits and (2) the total amount of benefits payable to a participant under the plan on an annual basis. These limits may result in a lower benefit under the ARP than would have been payable if the limits did not exist for certain of our employees. The second plan, the Allstate Insurance Company Supplemental Retirement Income Plan (SRIP), was created for the purpose of providing ARP-eligible employees whose compensation or benefit amount exceeds the federal limits with an additional defined benefit in an amount equal to what would have been payable under the ARP if the federal limits described above did not exist.

Pension Benefit Enhancement

Messrs. Liddy and Sylla have supplemental nonqualified retirement benefit agreements which provide for additional years of vesting and credited service. Because Mr. Liddy joined Sears, Roebuck and Co., our former parent company, midway through his career and because Mr. Sylla joined Allstate midway through his career, each was provided with pension enhancements to compensate for retirement benefits that he was foregoing in changing employers.

The following table summarizes the named executives' pension benefits.

PENSION BENEFITS

NAME	PLAN NAME	NUMBER OF YEARS CREDITED SERVICE (#)	PRESENT VALUE OF ACCUMULATED BENEFIT[1] ($)	PAYMENTS DURING LAST FISCAL YEAR ($)
Mr. Liddy	Allstate Retirement Plan	19	510,888	0
	Supplemental Retirement Income Plan	19	10,776,800	0
	Mr. Liddy's pension benefit enhancement[2]	24	9,729,599	0
Mr. Hale[3]	Allstate Retirement Plan	4	17,099	0
	Supplemental Retirement Income Plan	4	95,171	0
Mr. Simonson[4]	Allstate Retirement Plan	4	152,935	0
	Supplemental Retirement Income Plan	4	740,164	0
Mr. Sylla	Allstate Retirement Plan	11	461,211	0
	Supplemental Retirement Income Plan	11	2,235,989	0
	Mr. Sylla's pension benefit enhancement[5]	16	1,905,223	0
Mr. Wilson	Allstate Retirement Plan	14	215,088	0
	Supplemental Retirement Income Plan	14	1,700,590	0

(1) These amounts are estimates and do not necessarily reflect the actual amounts that will be paid to the named executives, which will only be known at the time they become eligible for payment. Accrued benefits were calculated as of October 31, 2006 and used to calculate the Present Value of Accumulated Benefits at October 31, 2006. October 31 is our pension plan measurement date used for financial statement reporting purposes.

(2) See narrative under the heading "Extra Service and Pension Benefit Enhancements" on page 41 and the heading "Sears, Roebuck and Co. Service" on page 41 for the explanation of the years of credited service with respect to Mr. Liddy's pension benefit enhancement.

(3) Mr. Hale is not currently vested in his benefits under the ARP or SRIP.

(4) Mr. Simonson is not currently vested in his benefits under the ARP or SRIP.

(5) See narrative under the heading "Extra Service and Pension Benefit Enhancements" on page 41 for the explanation of the years of credited service with respect to Mr. Sylla's pension benefit enhancement.

The benefits and value of benefits shown in the Pension Benefits Table are based on the following material factors:

Benefit Formula Under the ARP

The ARP has two different types of benefit formulas (final average pay and cash balance) which apply to participants based on their date of hire, or individual choice made prior to the January 1, 2003 introduction of a cash balance design. Of the named executives, only Mr. Hale earns cash balance benefits.

Benefits under the final average pay formula are earned and stated in the form of a straight life annuity payable at the normal retirement date (age 65). For all participants who earn final average pay benefits and become members of the ARP after 1988, including Messrs. Liddy, Simonson, Sylla, and Wilson, the final average pay formula is the sum of the Base Benefit and the Additional Benefit, which are defined as follows:

- Base Benefit =1.55% of the participant's average annual compensation, multiplied by his credited service after 1988 (limited to 28 years of credited service)
- Additional Benefit =0.65% of the amount, if any, of the participant's average annual compensation that exceeds his covered compensation (the average of the maximum annual salary taxable for Social Security over the 35-year period ending the year the participant would reach Social Security

retirement age) multiplied by his credited service after 1988 (limited to 28 years of credited service)

For participants earning cash balance benefits, including Mr. Hale, pay credits are added to the cash balance account on a quarterly basis as a percent of compensation and based on the participant's years of vesting service as follows:

CASH BALANCE PLAN PAY CREDITS

Vesting Service	Pay Credit %
Less than 1 year	0%
1 year, but less than 5 years	2.5%
5 years, but less than 10 years	3%
10 years, but less than 15 years	4%
15 years, but less than 20 years	5%
20 years, but less than 25 years	6%
25 years or more	7%

ARP Early and Normal Retirement Eligibility and Reductions

The earliest retirement age that a named executive may retire with unreduced retirement benefits under the ARP and SRIP is age 65. However, a participant earning final average pay benefits is entitled to an early retirement benefit if he terminates employment on or after age 55 and the completion of 20 or more years of service. A participant earning cash balance benefits who terminates employment with at least 5 years of vesting service is entitled to a lump sum benefit equal to his cash balance account balance. Currently, none of the named executives are eligible for an early retirement benefit.

The benefit reduction for early payment of final average pay benefits earned after 1988 is as follows: The Base Benefit as described above is reduced by 0.4% for each full month the benefit is paid prior to the participant's normal retirement date. The Additional Benefit is reduced by ⅔ of 1% for each of the first 36 full months and by ⅓ of 1% for each of the next 84 full months, by which the benefit commencement date precedes the participant's normal retirement date.

Benefit Formula Under the SRIP

SRIP benefits are generally determined using a two-step process: (1) determine the amount that would be payable under the ARP under the ARP formula specified above if the federal limits described above did not apply, then (2) reduce the amount described in (1) by the amount actually payable under the ARP formula. The normal retirement date under the SRIP is age 65. If eligible for early retirement under the ARP, an eligible employee is also eligible for early retirement under the SRIP.

Vesting Under ARP and SRIP

Eligible employees are vested in the normal retirement benefit under the ARP and the SRIP on the earlier of the completion of five years of service or upon reaching age 65.

Compensation Used to Determine Pension Benefits

For the ARP and SRIP, eligible compensation consists of salary, annual cash incentive awards, pre-tax employee deposits made to our 401(k) plan and our cafeteria plan, holiday pay, and vacation pay. Eligible compensation also includes overtime pay, payment for temporary military service, and payments for short term disability, but does not include long-term cash incentive awards or income related to the exercise of stock options and the vesting of restricted stock and RSUs. Compensation used to determine benefits under the ARP is limited in accordance with the Internal Revenue Code. Average annual

compensation is the average compensation of the five highest consecutive calendar years within the last ten consecutive calendar years preceding the actual retirement or termination date.

Lump Sums under the Plans

Payment options under the ARP include a lump sum, straight life annuity, and various survivor annuity options. The lump sum under the final average pay benefit is calculated in accordance with the applicable interest rate and mortality as required under the Internal Revenue Code. The lump sum payment under the cash balance benefit is generally equal to a participant's cash balance account balance. Payments from the SRIP and amounts payable relating to supplemental pension enhancements are paid in the form of a lump sum using the same interest rate and mortality assumptions used under the ARP.

Valuation Assumptions

The amounts listed in the Present Value of Accumulated Benefit column of the Pension Benefits table and the amounts listed in the footnotes to the Change in Pension Value column of the Summary Compensation Table are based on the following assumptions:

- Discount rate of 6.0%, payment form assuming 80% paid as a lump sum and 20% paid as an annuity, lump-sum/annuity conversion interest rate of 6.0% and the modified 1994 GAR mortality table (as required under the Internal Revenue Code), and post-retirement mortality for annuitants using the RP2000 table projected 10 years; these are the same as those used for financial reporting year-end disclosure as described in the notes to Allstate's consolidated financial statements. (See note 16 for the benefit plans.)
- Retirement age: normal retirement age under the ARP and SRIP (65). Based on guidance provided by the Securities and Exchange Commission, we have assumed normal retirement age regardless of any announced or anticipated retirements.
- Expected terminations, disability, and pre-retirement mortality: none assumed.

Extra Service and Pension Benefit Enhancements

No additional service is granted under the ARP or the SRIP. As a general policy, Allstate does not grant additional service credit outside of the actual service used to calculate ARP and SRIP benefits. However, Messrs. Liddy and Sylla have supplemental nonqualified retirement benefit agreements which provide for additional years of age and credited service. Mr. Liddy's enhanced pension benefit assumes an additional five years of age and service under the final average pay formula through age 61, payable upon termination, retirement, death or change-in-control. At age 62 and after, the enhancement is based on the maximum years of credited service (28) under the final average pay benefit formula which equates to approximately 61% of final average pay. Mr. Liddy will turn 62 on January 28, 2008. Mr. Sylla's enhanced pension benefit assumes an additional five years of age and service under the final average pay formula payable upon termination or retirement on or after age 63 or upon death or change-in-control. Mr. Sylla turned 63 on May 26, 2006. Neither of the pension benefit enhancements have a defined normal retirement date for the amount payable.

Sears, Roebuck and Co. Service

Messrs. Liddy and Wilson have 19 and 14 years, respectively, of combined service with Sears, Roebuck and Co., Allstate's former parent company, and Allstate. As a result of their prior Sears service, a portion of Mr. Liddy's and Mr. Wilson's retirement benefits will be paid from the Sears pension plan. Similar to other employees with prior Sears service that were employed by Allstate at the time of the spin-off from Sears in 1995, Mr. Liddy's and Mr. Wilson's pension benefits under the ARP final average

pay benefit and the SRIP are calculated as if each had worked their combined Sears-Allstate career with Allstate, and then are reduced by the amounts they earned under the Sears pension plan.

Non-Qualified Deferred Compensation

The following table summarizes the non-qualified deferred compensation contributions, earnings and account balances of our named executives in 2006. All amounts relate to The Allstate Corporation Deferred Compensation Plan.

NON-QUALIFIED DEFERRED COMPENSATION AT FISCAL YEAR-END 2006

Name	Executive Contributions in Last FY ($)	Registrant Contributions in Last FY ($)	Aggregate Earnings in Last FY ($)[1]	Aggregate Withdrawals/ Distributions ($)	Aggregate Balance at Last FYE ($)[2]
Mr. Liddy	0	0	331,223	0	2,916,782
Mr. Hale	0	0	24,061	0	166,383
Mr. Simonson	0	0	0	0	0
Mr. Sylla	0	0	263,118	0	1,998,697
Mr. Wilson	0	0	66,261	0	453,886

(1) Aggregate earnings were not included in the named executive's prior year compensation.

(2) If the named executive was included in the Summary Compensation Tables in our proxy statements for prior years, the portion of these amounts that represents his contributions was previously reported as compensation in those tables.

In order to remain competitive with other employers, we allow employees, including the named executives, whose annual compensation exceeds the amount specified in the Internal Revenue Code (e.g., $220,000 in 2006), to defer up to 80% of their salary and/or up to 100% of their annual cash incentive award that exceeds that amount under The Allstate Corporation Deferred Compensation Plan (Deferred Compensation Plan). Allstate does not match participant deferrals and does not guarantee a stated rate of return.

Deferrals under the Deferred Compensation Plan are credited with earnings, or are subject to losses, based on the results of the investment option or options selected by the participants. The investment options available under the Deferred Compensation Plan are Stable Value, S&P 500, International Equity, Russell 2000 and Bond Funds—options currently available under our 401(k) plan. Under the Deferred Compensation Plan, deferrals are not actually invested in these funds, but instead are credited with earnings or losses based on the funds' investment experience, which are net of administration and investment expenses. Because the rate of return is based on actual investment measures in our 401(k) plan, no above-market earnings are paid. Similar to our 401(k) plan, participants can change their investment elections daily by accessing a secure website or contacting our benefits center. Investment changes are effective the next business day. The Deferred Compensation Plan is unfunded; participants have only the rights of our general unsecured creditors.

Deferrals under the Deferred Compensation Plan are segregated into pre-2005 balances and post-2004 balances. A named executive may elect to begin receiving a distribution of his pre-2005 balance upon separation from service or in one of the first through fifth years after separation from service. In either event, the named executive may elect to receive payment of his pre-2005 balance in a lump sum or in annual cash installment payments over a period of from two to ten years. An irrevocable distribution election is required before making any post-2004 deferrals into the plan. The distribution options available to the post-2004 balances are similar to those available to the pre-2005 balances, except the earliest distribution date is six months following separation from service. Upon a showing of unforeseeable emergency, a plan participant may be allowed to access funds in his deferred compensation account earlier than the dates specified above.

Potential Payments as a Result of Termination or Change-in-Control

Termination of Employment

All regular full-time and regular part-time employees are eligible to participate in the Allstate Severance Pay Plan, which is sponsored by Allstate Insurance Company. The Allstate Severance Pay Plan provides severance pay for a specified period of time in the event that employment is involuntarily terminated by Allstate for lack of work, rearrangement of work, or reduction in workforce. Subject to the terms of the Severance Pay Plan, each eligible employee is entitled to a lump sum payment equal to two weeks of pay for each complete year of service, up to a maximum of 52 weeks of pay. There is an additional severance component to recognize vacation days accrued but not yet earned between the employee's annual anniversary date in 2000 and December 31, 2000, unless such days were taken in the form of days off. As regular full-time employees, the named executives also are eligible to participate in the Allstate Service Allowance Plan. This plan, in which all regular full-time and regular part-time employees are eligible to participate, provides severance pay for a specified period of time in the event that employment is involuntarily terminated by Allstate for an inability to satisfactorily perform the responsibilities of the employee's position. Subject to the terms of the Service Allowance Plan, each eligible employee is entitled to a range of two to thirteen weeks of pay based on a graduated schedule reflecting years of service. To the extent that the employee receives severance benefits under change-in-control agreements, the employee waives the right to receive corresponding amounts of severance benefits under the Severance Pay Plan and Service Allowance Plan.

Allstate has entered into certain agreements or provides certain plans that will require Allstate Insurance Company or The Allstate Corporation to provide compensation or benefits to the named executives in the event of a termination of employment—other than compensation and benefits generally available to all salaried employees. The amount of compensation payable to each named executive or the value of benefits provided to the named executives that exceed the compensation or benefits generally available to all salaried employees in each situation is listed in the tables below. Benefits and payments are calculated assuming a December 31, 2006 employment termination date.

MR. LIDDY

Executive Benefits and Payments Upon Termination[1]	Voluntary Termination ($)	Retirement ($)	Involuntary Termination ($)[2]	Death ($)	Disability ($)
Long-term Cash Incentive Awards[3]	0	1,774,744	0	1,774,744	1,774,744
Stock Options—Unvested and Accelerated	0[4]	See footnote 5	0[4]	12,695,806[6]	12,695,806[6]
Restricted Stock/RSUs—Unvested and Accelerated	0	See footnote 7	0	5,469,240[8]	0
Non-Qualified Pension Benefits	21,904,703[9]	21,904,703[9]	21,904,703[9]	21,904,703[9]	21,904,703[9]
Post-Termination Welfare Benefits	0	0	0	0	784,800[10]
Cash Severance	0	0	See footnote 11	0	0

Table continues

MR. HALE

Executive Benefits and Payments Upon Termination[1]	Voluntary Termination ($)	Retirement ($)	Involuntary Termination ($)[2]	Death ($)	Disability ($)
Long-term Cash Incentive Awards[3]	0	441,337	0	441,337	441,337
Stock Options—Unvested and Accelerated	0[4]	See footnote 5	0[4]	4,343,973[6]	4,343,973[6]
Restricted Stock/RSUs—Unvested and Accelerated	0	See footnote 7	0	1,328,244[8]	0
Non-Qualified Pension Benefits	0	0	0	102,770[12]	0
Post-Termination Welfare Benefits	0	0	0	0	286,800[10]
Cash Severance	0	0	See footnote 11	0	0

MR. SIMONSON

Executive Benefits and Payments Upon Termination[1]	Voluntary Termination ($)	Retirement ($)	Involuntary Termination ($)[2]	Death ($)	Disability ($)
Long-term Cash Incentive Awards[3]	0	422,931	0	422,931	422,931
Stock Options—Unvested and Accelerated	0[4]	See footnote 5	0[4]	4,596,801[6]	4,596,801[6]
Restricted Stock/RSUs—Unvested and Accelerated	0	See footnote 7	0	1,308,711[8]	0
Non-Qualified Pension Benefits	0	0	0	898,486[13]	0
Post-Termination Welfare Benefits	0	0	0	0	529,200[10]
Cash Severance	0	0	See footnote 11	0	0

MR. SYLLA

Executive Benefits and Payments Upon Termination[1]	Voluntary Termination ($)	Retirement ($)	Involuntary Termination ($)[2]	Death ($)	Disability ($)
Long-term Cash Incentive Awards[3]	0	575,668	0	575,668	575,668
Stock Options—Unvested and Accelerated	0[4]	See footnote 5	0[4]	3,627,287[6]	3,627,287[6]
Restricted Stock/RSUs—Unvested and Accelerated	0	See footnote 7	0	1,451,953[8]	0
Non-Qualified Pension Benefits	4,751,297[14]	4,751,297[14]	4,751,297[14]	4,751,297[14]	4,751,297[14]
Post-Termination Welfare Benefits	0	0	0	0	609,600[10]
Cash Severance	0	0	See footnote 11	0	0

MR. WILSON

Executive Benefits and Payments Upon Termination[1]	Voluntary Termination ($)	Retirement ($)[16]	Involuntary Termination ($)[2]	Death ($)	Disability ($)
Long-term Cash Incentive Awards[3]	0	0	0	932,412	932,412
Stock Options—Unvested and Accelerated	0[4]	0	0[4]	5,531,274[6]	5,531,274[6]
Restricted Stock/RSUs—Unvested and Accelerated	0	0	0	2,454,647[8]	0
Non-Qualified Pension Benefits	2,180,945[15]	2,180,945[15]	2,180,945[15]	2,180,945[15]	2,180,945[15]
Post-Termination Welfare Benefits	0	0	0	0	450,000[10]
Cash Severance	0	0	See footnote 11	0	0

(1) The payment of the 2006 annual cash incentive award, the 2004-2006 long-term cash incentive award and any 2006 salary earned but not paid in 2006 due to Allstate's payroll cycle are not included in these tables because these amounts are payable to the named executives regardless of termination, death or disability. A

Footnotes continue

"0" indicates that either there is no amount payable to the named executive or no amount payable to the named executive that is not made available to all salaried employees.

(2) Examples of "Involuntary Termination" include performance-related terminations, reorganization, and terminations for employee dishonesty and violation of Allstate rules, regulations, or policies.

(3) If a participant dies, retires or is disabled during a performance cycle, the participant's award will be prorated based on the number of half months in which the participant was eligible to participate during the long-term cash incentive performance cycle. The amount reflected is calculated at target for purposes of this disclosure. The actual payment would be made at the time all awards are paid for that particular performance cycle and calculated based on actual results.

(4) If the named executive's termination of employment is for any reason other than death, disability or retirement, unvested stock options will be forfeited, and stock options, to the extent they are vested on the date of termination, may be exercised at any time on or before the earlier to occur of (a) the expiration date of the stock option and (b) three months after the date of termination.

(5) If the named executive retires at the normal retirement date or a health retirement date, unvested stock options continue to vest in accordance with their terms, and all outstanding stock options, when vested, may be exercised, in whole or in part, by the named executive at any time on or before the earlier to occur of (a) the expiration date of the stock option and (b) the fifth anniversary of the date of such termination of employment. The "normal retirement date" under the stock option awards is the date on or after the named executive attains age 60 with at least one year of service. The "health retirement date" is the date on which the named executive terminates for health reasons after attaining age 50, but before attaining age 60, with at least ten years of continuous service. If the named executive retires at the early retirement date, unvested stock options are forfeited, and stock options, to the extent they are vested on the date of termination, may be exercised, in whole or in part, by the named executive at any time on or before the earlier to occur of (a) the expiration date of the stock option and (b) the fifth anniversary of the date of termination of employment. The "early retirement date" is the date the named executive attains age 55 with 20 years of service. The aggregate value of unexercisable in-the-money options as of December 31, 2006 based on a market close price of $65.11 per share of Allstate stock for each of the named executives is as follows: Mr. Liddy—$12,695,806, Mr. Hale—$4,343,973, Mr. Simonson—$4,596,801, and Mr. Sylla—$3,627,287. The actual amount received by the named executives would be based on the market close price on the date the stock options were exercised.

(6) If the named executive's termination of employment is on account of death or disability, then stock options, to the extent not vested, will vest and may be exercised at any time on or before the earlier to occur of (1) the expiration date of the option and (2) the second anniversary of the date of termination of employment. Stock option values are based on a December 29, 2006 market close price of $65.11 per share of Allstate stock.

(7) If the named executive retires on or after attaining age 60 with at least one year of service, then no unvested restricted shares or RSUs are forfeited and the unvested shares or RSUs will remain subject to the restriction period established in the award agreement. If the named executive dies following retirement and before the end of the restriction period, then all unvested RSUs immediately become nonforfeitable and vest as of the date of death. The aggregate value of unvested restricted shares or RSUs as of December 31, 2006 based on a market close price of $65.11 per share of Allstate stock for each of the named executives is as follows: Mr. Liddy—$14,980,704, Mr. Hale—$5,469,045, Mr. Simonson—$4,862,414, and Mr. Sylla—$4,508,021. The actual amount received by the named executives would be based on the market close price on the date the stock restriction lapses.

(8) If the named executive's termination of employment is a result of death, restricted stock units granted on February 21, 2006, immediately become nonforfeitable and the restrictions expire. The December 29, 2006 market close price of $65.11 per share of Allstate stock was used to value the unvested and nonforfeitable awards.

(9) The present value of the non-qualified pension benefits for Mr. Liddy earned through October 31, 2006, based on a 6% discount rate is disclosed in the Pension Benefits Table. The present value of Mr. Liddy's non-qualified pension benefits earned through December 31, 2006 based on a 5% lump sum factor (the lump sum interest rate used by the Allstate pension plans in 2007) is $21,904,703 ($12,494,105 SRIP benefit, plus a $9,410,598 pension benefit enhancement). Mr. Liddy's pension benefit enhancement is payable immediately

Footnotes continue

under each of the employment termination scenarios. The benefits Mr. Liddy earned under the SRIP would be payable upon reaching age 65 if termination is a result of a voluntary termination, involuntary termination or retirement. Mr. Liddy will turn 65 on January 28, 2011. SRIP benefits would become payable immediately upon death or disability.

(10) The named executives are eligible to participate in Allstate's supplemental long-term disability plan for employees whose annual earnings exceed the level which produces the maximum monthly benefit provided by the Allstate Long Term Disability Plan (Basic Plan). The benefit is equal to 50% of the named executive's qualified annual earnings divided by twelve and rounded to the nearest one hundred dollars, reduced by $7,500, which is the maximum monthly benefit payment that can be received under the Basic Plan. The amount reflected assumes the named executive was totally disabled throughout 2006 and received the monthly benefit for the entire year.

(11) As regular full-time employees, the named executives are eligible to participate in the Allstate Severance Pay Plan that provides a lump sum payment equal to two weeks of pay for each complete year of service, up to a maximum of 52 weeks of pay, in the event of employment termination resulting from a lack of work, rearrangement of work, or reduction in workforce. As regular full-time employees, the named executives also are eligible to participate in the Allstate Service Allowance Plan. This plan provides severance pay in the event that employment is involuntarily terminated by Allstate for an inability to satisfactorily perform the responsibilities of the employee's position. Each eligible employee is entitled to a range of two to thirteen weeks of pay based on a graduated schedule reflecting years of service.

(12) The present value of the non-qualified pension benefits for Mr. Hale earned through October 31, 2006, based on a 6% discount rate is disclosed in the Pension Benefits Table. The present value of Mr. Hale's non-qualified pension benefits (SRIP), $102,770, earned through December 31, 2006 is based on a 5% lump sum factor (the lump sum interest rate used by the Allstate pension plans in 2007). Mr. Hale was not vested in his SRIP benefit as of December 31, 2006. The benefits earned under the SRIP would be payable upon reaching age 65, if vested, and if termination is a result of a voluntary termination, involuntary termination or retirement. Mr. Hale will turn 65 on March 23, 2009. SRIP benefits would become payable immediately upon death.

(13) The present value of the non-qualified pension benefits for Mr. Simonson earned through October 31, 2006, based on a 6% discount rate is disclosed in the Pension Benefits Table. The present value of Mr. Simonson's non-qualified pension benefits (SRIP), $898,486, earned through December 31, 2006 is based on a 5% lump sum factor (the lump sum interest rate used by the Allstate pension plans in 2007). Mr. Simonson was not vested in his SRIP benefit as of December 31, 2006. The benefits earned under the SRIP would be payable upon reaching age 65, if vested, and if termination is a result of a voluntary termination, involuntary termination or retirement. Mr. Simonson will turn 65 on July 28, 2010. SRIP benefits would become payable immediately upon death.

(14) The present value of the non-qualified pension benefits for Mr. Sylla earned through October 31, 2006, based on a 6% discount rate is disclosed in the Pension Benefits Table. The present value of Mr. Sylla's non-qualified pension benefits earned through December 31, 2006 based on a 5% lump sum factor (the lump sum interest rate used by the Allstate pension plans in 2007) is $4,751,297 ($2,787,537 SRIP benefit, plus a $1,963,760 pension benefit enhancement). Mr. Sylla's pension benefit enhancement is payable immediately under each of the employment termination scenarios. The benefits Mr. Sylla earned under the SRIP would be payable upon reaching age 65 if termination is a result of a voluntary termination, involuntary termination or retirement. Mr. Sylla will turn 65 on May 26, 2008. SRIP benefits would become payable immediately upon death or disability.

(15) The present value of the non-qualified pension benefits for Mr. Wilson earned through October 31, 2006, based on a 6% discount rate is disclosed in the Pension Benefits Table. The present value of Mr. Wilson's non-qualified pension benefits (SRIP), $2,180,945, earned through December 31, 2006 is based on a 5% lump sum factor (the lump sum interest rate used by the Allstate pension plans in 2007). The benefits earned under the SRIP would be payable upon reaching age 65 if termination is a result of a voluntary termination, involuntary termination or retirement. Mr. Wilson will turn 65 on October 15, 2022. SRIP benefits would become payable immediately upon death or upon reaching age 50 if disabled.

(16) As of December 31, 2006, Mr. Wilson was not eligible to retire in accordance with Allstate's policy or the terms of any of the Allstate compensation and benefit plans.

Change-in-Control

The Allstate Corporation and Allstate Insurance Company have entered into agreements with the named executives to provide certain benefits and compensation in the event of a change-in-control. Where provided, change-in-control benefits are intended to strike a balance between preserving management flexibility to integrate acquired businesses and minimize loss of executives, provide reassurance to executives, provide a long-term commitment to executives' job stability and financial security, help keep the executive team intact if a change-in-control transaction does occur, and create parity between Allstate's executives and those of potential merger partners.

In general, a change-in-control is one or more of the following events: (1) any person acquires more than 20% of Allstate common stock; (2) certain changes are made to the composition of the Board; or (3) certain transactions occur that result in Allstate stockholders owning 70% or less of the surviving corporation's stock. These triggers were selected because, in a widely held company the size of Allstate, they could each result in a substantial change in management. The prospect of a substantial change in management can distract executives from working on behalf of stockholders. The agreements provide for certain immediate change-in-control benefits in order to reassure executives that they will receive previously deferred compensation and that prior equity grants will be honored because decisions as to whether to provide these amounts are not left to management and the directors in place after a change-in-control. In the event of a change-in-control of Allstate that is not a merger of equals, all unvested stock options would become exercisable, restrictions would immediately expire on all restricted stock and RSUs, and nonqualified deferred compensation account balances and supplemental retirement plan benefits would become payable.

During the three-year period following a change-in-control that is not a merger of equals, the change-in-control agreements provide for a minimum salary, annual cash incentive awards, long-term cash incentive awards and other benefits. In addition they provide that the named executives' positions, authority, duties and responsibilities will be at least commensurate in all material respects with those held prior to the change-in-control.

Under the change-in-control agreements, severance benefits would be payable if a named executive's employment is terminated either by Allstate without "cause" or by the executive for "good reason" as defined in the agreements during the three-year period following the change-in-control. Cause means the named executive has been convicted of a felony or other crime involving fraud or dishonesty, has willfully or intentionally breached his change-in-control agreement, has habitually neglected his duties, or has engaged in willful or reckless material misconduct in the performance of his duties. Good reason includes a failure to pay or reduction in compensation, adverse changes in position, duties, or other terms and conditions of employment, required relocation of more than 30 miles, a failed attempt to terminate the executive for cause, or a termination of employment by a named executive officer for any reason during the 13th month after a change-in-control. The principal severance benefits payable on post-change-in-control terminations include: pro-rated annual cash incentive award and long-term cash incentive awards (all at target); a payment equal to three times the sum of the executive's base salary, target annual cash incentive award, and target annualized long-term cash incentive awards; continuation of certain welfare benefits for three years; an enhanced retirement benefit consisting of an additional three years of service, age and compensation; and reimbursement (on an after-tax basis) of any resulting excise taxes. These more substantial benefits following post-change-in-control terminations are intended to provide executives with sufficient incentive to stay with Allstate in the event of a change-in-control. They provide the executives with some measure of job and financial security so that they are not distracted from working on behalf of stockholders prior to or after a change-in-control. They also provide parity with executives of potential merger partners.

In a merger of equals, where there is board continuity and top management remains in place, the need for full change-in-control protections is less. We want to maximize management flexibility to reorganize executive teams but still provide a financial safety net for executives to help foster a

successful merger of equals. Therefore, in a merger of equals there are fewer immediate benefits and the ability to terminate for "good reason" and draw severance benefits is curtailed. The vesting of stock options would not be accelerated. Furthermore nonqualified deferred compensation account balances and supplemental retirement plan benefits would not become vested, and their payment would not be accelerated. Minimum salary, annual cash incentive awards, long-term cash incentive awards and other benefits would not be protected. Messrs. Hale's, Simonson's, Sylla's and Wilson's positions could be changed as long as they remain an elected officer at a location within 30 miles of their former location. A merger of equals is a merger which satisfies all of the following: 1) Allstate's pre-merger stockholders own 70% or less, but at least 50% of the surviving corporation's stock; 2) for at least three years, 50% or more of the directors of the post-merger corporation were directors of Allstate immediately before the merger, or were unanimously approved by such directors; 3) Allstate's pre-merger chief executive officer remains, for at least one year, the chief executive officer of the post-merger corporation.

If a named executive's employment is terminated by reason of death or disability during the three-year period commencing on the date of a change-in-control, Allstate will pay the named executive or the named executive's estate a lump-sum cash amount equal to all amounts earned but unpaid, including any annual and long-term cash incentive awards, as of the termination date. In addition, in the event of death, the named executive's estate or beneficiary will be entitled to survivor and other benefits, including retiree medical coverage, if eligible, that are not less favorable than the most favorable benefits available to the estates or surviving families of peer executives of Allstate. In the event of disability, Allstate will pay disability and other benefits, including supplemental long-term disability benefits and retiree medical coverage, if eligible, that are not less favorable than the most favorable benefits available to disabled peer executives. If Allstate terminates a named executive's employment for cause, our sole obligation is to pay the named executive a lump-sum cash amount equal to all amounts earned but unpaid, including any annual and long-term cash incentive awards, as of the termination date.

If a named executive incurs legal fees or other expenses in an effort to enforce the change-in-control agreement, Allstate will reimburse the named executive for these expenses unless it is established by a court that the named executive had no reasonable basis for his claim or acted in bad faith.

Effective upon a change-of-control, the named executives become subject to covenants prohibiting competition and solicitation of employees, customers, and suppliers at any time until one year after termination of employment.

The following tables describe the estimated compensation or benefits that would be provided by Allstate Insurance Company or The Allstate Corporation to the named executives in the event of a change-in-control—other than compensation and benefits generally available to all salaried employees. The amount of compensation payable to each named executive or the value of benefits provided to the named executives that exceed the compensation or benefits generally available to all salaried employees in each situation is listed in the tables below. Benefits and payments are calculated assuming a December 31, 2006 employment termination date or change-in-control.

MR. LIDDY

Executive Benefits and Payments Upon Change in Control[1]	Amounts Immediately Payable Upon Mergers of Equals ($)	Amounts Immediately Payable Upon Effective Date of Change-in-Control ($)	Voluntary Termination During 13th Month, Involuntary or Good Reason Termination ($)[2]	Disability/ Death/ For Cause Termination ($)
Cash Severance				
—Base Salary	0	0	3,675,000[3]	0
—Annual Cash Incentive Awards	0	0	4,410,000[4]	0
—Long-Term Cash Incentive Awards	0	0	7,133,860[5]	0
—Non-qualified pension enhancement	0	0	8,565,238[6]	0
Stock Options—Unvested and Accelerated	0	12,695,806[7]	See footnote 8	0
Restricted Stock/RSUs—Unvested and Accelerated	0	14,980,704[9]	See footnote 8	0
Non-Qualified Pension and Deferred Compensation Benefits	0	24,821,485[10]	See footnote 11	0
Post-Termination Welfare Benefits	0	0	6,583[12]	0
Out-Placement Services	0	0	40,000	0
Excise Tax Reimbursement and Tax Gross-Up[13]	0	0	0	0

MR. HALE

Executive Benefits and Payments Upon Change in Control[1]	Amounts Immediately Payable Upon Mergers of Equals ($)	Amounts Immediately Payable Upon Effective Date of Change-in-Control ($)	Voluntary Termination During 13th Month, Involuntary or Good Reason Termination ($)[2]	Disability/ Death/ For Cause Termination ($)
Cash Severance				
—Base Salary	0	0	1,761,012[3]	0
—Annual Cash Incentive Awards	0	0	1,408,810[4]	0
—Long-Term Cash Incentive Awards	0	0	1,773,351[5]	0
—Non-qualified pension enhancement	0	0	274,948[6]	0
Stock Options—Unvested and Accelerated	0	4,343,973[7]	See footnote 8	0
Restricted Stock/RSUs—Unvested and Accelerated	0	5,469,045[9]	See footnote 8	0
Non-Qualified Pension and Deferred Compensation Benefits	0	269,153[10]	See footnote 11	0
Post-Termination Welfare Benefits	0	0	6,627[12]	0
Out-Placement Services	0	0	20,000	0
Excise Tax Reimbursement and Tax Gross-Up[13]	0	0	2,282,033	0

Table continues

MR. SIMONSON

Executive Benefits and Payments Upon Change in Control[1]	Amounts Immediately Payable Upon Mergers of Equals ($)	Amounts Immediately Payable Upon Effective Date of Change-in-Control ($)	Voluntary Termination During 13th Month, Involuntary or Good Reason Termination ($)[2]	Disability/ Death/ For Cause Termination ($)
Cash Severance				
—Base Salary	0	0	1,740,024[3]	0
—Annual Cash Incentive Awards	0	0	1,392,019[4]	0
—Long-Term Cash Incentive Awards	0	0	1,702,127[5]	0
—Non-qualified pension enhancement	0	0	2,679,276[6]	0
Stock Options—Unvested and Accelerated	0	4,596,801[7]	See footnote 8	0
Restricted Stock/RSUs—Unvested and Accelerated	0	4,862,414[9]	See footnote 8	0
Non-Qualified Pension and Deferred Compensation Benefits	0	898,486[10]	See footnote 11	0
Post-Termination Welfare Benefits	0	0	11,164[12]	0
Out-Placement Services	0	0	20,000	0
Excise Tax Reimbursement and Tax Gross-Up[13]	0	0	3,126,279	0

MR. SYLLA

Executive Benefits and Payments Upon Change in Control[1]	Amounts Immediately Payable Upon Mergers of Equals ($)	Amounts Immediately Payable Upon Effective Date of Change-in-Control ($)	Voluntary Termination During 13th Month, Involuntary or Good Reason Termination ($)[2]	Disability/ Death/ For Cause Termination ($)
Cash Severance				
—Base Salary	0	0	1,830,024[3]	0
—Annual Cash Incentive Awards	0	0	1,647,022[4]	0
—Long-Term Cash Incentive Awards	0	0	2,311,174[5]	0
—Non-qualified pension enhancement	0	0	2,670,611[6]	0
Stock Options—Unvested and Accelerated	0	3,627,287[7]	See footnote 8	0
Restricted Stock/RSUs—Unvested and Accelerated	0	4,508,021[9]	See footnote 8	0
Non-Qualified Pension and Deferred Compensation Benefits	0	6,749,994[10]	See footnote 11	0
Post-Termination Welfare Benefits	0	0	6,531[12]	0
Out-Placement Services	0	0	20,000	0
Excise Tax Reimbursement and Tax Gross-Up[13]	0	0	0	0

Table continues

MR. WILSON

Executive Benefits and Payments Upon Change in Control[1]	Amounts Immediately Payable Upon Mergers of Equals ($)	Amounts Immediately Payable Upon Effective Date of Change-in-Control ($)	Voluntary Termination During 13th Month, Involuntary or Good Reason Termination ($)[2]	Disability/ Death/ For Cause Termination ($)
Cash Severance				
—Base Salary	0	0	2,505,024[3]	0
—Annual Cash Incentive Awards	0	0	2,505,024[4]	0
—Long-Term Cash Incentive Awards	0	0	3,750,344[5]	0
—Non-qualified pension enhancement	0	0	2,638,921[6]	0
Stock Options—Unvested and Accelerated	0	5,531,274[7]	See footnote 8	0
Restricted Stock/RSUs—Unvested and Accelerated	0	7,827,394[9]	See footnote 8	0
Non-Qualified Pension and Deferred Compensation Benefits	0	2,634,831[10]	See footnote 11	0
Post-Termination Welfare Benefits	0	0	9,546[12]	0
Out-Placement Services	0	0	20,000	0
Excise Tax Reimbursement and Tax Gross-Up[13]	0	0	5,225,632	0

(1) The payment of the 2006 annual cash incentive award, the 2004-2006 long-term cash incentive award and any 2006 salary earned but not paid in 2006 due to Allstate's payroll cycle are not included in these tables because these amounts are payable to the named executives regardless of a change-in-control. A "0" indicates that either there is no amount payable to the named executive or no amount payable to the named executive that is not made available to all salaried employees.

(2) Severance benefits would be payable if the named executive terminates his employment during the 13th-month after a change-in-control for any reason. In addition, severance benefits would be payable if a named executive's employment is terminated either by Allstate without "cause" or by the executive for "good reason" during the three-year period following a change-in-control event. For Messrs. Hale, Simonson, Sylla, and Wilson, if the change of control is not a merger of equals, "good reason" is a material adverse change in the named executive's authority, duties, titles or offices. After a merger of equals, good reason arises only if Messrs. Hale's, Simonson's, Sylla's, and Wilson's elected officer status is eliminated and their work location is no longer within 30 miles of their former location. The merger of equals does not modify the good reason standard for Mr. Liddy.

(3) This amount reflects three times the named executive's base salary.

(4) This amount is three times the named executive's annual cash incentive award calculated at target.

(5) This amount reflects the named executive's pro-rata long-term cash incentive award for the 2005-2007 and 2006-2008 performance cycles calculated at target, plus three times the average of the annualized long-term incentive award for the 2005-2007 and 2006-2008 performance cycles calculated at target.

(6) This amount reflects a lump sum payment equal to the positive difference, if any, between: (a) the sum of the lump-sum values of each maximum annuity that would be payable to the named executive under any defined benefit plan (whether or not qualified under Section 401(a) of the Internal Revenue Code) if the named executive had: (i) become fully vested in all such benefits, (ii) attained as of the named executive's termination date an age that is three years greater than named executive's actual age, (iii) accrued a number of years of service that is three years greater than the number of years of service actually accrued by the named executive as of the named executive's termination date, and (iv) received a lump-sum severance benefit consisting of three times base salary, three times annual incentive cash compensation calculated at target, plus the 2006 annual incentive cash award as covered compensation in equal monthly installments during the three-year period following the named executive's termination date and (b) the lump-sum values of the maximum annuity benefits vested and payable to named executive under each defined benefit plan that is qualified under Section 401(a) of the Internal Revenue Code plus the aggregate amounts simultaneously or previously paid to the named executive under the defined benefit plans (whether or not qualified under Section 401(a)). The calculation of the lump sum amounts payable under this formula does not impact the benefits payable under the ARP, SRIP or pension benefit enhancements. Messrs. Liddy's and

Footnotes continue

Sylla's pension benefit enhancements, which are payable upon termination, are described in the Retirement Benefits narrative.

(7) Stock option values are based on a December 29, 2006 market close price of $65.11 per share of Allstate stock.

(8) For purposes of this table, unvested stock options, restricted stock and RSUs, which would have been immediately payable upon a change-in-control regardless of termination of employment, were assumed to have been paid immediately prior to termination and are reflected in the "Amounts Immediately Payable Upon Effective Date of Change-in-Control" column.

(9) The December 29, 2006 market close price of $65.11 per share of Allstate stock was used to value the RSU and restricted stock value of unvested and nonforfeitable awards.

(10) Within five business days after the effective date of a change-in-control that is not a merger of equals, the named executives will receive a lump sum payment equal to the present value of the named executive's SRIP benefit, pension benefit enhancement, if applicable, and deferred compensation account balance. The present value of non-qualified pension benefits earned through December 31, 2006 is based on a 5% lump sum factor (the lump sum interest rate used by the Allstate pension plans in 2007). Refer to the Retirement Benefits section beginning on page 38 for a discussion of the SRIP benefit and pension benefit enhancement. See the Termination of Employment tables on pages 43-44 and the corresponding footnotes for a breakdown of the present value of the SRIP and pension benefit enhancements for Messrs. Liddy and Sylla. See the Nonqualified Deferred Compensation at Fiscal Year End 2006 table on page 42 for additional information on the deferred compensation plan and information regarding the named executive's account balances as of December 31, 2006. The amounts reflected for Messrs. Hale and Simonson reflect the immediate vesting and payment of SRIP benefits.

(11) For purposes of this table, the present value of non-qualified pension benefits earned through December 31, 2006 and the named executive's Deferred Compensation Plan account balance, if any, which would have been immediately payable upon a change-in-control regardless of termination of employment were assumed to have been paid immediately prior to termination upon the effective date of a change of control and are reflected in the "Amounts Immediately Payable Upon Effective Date of Change-in-Control" column.

(12) Allstate will continue to provide welfare benefits, including medical, dental, vision, disability, group life, accidental death, and group legal, to the named executive and his family until the third anniversary of the named executive's termination date. The amount shown reflects Allstate's costs for these benefits or programs.

(13) Certain payments made as a result of a change in control are subject to a 20% excise tax imposed on the named executive by Section 4999 of the Code. The Excise Tax Reimbursement and Tax Gross-up is the amount Allstate would pay to the named executive as reimbursement for the 20% excise tax plus a tax gross-up for any taxes incurred by the named executive resulting from the reimbursement of such excise tax. Messrs. Liddy and Sylla would not be subject to the 20% excise tax since any payments made to them as a result of a change in control and termination of employment on December 31, 2006 would not exceed three times their average taxable compensation over the last five years. The estimated amounts of reimbursement of any resulting excise taxes were determined without regard to the effect that restrictive covenants and any other facts and circumstances may have on the amount of excise taxes, if any, that ultimately might be payable in the event these payments were made to a named executive officer which is not subject to reliable advance prediction or a reasonable estimate.

Director Compensation at Fiscal Year-End 2006

The following table summarizes the compensation of each of our non-employee directors during 2006 for their services as members of the Board and its committees.

DIRECTOR COMPENSATION AT FISCAL YEAR-END 2006

Name	Fees Earned or Paid in Cash ($)	Stock Awards ($)[1]	Option Awards ($)[2]	Total ($)
Mr. Ackerman	40,000[3]	126,600	59,761	226,361
Mr. Andress[4]	50,000	126,600	59,761	236,361
Mr. Beyer	26,667[5]	0[6]	5,648	32,315
Mr. Brennan[7]	0	0	45,839	45,839
Mr. Farrell[8]	50,000[9]	126,600	74,703	251,303
Mr. Greenberg	40,000	126,600	59,761	226,361
Mr. LeMay	40,000	126,600	59,761	226,361
Mr. Reyes	40,000	126,600	59,761	226,361
Mr. Riley, Jr.[10]	50,000	126,600	59,761	236,361
Mr. Smith	40,000	126,600	59,761	226,361
Ms. Sprieser	40,000	126,600	59,761	226,361
Mrs. Taylor	40,000[11]	126,600	59,761	226,361

(1) The compensation cost recognized in our 2006 audited financial statements for restricted stock unit (RSU) awards for 2006, computed in accordance with FAS 123R. The assumptions used in the valuation are discussed in note 17 to our audited financial statements for 2006. Each RSU corresponds to one share of Allstate stock and entitles the director to receive one share of Allstate stock on the conversion date. The aggregate grant date fair value of the 2006 RSU awards, computed in accordance with FAS 123R, was $126,600 for each director who received an RSU award. The aggregate number of RSUs outstanding as of December 31, 2006 for each director is as follows: Mr. Ackerman—6,000, Mr. Andress—6,000, Mr. Beyer—0, Mr. Brennan—4,000, Mr. Farrell—6,000, Mr. Greenberg—6,000, Mr. LeMay—6,000, Mr. Reyes—6,000, Mr. Riley—6,000, Mr. Smith—6,000, Ms. Sprieser—6,000, and Mrs. Taylor—6,000. RSU awards are converted into stock one year after termination of Board service or upon death or disability, if earlier.

(2) The compensation cost recognized in our 2006 audited financial statements for stock option awards for 2006 and previous years, computed in accordance with FAS 123R. The assumptions used in the valuation are discussed in note 17 to our audited financial statements for 2006. The aggregate grant date fair value of stock option awards for 2006, computed in accordance with FAS 123R, was $50,833 for Mr. Beyer and $72,200 for each other director who received a stock option award. Mr. Beyer received a prorated 2006 stock option award in connection with his initial election to the Board on September 9, 2006. Due to his retirement, Mr. Brennan did not receive a stock option award in 2006. The aggregate number of options outstanding as of December 31, 2006 for each director is as follows: Mr. Ackerman—28,500, of which 20,501 were exercisable, Mr. Andress—36,000, of which 28,001 were exercisable, Mr. Beyer—2,667, of which none were exercisable, Mr. Brennan—32,000, of which 32,000 were exercisable, Mr. Farrell—27,096, of which 17,033 were exercisable, Mr. Greenberg—21,000, of which 13,001 were exercisable, Mr. LeMay—30,750, of which 22,751 were exercisable, Mr. Reyes—21,000, of which 13,001 were exercisable, Mr. Riley—32,500, of which 24,501 were exercisable, Mr. Smith—22,999, of which 15,000 were exercisable, Ms. Sprieser—29,500, of which 21,501 were exercisable, and Mrs. Taylor—27,000, of which 19,001 were exercisable.

(3) Mr. Ackerman elected to receive 100% of his cash retainer in stock.

(4) Chair of the Audit Committee.

(5) Mr. Beyer elected to receive 100% of his cash retainer in stock.

(6) Mr. Beyer will not receive an RSU award until June 1, 2007, pursuant to Board approved director compensation policy.

(7) Retired as of May 16, 2006.

(8) Chair of the Nominating and Governance Committee.

(9) Mr. Farrell elected to receive 20% of his cash retainer in stock.

(10) Chair of the Compensation and Succession Committee.

(11) Mrs. Taylor elected to receive 100% of her cash retainer in stock.

In 2006, each non-employee director was entitled to a $40,000 annual cash retainer and each committee chair was entitled to an additional $10,000 annual cash retainer. In addition each non-employee director received an annual award of 2,000 restricted stock units (RSUs) and an annual award of an option to purchase 4,000 shares of Allstate common stock under the 2006 Equity Compensation Plan for Non-Employee Directors. No meeting fees or other professional fees are paid to the directors. The annual cash retainer and stock option award received by Mr. Beyer in September 2006 were prorated because he was elected between annual stockholder meetings. He will not receive the award of 2,000 RSUs until June 2007.

Non-employee directors may elect to receive Allstate common stock in lieu of their cash retainers under the 2006 Equity Compensation Plan for Non-Employee Directors. In addition, under Allstate's Deferred Compensation Plan for Non-Employee Directors, directors may elect to defer their retainers to an account that generates earnings based on: (a) the market value of and dividends on Allstate's common shares (common share equivalents); (b) the average interest rate payable on 90-day dealer commercial paper; (c) Standard & Poor's 500 Composite Stock Price Index, with dividends reinvested; or (d) a money market fund. No director has voting or investment powers in common share equivalents, which are payable solely in cash. Subject to certain restrictions, amounts deferred under the plan, together with earnings thereon, may be transferred between accounts and are distributed after the director leaves the Board in a lump sum or over a period not in excess of ten years.

The RSU awards provide for delivery of the underlying shares of Allstate common stock upon the earlier of (a) the date of the director's death or disability or (b) one year after the date on which the director leaves the Board. Each RSU includes a dividend equivalent right that entitles the director to receive a payment equal to regular cash dividends paid on Allstate's common stock. Under the terms of the RSU awards the directors have only the rights of general unsecured creditors of Allstate and no rights as stockholders until delivery of the underlying shares.

In accordance with the terms of the 2006 Equity Compensation Plan for Non-Employee Directors, the exercise price of the stock option awards is equal to the fair market value of Allstate common stock on the date of grant. Fair market value is equal to the average of high and low sale prices on the date of grant or, if there was no such sale on the date of grant, then on the last previous day on which there was a sale. The options become exercisable in three substantially equal annual installments and expire ten years after grant. The unvested portions of a director's outstanding options fully vest upon his or her mandatory retirement pursuant to Board policies.

Performance Measures

The following are descriptions of the performance measures used for our annual cash incentive awards for 2006 and our long-term cash incentive awards for the 2004-2006 and 2006-2008 cycles.

These measures are not GAAP measures. They were developed uniquely for incentive compensation purposes and are not reported items in our financial statements. Some of these measures use non-GAAP measures and operating measures. The Compensation and Succession Committee has approved the use of non-GAAP and operating measures when appropriate to drive executive focus on particular strategic, operational, or financial factors or to exclude factors over which our executives have little influence or control, such as capital market conditions.

Annual Cash Incentive Awards for 2006

Corporate Measure

Adjusted operating income per diluted share: This measure is used to assess financial performance. The measure is equal to net income adjusted to exclude the after-tax effects of the items listed below, divided by the weighted average shares outstanding on a diluted basis:

- realized capital gains and losses (which includes the related effect on the amortization of deferred acquisition and deferred sales inducement costs but excludes periodic settlements and accruals on certain derivative instruments that do not qualify for hedge accounting);
- gains and losses on disposed operations;
- adjustments for other significant non-recurring, infrequent or unusual items, when (a) the nature of the charge or gain is such that it is reasonably unlikely to recur within two years or (b) there has been no similar charge or gain within the prior two years;
- restructuring and related charges;
- the effects of acquiring businesses;
- the negative operating results of sold businesses;
- the underwriting results of the Discontinued Lines and Coverages segment; and
- any settlement, awards, or claims paid as a result of law suits and other proceedings brought against Allstate subsidiaries regarding the scope and nature of coverage provided under insurance policies issued by such companies.

Allstate Protection Segment Measures

Each of the Allstate Protection segment measures excludes the loan protection business, which was transferred from the Allstate Financial to the Allstate Protection segment effective January 1, 2006.

Growth and profit matrices: A combination of financial measures used by management to emphasize a balanced approach to premium growth, policy growth, and profit. The primary matrix matches the percent increase in Allstate Protection premiums written and the Allstate Protection combined ratio adjusted to exclude the effect of Restructuring and related charges. A second matrix matches the percent change in policies in force (PIF) over prior year and the same combined ratio. Results are summed for the two matrices to determine achievement relative to target. The percent increase in PIF excludes: Allstate Motor Club, Allstate Canada, personal property insurance in catastrophe prone markets, and commercial property insurance. For disclosure of Allstate Protection premiums written and combined ratio, see the discussion of the Allstate Protection segment in Management's Discussion and Analysis of Financial Condition and Results of Operations for the fiscal year ended December 31, 2006.

Financial product sales ("production credits"): This measure of sales and related profitability of proprietary and non-proprietary financial products is used by management to assess the execution of our strategy to become "broader" in financial services. This measure is calculated as the total amount of production credits for current year transactions. Production credits are an internal statistic calculated as a percent of premium or deposits to life insurance, annuities or mutual funds which vary based on the expected profitability of the specific financial product.

Adjusted expense ratio: This is a measure of profitability management uses to assess the efficiency of operations. This measure is computed using specific expenses as the numerator and Allstate Protection insurance premiums earned as the denominator. The specific expenses in the numerator are comprised of (a) Operating costs and expenses and Amortization of DAC, excluding (i) certain agent bonuses, (ii) effects of guaranty fund assessments, and (iii) interest expense and (b) Claims expenses reported in claims and claims expense incurred, including the planned level of catastrophe expense and excluding actual catastrophe related claims expense and the change in reserves for expenses to settle pending claims.

Customer loyalty index: This is an indicative measure used by management to assess the future retention of customers. This measure represents Allstate's position relative to its competitors. The index is

based on responses to a consumer survey developed by Allstate. The survey measures consumer satisfaction, likelihood to renew, and willingness to refer or recommend their insurance company. A vendor administers the survey and tabulates the index.

Allstate Financial Segment Measures

Adjusted operating income: This is a measure management uses to assess the profitability of the business. The Allstate Financial segment measure, operating income, is adjusted to exclude the actual results of the disposed variable annuity business and to include the planned results of the disposed variable annuity business. It also is adjusted to exclude the after tax effects of restructuring and related charges and accruals for specific litigation. For disclosure of the Allstate Financial segment measure see footnote 18 to our audited financial statements for 2006.

Expense management: This is a measure management uses to assess the cost efficiency of the business. It is a measure of the reduction of a specific group of expenses that management believes is important to control, determined on an incurred basis and excluding the impact of deferral for expenses that are deferrable as policy acquisition costs.

Sales and new business return measure—expected lifetime profits on new business: This is a measure used by management to emphasize a balanced approach to growth and profit. The measure is equal to the present value of expected future profits to be earned over the life of new business issued in 2006 excluding Allstate Workplace and Allstate Bank. For each product category, the measure is calculated as the product of three factors: (a) total product sales, (b) the actuarially determined expected return on required capital, and (c) the actuarially determined expected amount of required capital (expressed per dollar of sales) to support the product over its expected lifetime. Product sales include premiums (which are reported as life and annuity premiums and contract charges) and deposits (which are reported as increases in liabilities) plus internal product exchanges and exclude renewal premiums and deposits on life insurance products. In addition, the aggregate lifetime expected return on capital required across all new business issued in 2006 must exceed a specified minimum for any award with regard to this measure to be earned.

Allstate Investments Business Unit Measures

AIC portfolio excess total return: Management uses this measure to assess the value of active portfolio management relative to the benchmark. The measure is calculated as the excess, in basis points, of the AIC portfolio total return over the designated benchmark. Total return is principally determined using industry standards and the same sources used in preparing the financial statements to determine fair value. (See footnote 6 to our audited financial statements for 2006 for our methodologies for estimating the fair value of our investments.) In general, total return represents the increase or decrease, expressed as a percentage, in the value of the portfolio over one- and three-year periods. Time weighted returns are utilized, which removes the effects of cash flows. The portfolio includes Property-liability investments excluding investments held in certain subsidiaries, primarily New Jersey and Florida subsidiaries, and certain investments that do not have external benchmarks and for which fair value cannot readily be determined, such as investments in limited partnerships. The designated benchmark is a composite of pre-determined, customized indices which reflect the investment risk parameters established in the investment policies by the boards of the relevant subsidiaries, weighted in proportion to our investment plan, in accordance with our investment policy.

Allstate Financial excess spread: Management uses this measure to assess the value provided on each specific fixed income security and commercial mortgage purchase decision, up to specific purchase volumes, relative to the benchmark for securities of that purchase quality. Excess spread is calculated as the difference between Allstate's spread, calculated on a dollar weighted average basis for the majority of new purchases, and the customized Lehman US Corporate Fixed Income Index spread benchmark expressed in basis points. The benchmark is customized to reflect investment risk parameters established

in the investment policies by the boards of the relevant subsidiaries. Allstate's excess spread on a new purchase is determined as the difference between the purchase yield and the U. S. Treasury bond yield with a comparable duration at the time of purchase.

Allstate Financial high value add excess spread: Management uses this measure to assess the value provided by fixed income security and commercial mortgage purchase decisions on a predetermined volume of new investments targeted at a moderately higher risk and return. High value add excess spread is calculated as the difference between Allstate Financial's excess spread and the customized Lehman US Corporate Fixed Income Index spread benchmark calculated on a dollar weighted average basis expressed in basis points, as described and determined in the *Allstate Financial excess spread* measure.

Allstate Financial credit loss: Management uses this measure to assess the quality of credit decisions. Measure evaluates the realized capital losses attributed to credit incurred in the current year relative to a target, the determination of which is informed by a forecasting model and estimated investment positions. Credit losses include write downs and write offs, net of recoveries, and losses on sales of securities for credit concern reasons and other losses on dispositions where the price realized, as a percent of par value of fixed income securities or cost of equity securities, is below 85%. For purposes of this measure, lower losses are a better result.

Long-Term Cash Incentive Awards

Average adjusted return on equity relative to peers: This measure is used to assess Allstate's financial performance against its peers. It is calculated as Allstate's ranked position relative to the insurance company peer group based upon three-year average adjusted return on equity. Allstate and the peer group are calculated on the same basis. Three-year average adjusted return on equity is the sum of the annual adjusted return on equity for each of the three years in the cycle divided by 3. The annual adjusted return on equity is calculated as the ratio of net income divided by the average of shareholders' equity at the beginning and at the end of the year after excluding the component of accumulated other comprehensive income for unrealized net capital gains.

Allstate Financial return on total capital: This is a measure management uses to measure the efficiency of capital utilized in the business. Three-year Allstate Financial return on total capital is the sum of the annual adjusted return on subsidiaries' shareholder's equity for each of the three years divided by 3. The annual adjusted return on subsidiaries' shareholder's equity is the Allstate Financial segment measure, operating income, divided by the average subsidiaries' shareholder's equity at the beginning and at the end of the year. The subsidiaries' shareholder's equity is the sum of the subsidiaries' shareholder's equity for Allstate Life Insurance Company, Allstate Bank, American Heritage Life Investment Corporation, and certain other minor entities, adjusted to exclude the loan protection business and excluding the component of accumulated other comprehensive income for unrealized net capital gains. (See note 18 to our audited financial statements for 2006 for the Allstate Financial segment operating income.)

Allstate Financial growth in retail premiums and deposits over three-year cycle: This measure is used by management to assess long-term growth in Allstate Financial sales. It represents the compounded annual growth rate over the three-year period in premiums on insurance policies and annuities and all deposits and other funds received from customers on deposit-type products including the net new deposits of Allstate Bank, which we account for under GAAP as increases to liabilities rather than as revenue. This measure excludes deposits on institutional products.

Allstate Protection growth in policies in force over three-year cycle: This is a measure used by management to assess growth in the number of policies in force, which is a driver of premiums written. The measure is calculated as the sum of the percent increase in each of the three years in the total number of policies in force at the end of the year over the beginning of the year. For the 2004-2006 cycle, the measure excludes Allstate Motor Club, Allstate Canada, and the loan protection business. For the 2006-2008 cycle, the measure excludes property insurance, Allstate Motor Club, Allstate Canada, and the loan protection business.

Compensation Committee Report

The Compensation and Succession Committee has reviewed and discussed the Compensation Discussion and Analysis with management and, based on such review and discussions, the Compensation and Succession Committee recommended to the Board that the Compensation Discussion and Analysis be included in this proxy statement.

THE COMPENSATION AND SUCCESSION COMMITTEE

H. John Riley (Chairman)

F. Duane Ackerman
Robert D. Beyer
W. James Farrell
Jack M. Greenberg
Ronald T. LeMay
Mary Alice Taylor

Security Ownership of Directors and Executive Officers

The following table shows the number of shares of Allstate common stock beneficially owned by each director and named executive officer individually, and by all executive officers and directors of Allstate as a group. Shares reported as beneficially owned include shares held as nontransferable restricted shares awarded under Allstate's equity incentive plans subject to forfeiture under certain circumstances, shares held indirectly through The Savings and Profit Sharing Fund of Allstate Employees and other shares held indirectly, as well as shares subject to stock options exercisable on or prior to April 1, 2007 and restricted stock units for which restrictions expire on or prior to April 1, 2007. The percentage of Allstate shares of common stock beneficially owned by any Allstate director or nominee or by all directors and executive officers of Allstate as a group does not exceed 1%. The following share amounts are as of January 31, 2007. As of January 31, 2007, none of these shares were pledged as security.

Name of Beneficial Owner	**Amount and Nature of Beneficial Ownership of Allstate Common Stock (a)**	**Common Stock Subject to Options Exercisable and Restricted Stock units for which restrictions expire on or prior to April 1, 2007 — Included in Column (a) (b)**
F. Duane Ackerman	42,432	20,501
James G. Andress	40,672	28,001
Robert D. Beyer	25,455	0
W. James Farrell	25,969	17,033
Jack M. Greenberg	16,501	13,001
Danny L. Hale	283,794	233,775
Ronald T. LeMay	28,251	22,751
Edward M. Liddy	2,140,947	1,691,308
J. Christopher Reyes	28,554[(1)]	13,001
H. John Riley, Jr.	41,876	24,501
Eric A. Simonson	276,824	229,907
Joshua I. Smith	20,232	15,000
Judith A. Sprieser	30,366	21,501
Casey J. Sylla	334,870	249,452
Mary Alice Taylor	33,170	19,001
Thomas J. Wilson, II	958,545	850,792
All directors and executive officers as a group	5,545,737[(2)]	4,381,010

(1) Includes 10,000 shares held by family limited liability company. Mr. Reyes disclaims beneficial ownership of these shares.

(2) Includes 500 shares held by an executive officer's son. The executive officer disclaims beneficial ownership of these shares.

Security Ownership of Certain Beneficial Owners

Title of Class	Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class
Common	Northern Trust Corporation 50 S. LaSalle Street Chicago, IL 60675	32,703,651[(a)]	5.23%

(a) As of December 31, 2006. Held by Northern Trust Corporation together with certain subsidiaries (collectively ''Northern''). Of such shares, Northern held 3,743,110 with sole voting power; 28,901,592 with shared voting power; 6,410,791 with sole investment power; and 603,940 with shared investment power. 25,210,672 of such shares were held by The Northern Trust Company as trustee on behalf of participants in Allstate's profit sharing plan. Information is provided for reporting purposes only and should not be construed as an admission of actual beneficial ownership.

Audit Committee Report

Deloitte & Touche LLP was Allstate's independent registered public accountant for the year ended December 31, 2006.

The Audit Committee has reviewed and discussed with management the audited financial statements for the fiscal year ended December 31, 2006.

The committee has discussed with Deloitte & Touche LLP the matters required to be discussed by Statement of Auditing Standards No. 61(Codification of Statements on Auditing Standards, AU §380).

The committee received from Deloitte & Touche LLP the written disclosures and the letter required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees) and has discussed with Deloitte & Touche LLP its independence.

Based on these reviews and discussions and other information considered by the committee in its judgment, the committee recommended to the Board of Directors that the audited financial statements be included in Allstate's annual report on Form 10-K for the fiscal year ended December 31, 2006 for filing with the Securities and Exchange Commission and furnished to stockholders with this Notice of Annual Meeting and Proxy Statement.

James G. Andress (Chairman)
F. Duane Ackerman
Jack M. Greenberg
Ronald T. LeMay
Joshua I. Smith
Judith A. Sprieser
Mary Alice Taylor

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires Allstate's executive officers, directors and persons who beneficially own more than ten percent of Allstate's common stock to file reports of securities ownership and changes in such ownership with the SEC.

Based solely upon a review of copies of such reports or written representations that all such reports were timely filed, Allstate believes that each of its executive officers, directors and greater than ten-percent beneficial owners complied with all Section 16(a) filing requirements applicable to them during 2006 with the exception of Mr. Pilch, Controller of The Allstate Corporation and Group Vice President and Controller of Allstate Insurance Company, and Mr. Riley, a director of The Allstate Corporation, who each made one late Form 4 filing in 2006 covering a single transaction.

Related Person Transactions

The Nominating and Governance Committee of Allstate's Board has adopted a written policy regarding the review, approval or ratification of transactions with related persons. It is available on the Corporate Governance portion of the Corporation's website, allstate.com. In accordance with the policy, the Committee or the Committee chair reviews transactions with the Corporation in which the amount involved exceeds $120,000 and in which any "related person" had, has, or will have a direct or indirect material interest. In general "related persons" are directors, executive officers, their immediate family members, and stockholders owning five percent or more of our outstanding stock. The Committee or chair approve or ratify only those transactions that are in, or not inconsistent with, the best interests of the Corporation and its stockholders. Transactions are reviewed and approved or ratified by the chair when it is not practicable or desirable to delay review of a transaction until a Committee meeting. The chair reports to the Committee any transactions so approved. Annually the Committee will review any previously approved or ratified related person transactions that remain ongoing. For 2006, no related person transactions were identified.

Stockholder Proposals for Year 2008 Annual Meeting

Proposals which stockholders intend to be included in Allstate's proxy material for presentation at the annual meeting of stockholders in the year 2008 must be received by the Secretary of Allstate, Mary J. McGinn, The Allstate Corporation, 2775 Sanders Road, Suite A3, Northbrook, Illinois 60062-6127 by December 4, 2007, and must otherwise comply with rules promulgated by the Securities and Exchange Commission in order to be eligible for inclusion in the proxy material for the 2008 annual meeting.

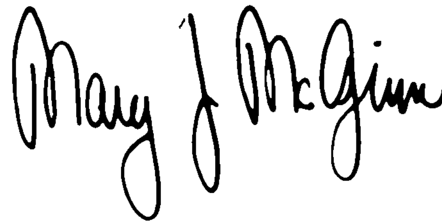
If a stockholder desires to bring a matter before the meeting which is not the subject of a proposal meeting the SEC proxy rule requirements for inclusion in the proxy statement, the stockholder must follow procedures outlined in Allstate's bylaws in order to personally present the proposal at the meeting. A copy of these procedures is available upon request from the Secretary of Allstate or can be accessed on Allstate's website allstate.com. One of the procedural requirements in the bylaws is timely notice in writing of the business the stockholder proposes to bring before the meeting. Notice of business proposed to be brought before the 2008 annual meeting must be received by the Secretary of Allstate no earlier than January 16, 2008 and no later than February 15, 2008. Among other things described fully in the bylaws, the notice must describe the business proposed to be brought before the meeting, the reasons for conducting the business at the meeting and any material interest of the stockholder in the

business. It should be noted that these bylaw procedures govern proper submission of business to be put before a stockholder vote at the annual meeting.

Proxy Solicitation

Officers and other employees of Allstate and its subsidiaries may solicit proxies by mail, personal interview, telephone, telex, facsimile, or electronic means. None of these individuals will receive special compensation for these services, which will be performed in addition to their regular duties, and some of them may not necessarily solicit proxies. Allstate has also made arrangements with brokerage firms, banks, record holders and other fiduciaries to forward proxy solicitation materials for shares held of record by them to the beneficial owners of such shares. Allstate will reimburse them for reasonable out-of-pocket expenses. Georgeson Inc., 17 State Street, New York, NY 10004 will assist in the distribution of proxy solicitation materials, for a fee estimated at $15,000 plus expenses. Allstate will pay the cost of all proxy solicitation.

By order of the Board,



Mary J. McGinn
Secretary

Dated: April 2, 2007

Appendix A

THE ALLSTATE CORPORATION COMMITTEE CHARTERS

The Allstate Corporation
Audit Committee Charter

I. Purpose

The primary purpose of the Audit Committee is to assist the Board of Directors in fulfilling its oversight responsibilities for the Corporation in the following areas: the integrity of financial statements and other financial information; the selection and oversight of the independent registered public accountant including its qualifications and independence; compliance with legal and regulatory requirements; the performance of the internal audit function; and disclosure controls and procedures, internal controls, internal audit, accounting, and financial reporting processes. The Committee prepares an audit committee report as required by the Securities and Exchange Commission (''SEC'') for inclusion in the Corporation's annual proxy statement. In carrying out its responsibilities, the Committee has the responsibilities and powers provided in this Charter.

II. Membership

The size of the Audit Committee is set from time to time by the Board, but will always consist of at least three directors. The Chair and other members of the Committee are appointed by the Board upon the recommendation of the Nominating and Governance Committee in accordance with the independence and experience requirements of the New York Stock Exchange, the SEC and the provisions of the Director Independence Standards adopted by the Board. The Chair and other members of the Committee may be removed by the Board. Each member of the Committee shall be, in the Board's judgment, ''financially literate'' or shall become financially literate within a reasonable period of time after his or her appointment and at least one member shall be an ''audit committee financial expert'' in accordance with the rules and regulations of the SEC, as determined by the Board.

III. Meetings

The Committee Chair determines the number, time, place and agenda of the Audit Committee meetings. The Committee meets not less than four times a year. At least quarterly, the Committee meets separately with management, with the internal auditors and with the independent registered public accountant and may meet with the Corporation's internal auditors and/or independent registered public accountant without management present whenever the Committee deems it appropriate. After each meeting, the Committee reviews with the Board any issues that arose with respect to the quality or integrity of the Corporation's financial statements, the Corporation's compliance with legal or regulatory requirements, the performance and independence of the independent registered public accountant or the performance of the internal audit function.

IV. Powers and Responsibilities

Selection of Independent Registered Public Accountant

The Audit Committee is responsible for the selection, appointment, compensation and oversight of the work of the independent registered public accountant in preparing or issuing an audit report or related work. The Committee has sole authority and responsibility to retain and terminate the Corporation's independent registered public accountant, to pre-approve all auditing and all permitted non-auditing services to be provided by the independent registered public accountant and to approve the terms of and fees for such services, subject to *de minimis* exceptions allowed by law. The Audit Committee may form and delegate authority to subcommittees consisting of one or more members when appropriate, including the authority to grant pre-approvals of all auditing and all permitted non-auditing

services, provided that decisions of such subcommittee to grant pre-approvals shall be presented to the full Committee at its next scheduled meeting.

The Audit Committee may not retain as the Corporation's independent registered public accountant any firm in which the Chief Executive Officer, Chief Financial Officer, Controller or any person serving in an equivalent position for the Corporation, was employed and participated in any capacity in an audit of the Corporation during the one year period prior to the date of initiation of the audit for which the retention is being made. The Audit Committee maintains a hiring policy for employees or former employees of the independent registered public accountant who participated in any capacity in an audit of the Corporation.

At least annually, the Audit Committee reviews and evaluates the qualifications, performance and independence of the Corporation's independent registered public accountant, including a review and evaluation of the lead audit partner. As part of its evaluation, the Committee obtains and reviews a report by the independent registered public accountant that describes the firm's internal quality-control procedures, including any material issues raised by the firm's most recent internal quality-control review, or peer review, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, relating to one or more independent audits conducted by the firm and any steps taken to deal with any such issues. Annually, the Committee requests a written report from the independent registered public accountant regarding their independence and all relationships between them and the Corporation consistent with Independence Standards Board Standard No. 1 and such other requirements as may be established by the Public Company Accounting Oversight Board. The Committee discusses with the independent registered public accountant any such disclosed relationships and their impact on the auditor's independence. If any concerns regarding the auditor's independence are identified, the Committee takes such action as it deems appropriate or necessary.

Review of Financial Reports and Information

The Audit Committee reviews and discusses with management, its internal auditors and the independent registered public accountant, the Corporation's annual audited and quarterly unaudited financial statements, including matters required to be discussed by Statement of Auditing Standards No. 61. In addition throughout the year, the Audit Committee review includes a discussion of:

- management's discussion and analysis of financial condition and results of operations ("MD&A")
- financial statement presentations, including any significant changes in the Corporation's selection or application of accounting principles;
- any major issues regarding accounting and auditing principles and practices;
- critical accounting estimates;
- the comparison of the Corporation's critical accounting estimates with those in the industry;
- significant items impacting the Corporation's financial statements, risk factors and forward-looking statements contained in the Corporation's disclosures under MD&A;
- the effect of regulatory and accounting initiatives on the Corporation's financial statements;
- analyses prepared by management and/or the independent registered public accountant setting forth significant financial reporting issues and judgments made in connection with the preparation of the financial statements, including analyses of the effects of alternative GAAP methods on the financial statements; and
- the adequacy of internal controls that could significantly affect the Corporation's financial statements or MD&A and any special audit steps adopted in light of material control deficiencies.

The Audit Committee reviews disclosures made to the Committee by the Corporation's CEO and CFO during their certification process for the annual and quarterly financial reports about any significant deficiencies in the design or operation of internal controls or material weaknesses in such controls and any fraud involving management or other employees who have a significant role in the Corporation's internal controls.

The Audit Committee recommends to the Board whether the audited financial statements should be included in the Corporation's annual report on Form 10-K.

The Audit Committee reviews with the General Counsel of the Corporation the status of legal matters that may have a material impact on the Corporation's financial statements.

The Audit Committee discusses the Corporation's process for developing and preparing earnings releases, as well as its processes for providing financial information and earnings guidance to analysts and rating agencies, generally (including the types of information to be disclosed and types of presentations to be made).

While the Audit Committee has the responsibilities and powers set forth in this Charter, the Committee is not required to plan or conduct audits, which is the responsibility of the independent registered public accountant, or to determine that the Corporation's financial statements are complete and accurate and are in accordance with generally accepted accounting principles, which is the responsibility of management.

Review of Independent Registered Public Accountant Reports

The Audit Committee reviews the independent registered public accountant reports on the Corporation's financial statements. The Committee discusses with the independent registered public accountant judgments about the quality (not just the acceptability) of the accounting principles used in the Corporation's financial reporting. The Committee also reviews the scope of audits conducted by the Corporation's independent registered public accountant. The Committee reviews with the independent registered public accountant any difficulties encountered in the audit work, including any restrictions on the scope of the independent registered public accountant's activities or on access to requested information, any significant disagreements with management and management's response, and addresses those as the Committee deems appropriate. The Committee may review with the auditor: any accounting adjustments that were noted; any significant communications between the audit team and the auditor's national office respecting auditing or accounting issues presented by the engagement; any "management" or "internal control" letter issued or proposed by the auditor to the Corporation; and any other issues regarding the auditor report that the Committee may deem appropriate.

Retention of Outside Experts

The Audit Committee has the power to conduct or authorize special projects or investigations related to any matters brought to its attention with full access to all books, records, facilities and personnel of the Corporation as the Committee considers necessary to discharge its responsibilities. It has the authority, without seeking Board approval, to retain independent outside counsel, accountants or others to assist it with such projects, investigations or other matters in the conduct of its business. The Committee may seek advice from the Corporation's internal counsel or regular outside counsel and may also use the Corporation's internal auditors for such purposes. The Corporation shall provide for appropriate funding, as determined by the Audit Committee, for payment of compensation to any advisors employed by the Committee and payment of the Committee's ordinary administrative expenses in carrying out its duties.

Oversight of Internal Audit

The Audit Committee reviews the appointment and performance of the senior internal auditing executive. The Committee also reviews the internal audit plan and significant findings from the internal

auditing department. The Committee discusses with the independent registered public accountant and management the internal audit department responsibilities, audit plan, budget and staffing. The Audit Committee maintains functional oversight of the internal audit department to ensure its objective operations.

Risk Management

The Audit Committee discusses with management policies with respect to the Corporation's processes of risk assessment and risk management, including the Corporation's major financial risk exposures and the steps management has taken to monitor and control them.

Compliance and Ethics Programs

Periodically, the Audit Committee reviews and discusses with the General Counsel and/or Chief Ethics and Compliance Officer, and other compliance personnel as may be appropriate, the overall adequacy and effectiveness of the Corporation's legal, regulatory, and ethical compliance programs. This includes any legal, regulatory, or ethical matters that may have a material impact on the Corporation's operations, financial condition, results of operations, or cash flows. In addition, the Audit Committee reviews any significant recommendations from the Corporation's independent registered public accountant and internal auditors concerning legal, regulatory, or ethical compliance and compliance with the Company's policies relating to ethics, conflicts of interest, perquisites and use of corporate assets.

Self-Evaluation and Charter Review

The Audit Committee at least annually 1) evaluates its own performance and reports to the Board on such evaluation and 2) reviews and assesses the adequacy of its Committee Charter and recommends any proposed changes to the Board.

Code of Ethics and Complaint Resolution

The Audit Committee reviews and approves the Corporation's Code of Ethics applicable to the Board of Directors and all Corporation employees, including the Chief Executive Officer, Chief Financial Officer, Chief Accounting Officer or Controller, executive and senior financial officers, and other employees performing similar functions, and periodically assesses the adequacy of the Code of Ethics. The Committee has the sole authority to grant waivers under, or changes to the Code of Ethics for directors, executive officers and senior financial officers. The Committee establishes procedures for the receipt, retention and treatment of complaints regarding accounting, internal accounting controls and auditing matters and also for the confidential and anonymous submission by employees of related concerns, as required by the rules and regulations of the SEC.

Compensation and Succession Committee Charter

I. Purpose

The primary purposes of the Compensation and Succession Committee are (i) to assist the Board of Directors in fulfilling its oversight responsibilities with respect to the compensation of the Chief Executive Officer and the selection and compensation of the other executive officers; (ii) to administer the Corporation's executive compensation plans; (iii) to review and discuss with management the Compensation Discussion and Analysis ("CD&A") for inclusion in the Corporation's annual proxy statement and determine whether to recommend to the Board that the CD&A be included in the proxy statement; and (iv) to prepare the Compensation Committee Report for inclusion in the Corporation's annual proxy statement in compliance with the rules and regulations of the Securities and Exchange Commission. In carrying out these purposes, the Compensation and Succession Committee has the powers and responsibilities provided in this Charter.

II. Membership

The size of the Compensation and Succession Committee is set from time to time by the Board of Directors, but will always consist of at least two directors. The Chair and other members of the Committee are appointed by the Board upon the recommendation of the Nominating and Governance Committee in accordance with the independence requirements of the New York Stock Exchange, the Securities and Exchange Commission and the provisions of the Director Independence Standards adopted by the Board. The Chair and other members of the Committee may be removed by the Board.

III. Meetings and Operations

The Compensation and Succession Committee meets at least four times a year. The Committee Chair may call additional meetings as needed. The Committee Chair develops the meeting agendas and reports regularly to the Board on the Committee's actions and recommendations.

IV. Powers and Responsibilities

The Compensation and Succession Committee is responsible for reporting to the Board of Directors its recommendations with respect to the following matters:

- The corporate goals and objectives relevant to the compensation of the CEO and the CEO's salary and compensation package under the Corporation's salary administration program.
- The salary and compensation packages for all other executive officers of the Corporation under the Corporation's salary administration program.
- The establishment and modification, when necessary or appropriate, of all of the Corporation's executive compensation plans, including equity incentive plans.
- The nomination for election of officers of the Corporation (other than the CEO)

The Compensation and Succession Committee also is responsible for:

- The administration of all of the Corporation's executive compensation plans, including equity incentive plans, as well as the approval of payments under such plans, and the approval of any equity compensation plan for directors of any of the Corporation's subsidiaries (unless otherwise specified in plan documents).
- The oversight of the Corporation's salary administration program, including salaries for the elected officers of the Corporation's principal operating subsidiaries.
- An annual review of the management organization of the Corporation and succession plans for senior officers of the Corporation and each significant operating subsidiary, conferring with

the Chief Executive Officer regarding the persons he or she considers qualified to fill any vacancy that may occur in such offices.

The Compensation and Succession Committee has the authority to form, and delegate any of its responsibilities to, any subcommittee consisting of one or more members of the Committee as the Committee may deem appropriate in its sole discretion.

The Committee also has sole authority to retain and terminate compensation consultants to the Committee, including sole authority to approve the consultants' fees and other retention terms for such services provided to the Committee. The Committee also has the authority to consult with additional outside advisors, as necessary and appropriate, to assist in its duties to the Corporation. The Corporation shall provide for appropriate funding, as determined by the Committee, for the payment of compensation to any consultant or other advisor retained by the Committee for the services provided to the Committee.

The Compensation and Succession Committee shall at least annually 1) evaluate its own performance and report to the Board on such evaluation and 2) review and assess the adequacy of its Committee Charter and recommend any proposed changes to the Board.

Nominating and Governance Committee Charter

I. Purpose

The primary purposes of the Nominating and Governance Committee are (i) to identify individuals qualified to become members of the Board of Directors, the Chairman of the Board and the Chief Executive Officer; (ii) to make recommendations to the Board regarding director nominees for election; (iii) to develop and recommend to the Board a set of corporate governance guidelines applicable to the Corporation; (iv) to oversee the evaluation of the Board and the Chief Executive Officer; and (v) to advise and make recommendations to the Board with respect to matters of corporate governance. In carrying out these purposes, the Nominating and Governance Committee has the powers and responsibilities provided in this Charter.

II. Membership

The size of the Nominating and Governance Committee is set from time to time by the Board of Directors, but will always consist of at least two directors. The Chair and other members of the Committee are appointed by the Board upon the recommendation of the Nominating and Governance Committee in accordance with the independence requirements of the New York Stock Exchange, the Securities and Exchange Commission ("SEC") and the provisions of the Director Independence Standards adopted by the Board. The Chair and other members of the Committee may be removed by the Board.

III. Meetings and Operations

The Nominating and Governance Committee meets at least four times a year. The Committee Chair may call additional meetings as necessary. The Committee Chair develops the meeting agendas and reports regularly to the Board on the Committee's actions and recommendations.

IV. Powers and Responsibilities

The Nominating and Governance Committee is responsible for reporting to the Board of Directors its recommendations with respect to the following matters:

Nominations

- The appropriate size and composition of the Board of Directors.
- The criteria used to select nominees for election to the Board of Directors.
- The nominees for election to the Board of Directors for whom the Corporation should solicit proxies or who will fill vacancies on the Board.
- The review and assessment of the independent status of nominees for election to the Board of Directors.
- The nominees for election as Chairman and as Chief Executive Officer.
- The nominees for election to all committees of the Board of Directors, including the review and assessment of the independence, financial literacy and financial expertise qualifications for Audit Committee membership or as Audit Committee Financial Experts, in accordance with the rules and regulations of the SEC and the New York Stock Exchange Listing Standards.

Elections

- The plans for the annual meeting of stockholders.
- The policies and practices on stockholder voting.
- The nominees to serve as proxies in connection with the annual stockholders' meetings.

- The Corporation's proxy statement and form of proxy for its annual meeting of stockholders.

Governance

- The consideration of matters of corporate governance and the periodic review of the Corporation's bylaws, *Corporate Governance Guidelines* and other governance-related documents and policies.
- The review and assessment of any relationship a director has with the Corporation, including through charitable affiliations, for the purpose of determining whether that relationship will interfere with the director's exercise of independent judgment.
- The periodic review of the performance of the Chief Executive Officer in light of approved corporate goals and objectives relevant to CEO compensation and of the succession planning for the CEO.
- The determination of criteria for assessment of the performance of the Board of Directors and oversight of the assessment.
- The administration of all compensation and benefit plans for directors of the Corporation who are not officers or employees of the Corporation or any of its affiliates.
- The designation of officers of the Corporation and its subsidiaries to exercise authority with respect to the operations of the Corporation.
- The triennial review and assessment of the Corporation's structural defenses.

The Nominating and Governance Committee is responsible for the review, approval or ratification of any related person transaction as defined by the rules and regulations of the SEC and the Corporation's *Related Person Transactions Policy*.

In connection with the annual nomination process, the Nominating and Governance Committee reviews incumbent directors and may recommend that the Board take appropriate action if, in the opinion of the Committee after discussion with the Chairman of the Board, any director is not making an adequate and constructive contribution to the work of the Board.

The Nominating and Governance Committee at least annually 1) evaluates its own performance and reports to the Board on such evaluation and 2) reviews and assesses the adequacy of its Committee Charter and recommends any proposed changes to the Board.

The Nominating and Governance Committee is structured so as to be able to fulfill its responsibilities as a committee; however, the Committee has the authority to form and delegate any of its responsibilities to any subcommittee consisting of one or more members of the Committee in order to assist it in carrying out its responsibilities and purposes, as appropriate.

The Nominating and Governance Committee has sole authority to retain and terminate any relationship with a search firm used to identify director candidates, including sole authority to approve the search firm's fees and other retention terms. The Committee also has the authority to consult with outside advisors, as necessary and appropriate, to assist in its duties to the Corporation. The Corporation shall provide for appropriate funding, as determined by the Committee, for the payment of compensation to any search firm or outside advisor retained by the Committee.

Appendix B

POLICY REGARDING PRE-APPROVAL OF INDEPENDENT AUDITORS' SERVICES

Purpose and Applicability

The Audit Committee recognizes the importance of maintaining the independent and objective stance of our Independent Auditors. We believe that maintaining independence, both in fact and in appearance, is a shared responsibility involving management, the Audit Committee and the Independent Auditors.

The Committee recognizes that the Independent Auditors possess a unique knowledge of the Company (which includes consolidated subsidiaries), and can provide necessary and valuable services to the Company in addition to the annual audit. The provision of these services is subject to three basic principles of auditor independence: (i) auditors cannot function in the role of management, (ii) auditors cannot audit their own work and (iii) auditors cannot serve in an advocacy role for their client. Consequently, this policy sets forth guidelines and procedures to be followed by this Committee when retaining the Independent Auditors to perform audit and permitted non-audit services.

Policy Statement

All services provided by the Independent Auditors, both audit and permitted non-audit, must be pre-approved by the Audit Committee or a Designated Member of the Committee ("Designated Member") referred to below. The Audit Committee will not approve the engagement of the Independent Auditors to provide any of the Prohibited Services listed in the attached appendix.

Procedures

Following approval by the Audit Committee of the engagement of the Independent Auditors to provide audit services for the upcoming fiscal year, the Independent Auditors will submit to the Committee for approval schedules detailing all of the specific audit, audit related and other permitted non-audit services (collectively "permitted services") proposed, together with estimated fees for such services that are known as of that date. The types of services that the Audit Committee may consider are listed in the attached appendix. Each specific service proposed will require approval by the Committee or as provided below, the Designated Member.

The pre-approval of permitted services may be given at any time before commencement of the specified service. With respect to permitted non-audit services, Company management may submit to the Committee or the Designated Member for consideration and approval schedules of such services that management recommends be provided by the Independent Auditors. In such case, the Independent Auditors will confirm to the Committee, or the Designated Member, that each such proposed service is permissible under applicable regulatory requirements.

Designated Member

The Audit Committee may delegate to one or more designated member(s) of the Audit Committee ("Designated Member"), who is independent as defined under the applicable New York Stock Exchange listing standards, the authority to grant pre-approvals of permitted services to be provided by the Independent Auditors. The Chair of the Audit Committee shall serve as its Designated Member. The decisions of the Designated Member to pre-approve a permitted service shall be reported to the Audit Committee at each of its regularly scheduled meetings.

Review of Services

At each regularly scheduled Audit Committee meeting, the Audit Committee shall review a report summarizing any newly pre-approved permitted services and estimated fees since its last regularly scheduled meeting, together with (i) the permitted non-audit services, including fees, actually provided by the Independent Auditors, if any, since the Committee's last regularly scheduled meeting and (ii) an updated projection for the current fiscal year, presented in a manner consistent with the proxy disclosure requirements, of the estimated annual fees to be paid to the Independent Auditors.

POLICY APPENDIX

Permitted Audit and Audit Related Services:

1. Audits of the Company's financial statements required by SEC rules, lenders, statutory requirements, regulators and others.
2. Consents, comfort letters, reviews of registration statements and similar services that incorporate or include the audited financial statements of the Company.
3. Audits of employee benefit plans.
4. Accounting consultations and support related to generally accepted accounting principles.
5. Tax compliance and related support for any tax returns filed by the Company, and returns filed by any executive or expatriate under a company-sponsored program.
6. Tax consultation and support related to planning.
7. Regulatory exam related services.
8. Internal control consulting services.
9. Merger and acquisition due diligence services.
10. Other audit related services.

Other Permitted Services:

1. Information technology services and consulting unrelated to the Company's financial statements or accounting records.
2. Integration consulting services.
3. Review of third party specialist work related to appraisal and /or valuation services.
4. Actuarial consulting services that would not be subject to audit procedures during an audit of the Company's financial statements.
5. Employee benefit consulting services that are not the functional equivalent of management or employee services.
6. Training unrelated to the Company's financial statements or other areas subject to audit procedures during an audit of the Company's financial statements.

Prohibited Services: (unless such services may be provided under future SEC rules)

1. Bookkeeping or other services related to the Company's accounting records or financial statements.
2. Appraisal or valuation services or fairness opinions.
3. Management functions or human resources.
4. Broker-dealer, investment adviser, or investment banking services.
5. Legal services.
6. Internal audit outsourcing.
7. Financial information systems design and implementation.
8. Actuarial — audit-related.
9. Expert services, unrelated to an audit of the Company's financial statements, in connection with legal, administrative, or regulatory proceedings or in an advocate capacity.
10. Services determined impermissible by the Public Company Accounting Oversight Board.

Appendix C

PROPOSED AMENDMENTS TO THE RESTATED CERTIFICATE OF INCORPORATION OF THE ALLSTATE CORPORATION

(Deletions indicated by strike-out; additions indicated by underline.)

ARTICLE SIXTH

In furtherance and not in limitation of the power conferred by statute, the board of directors of the corporation is expressly authorized to adopt, amend or repeal the bylaws of the corporation. The stockholders may adopt, amend or repeal bylaws of the corporation only upon the affirmative vote of the holders of not less than a majority ~~66⅔%~~ of the total number of votes entitled to be cast generally in the election of directors.

ARTICLE SEVENTH

Meetings of stockholders may be held within or without the State of Delaware, as the bylaws of the corporation may provide. The books of the corporation may be kept outside the State of Delaware at such place or places as may be designated from time to time by the board of directors or in the bylaws of the corporation. Election of directors need not be by written ballot unless the bylaws of the corporation so provide.

Any action required or permitted to be taken by the holders of any class or series of stock of the corporation entitled to vote generally in the election of directors may be taken only by vote at an annual or special meeting at which such action may be taken and may not be taken by written consent.

No director may be removed, with or without cause, by the stockholders except by the affirmative vote of holders of not less than a majority ~~66⅔%~~ of the total number of votes entitled to be cast at an election of such director; *provided*, however, that, whenever the holders of any class or series of Preferred Stock issued pursuant to ARTICLE FOURTH, Section 1 hereof, are entitled, by the terms of such class or series of Preferred Stock, voting separately by class or series to elect one or more directors, the provisions of the preceding clause of this sentence shall not apply with respect to such directors if the terms of such class or series of Preferred Stock expressly provide otherwise. ~~This paragraph of ARTICLE SEVENTH may not be amended, modified or repealed except by the affirmative vote of the holders of not less than 66⅔% of the total number of votes entitled to be cast generally in the election of directors.~~

Appendix D

Executive Officers

The following table sets forth the names of our executive officers, their current ages and their positions. "AIC" refers to Allstate Insurance Company.

Name and Age	Principal Positions and Offices Held
Edward M. Liddy (61)	Chairman of the Board of The Allstate Corporation. Mr. Liddy is also a director of The Allstate Corporation.
Thomas J. Wilson (49)	President and Chief Executive Officer of The Allstate Corporation. Chairman of the Board, President and Chief Executive Officer of AIC. Mr. Wilson is also a director of The Allstate Corporation.
Catherine S. Brune (53)	Senior Vice President and Chief Information Officer of AIC.
Frederick F. Cripe (49)	Senior Vice President of AIC (Product Operations).[1]
Joan M. Crockett (56)	Senior Vice President of AIC (Human Resources).
Danny L. Hale (62)	Vice President and Chief Financial Officer of The Allstate Corporation and Senior Vice President and Chief Financial Officer of AIC.
James E. Hohmann (51)	President and Chief Executive Officer of Allstate Financial — Senior Vice President of AIC.[2]
Michael J. McCabe (61)	Vice President and General Counsel of The Allstate Corporation and Senior Vice President, General Counsel and Assistant Secretary of AIC (Chief Legal Officer).
Ronald D. McNeil (54)	Senior Vice President of AIC (Allstate Protection Product Distribution).
Samuel H. Pilch (60)	Controller of The Allstate Corporation and Group Vice President and Controller of AIC.
Michael J. Roche (55)	Senior Vice President of AIC (Claims).[3]
George E. Ruebenson (58)	President Allstate Protection — Senior Vice President of AIC.
Eric A. Simonson (61)	Senior Vice President and Chief Investment Officer of AIC (President, Allstate Investments, LLC).
Steven P. Sorenson (42)	Senior Vice President of AIC (Allstate Protection Product Distribution).[4]
Casey J. Sylla (63)	Senior Vice President of AIC (Chairman of the Board and President of Allstate Life Insurance Company).
Joseph V. Tripodi (51)	Senior Vice President and Chief Marketing Officer of AIC.
Joan H. Walker (59)	Senior Vice President of AIC (Corporate Relations).

(1) As of January 1, 2007.

(2) As of January 15, 2007.

(3) As of January 1, 2007.

(4) As of March 1, 2007.

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RISK FACTORS

This document contains "forward-looking statements" that anticipate results based on our estimates, assumptions and plans that are subject to uncertainty. These statements are made subject to the safe-harbor provisions of the Private Securities Litigation Reform Act of 1995. We assume no obligation to update any forward-looking statements as a result of new information or future events or developments.

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

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

Risks Relating to the Property-Liability business

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

Because of the exposure of our property and casualty business to catastrophic events, our operating results and financial condition may vary significantly from one period to the next. Catastrophes can be caused by various natural and man-made disasters, including earthquakes, volcanoes, wildfires, tornadoes, hurricanes, tropical storms and certain types of terrorism. We may continue to incur catastrophe losses in our auto and property business in excess of those experienced in prior years, in excess of those that management projects would be incurred based on hurricane and earthquake losses which have a one percent probability of occurring on an annual aggregate countrywide basis, and in excess of those that modelers estimate would be incurred based on other levels of probability, in excess of the average expected level used in pricing, and in excess of our current reinsurance coverage limits. While we believe that our natural event catastrophe management initiatives will reduce the potential magnitude of possible future natural event losses, we continue to be exposed to catastrophes that could have a material adverse effect on operating results and financial position. For example, our historical catastrophe experience includes losses relating to Hurricane Katrina in 2005 totaling $3.4 billion, the Northridge earthquake of 1994 totaling $2.1 billion and Hurricane Andrew in 1992 totaling $2.3 billion. We are also exposed to assessments from the California Earthquake Authority, and various state-created catastrophe insurance facilities, and to losses that could surpass the capitalization of these facilities. Our liquidity could be constrained by a catastrophe, or multiple catastrophes, which result in extraordinary losses or a downgrade of our debt or financial strength ratings.

In addition, we are also subject to claims arising from weather events such as winter storms, rain, hail and high winds. The incidence and severity of weather conditions are largely unpredictable. There is

generally an increase in the frequency and severity of auto and property claims when severe weather conditions occur.

The nature and level of catastrophes in any period cannot be predicted and could be material to catastrophe losses

Although, along with others in the industry, we use models developed by third party vendors in assessing our personal lines property exposure to catastrophe losses that assume various conditions and probability scenarios, such models do not necessarily accurately predict future losses or accurately measure losses currently incurred. Catastrophe models, which have been evolving since the early 1990s, use historical information about hurricanes and earthquakes and also utilize detailed information about our in-force business. While we use this information in connection with our pricing and risk management activities, there are limitations with respect to their usefulness in predicting losses in any reporting period. These limitations are evident in significant variations in estimates between models and modelers, material increases and decreases in model results due to changes and refinements of the underlying data elements, assumptions which lead to questionable predictive capability, and actual event conditions that have not been well understood previously and not incorporated into the models. In addition, the models are not necessarily reflective of actual demand surge, loss adjustment expenses and the occurrence of mold losses, which are subject to wide variation by event or location.

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

We believe that the actions we are taking to support earning an acceptable return on the risks assumed in our property business and to reduce the variability in our earnings, while providing quality protection to our customers, will be successful over the long term, however it is possible that they will have a negative impact on near-term growth and earnings. Homeowners premium growth rates and retention could be more adversely impacted than we expect by adjustments to our business structure, size and underwriting practices in markets with significant catastrophe risk exposure. In addition, due to the diminished potential for cross-selling opportunities, new business growth in our auto lines could be lower than expected. Efforts to recover the costs of our catastrophe reinsurance program through rate increases may not be entirely successful due to resistance by regulators or non-renewal decisions by policyholders resulting in a lower amount of insurance in force.

Unanticipated increases in the severity or frequency of claims may adversely affect our profitability

Changes in the severity or frequency of claims may affect the profitability of our Allstate Protection segment. Changes in bodily injury claim severity are driven primarily by inflation in the medical sector of the economy. Changes in auto physical damage claim severity are driven primarily by inflation in auto repair costs, auto parts prices and used car prices. Changes in homeowner's claim severity are driven by inflation in the construction industry, in building materials and in home furnishings and by other economic and environmental factors, including increased demand for services and supplies in areas affected by hurricanes. However, changes in the level of the severity of claims are not limited to the effects of inflation and demand surge in these various sectors of the economy. Increases in claim severity can arise from unexpected events that are inherently difficult to predict. Examples of such events include a decision in 2001 by the Georgia Supreme Court that diminished value coverage was included in auto policies under Georgia law and the emergence of mold-related homeowners losses in the state of Texas during 2002. Although from time to time we pursue various loss management initiatives in the Allstate Protection segment in order to mitigate future increases in claim severity, there can be no assurances that these initiatives will successfully identify or reduce the effect of future increases in claim severity.

Our Allstate Protection segment has experienced a decline in claim frequency. Other participants in the industry have also experienced a similar decline. We believe that this decrease may be attributable to a combination of several factors, including increases in the level of policy deductibles chosen by policyholders, improvements in car and road safety, aging of the population, increased driver education and restrictions for new drivers, decreases in policyholder submission of claims for minor losses, and our implementation of improved underwriting criteria. The favorable level of claim frequency we have experienced may not be sustainable over the longer term. A significant increase in claim frequency could have an adverse effect on our operating results and financial condition.

Actual claims incurred may exceed current reserves established for claims

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

Predicting claim expense relating to asbestos and other environmental and discontinued lines is inherently uncertain

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

Regulation limiting rate increases and requiring us to underwrite business and participate in loss sharing arrangements may decrease our profitability

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

In addition to regulating rates, certain states have enacted laws that require a property-liability insurer conducting business in that state to participate in assigned risk plans, reinsurance facilities and joint underwriting associations or require the insurer to offer coverage to all consumers, often restricting

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

The potential benefits of implementing our sophisticated risk segmentation process ("Tiered Pricing") may not be fully realized

We believe that Tiered Pricing and underwriting (including Strategic Risk Management which, in some situations, considers information that is obtained from credit reports among other factors) has allowed us to be more competitive and operate more profitably. However, because many of our competitors have adopted underwriting criteria and tiered pricing models similar to those we use and because other competitors may follow suit, we may lose our competitive advantage. Further, the use of insurance scoring from information that is obtained from credit reports as a factor in underwriting and pricing has at times been challenged by regulators, legislators, litigants and special interest groups in various states. Competitive pressures could also force us to modify our Tiered Pricing model. Furthermore, because we have been using Tiered Pricing only for the last several years, we can not be assured that Tiered Pricing models will accurately reflect the level of losses that we will ultimately incur from the mix of new business generated. Moreover, to the extent that competitive pressures limit our ability to attract new customers, our expectation that the amount of business written using Tiered Pricing will increase may not be realized.

Allstate Protection may be adversely affected by the cyclical nature of the property and casualty business

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

Risks Relating to the Allstate Financial Segment

Changes in underwriting and actual experience could materially affect profitability

Our product pricing includes long-term assumptions regarding investment returns, mortality, morbidity, persistency and operating costs and expenses of the business. Management establishes target returns for each product based upon these factors and the average amount of capital that the company must hold to support in-force contracts, satisfy rating agencies and meet regulatory requirements. We monitor and manage our pricing and overall sales mix to achieve target returns on a portfolio basis. Profitability from new business emerges over a period of years depending on the nature and life of the product and is subject to variability as actual results may differ from pricing assumptions.

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

Changes in reserve estimates may reduce profitability

Reserve for life-contingent contract benefits is computed on the basis of long-term actuarial assumptions of future investment yields, mortality, morbidity, policy terminations and expenses. We periodically review the adequacy of these reserves on an aggregate basis and if future experience differs significantly from assumptions, adjustments to reserves may be required which could have a material adverse effect on our operating results and financial condition.

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

Our ability to manage the Allstate Financial investment margin for spread-based products, such as fixed annuities and institutional products, is dependent upon maintaining profitable spreads between investment yields and interest crediting rates. When market interest rates decrease or remain at relatively low levels, proceeds from investments that have matured, prepaid or been sold may be reinvested at lower yields, reducing investment margin. Lowering interest crediting rates in such an environment can offset decreases in investment yield on some products. However, these changes could be limited by market conditions, regulatory or contractual minimum rate guarantees on many contracts and may not match the timing or magnitude of changes in asset yields. Decreases in the rates offered on products in the financial segment could make those products less attractive, leading to lower sales and/or changes in the level of surrenders and withdrawals for these products. Non-parallel shifts in interest rates, such as increases in short-term rates without accompanying increases in medium- and long-term rates, can influence customer demand for fixed annuities, which could impact the level and profitability of new customer deposits. Increases in market interest rates can also have negative effects on Allstate Financial, for example by increasing the attractiveness of other investments to our customers, which can lead to higher surrenders at a time when the segment's fixed income investment asset values are lower as a result of the increase in interest rates. For certain products, principally fixed annuity and interest-sensitive life products, the earned rate on assets could lag behind rising market yields. We may react to market conditions by increasing crediting rates, which could narrow spreads. Unanticipated surrenders could result in deferred policy acquisition costs ("DAC") unlocking or affect the recoverability of DAC and thereby increase expenses and reduce profitability.

Changes in estimates of profitability on interest-sensitive life, fixed annuities and other investment products may have an adverse effect on results through increased amortization of DAC

DAC related to interest-sensitive life, fixed annuities and other investment contracts is amortized in proportion to actual historical gross profits and estimated future gross profits ("EGP") over the estimated lives of the contracts. Assumptions underlying EGP, including those relating to margins from mortality, investment margin, contract administration, surrender and other contract charges, are updated from time to time in order to reflect actual and expected experience and its potential effect on the valuation of DAC. Updates to these assumptions could result in DAC unlocking, which in turn could adversely affect our net income and financial condition.

A loss of key product distribution relationships could materially affect sales

Certain products in the Allstate Financial segment are distributed under agreements with other members of the financial services industry that are not affiliated with us. Termination of one or more of these agreements due to, for example, a change in control of one of these distributors, could have a detrimental effect on the sales of Allstate Financial.

Changes in tax laws may decrease sales and profitability of products

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

Risks Relating to the Insurance Industry

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

The insurance industry is highly competitive. Our competitors include other insurers and, because many of our products include a savings or investment component, securities firms, investment advisers, mutual funds, banks and other financial institutions. Many of our competitors have well-established national reputations and market similar products. Because of the competitive nature of the insurance industry, including competition for producers such as exclusive and independent agents, there can be no assurance that we will continue to effectively compete with our industry rivals, or that competitive pressures will not have a material adverse effect on our business, operating results or financial condition. The ability of banks to affiliate with insurers may have a material adverse effect on all of our product lines by substantially increasing the number, size and financial strength of potential competitors. Furthermore, certain competitors operate using a mutual insurance company structure and therefore, may have dissimilar profitability and return targets.

We are subject to market risk and declines in credit quality

We are subject to market risk, the risk that we will incur losses due to adverse changes in equity, interest, commodity or foreign currency exchange rates and prices. Our primary market risk exposures are to changes in interest rates and equity prices and, to a lesser degree, changes in foreign currency exchange rates and commodity prices. In addition, we are subject to potential declines in credit quality, either related to issues specific to certain industries or to a weakening in the economy in general. For additional information on market risk, see the ''Market Risk'' section of Management's Discussion and Analysis.

A decline in market interest rates could have an adverse effect on our investment income as we invest cash in new investments that may yield less than the portfolio's average rate. In a declining interest rate environment, borrowers may prepay or redeem securities more quickly than expected as they seek to refinance at lower rates. A decline could also lead us to purchase longer-term assets in order to obtain adequate investment yields resulting in a duration gap when compared to the duration of liabilities. An increase in market interest rates could have an adverse effect on the value of our investment portfolio by decreasing the fair values of the fixed income securities that comprise a substantial majority of our investment portfolio. Increases in interest rates also may lead to an increase in policy loans, surrenders and withdrawals that generally would be funded at a time when fair values of fixed income securities are lower. A declining equity market could also cause the investments in our pension plans to decrease or decreasing interest rates could cause the projected benefit obligation of our pension plans or the accumulated benefit obligation of our other post retirement benefit plans to

increase, either or both resulting in a decrease in the funded status of the plans and a reduction of shareholders equity, increases in pension expense and increases in required contributions to the pension plans. A decline in the quality of our investment portfolio as a result of adverse economic conditions or otherwise could cause additional realized losses on securities, including realized losses relating to derivative strategies.

Concentration of our investment portfolios in any particular segment of the economy may have adverse effects

The concentration of our investment portfolios in any particular industry, group of related industries or geographic sector could have an adverse effect on our investment portfolios and consequently on our results of operations and financial position. While we seek to mitigate this risk by having a broadly diversified portfolio, events or developments that have a negative impact on any particular industry, group of related industries or geographic region may have a greater adverse effect on the investment portfolios to the extent that the portfolios are concentrated rather than diversified.

We may suffer losses from litigation

As is typical for a large company, we are involved in a substantial amount of litigation, including class action litigation challenging a range of company practices and coverage provided by our insurance products. 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 and may be material to our operating results or cash flows for a particular quarter or annual period. For a description of our current legal proceedings, see Note 13 of the consolidated financial statements.

In some circumstances, we may be able to collect on third-party insurance that we carry to recover all or part of the amounts that we may be required to pay in judgments, settlements and litigation expenses. However, we may not be able to resolve issues concerning the availability, if any, or the ability to collect such insurance concurrently with the underlying litigation. Consequently, the timing of the resolution of a particular piece of litigation and the determination of our insurance recovery with respect to that litigation may not coincide and, therefore, may be reflected in our financial statements in different fiscal quarters.

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

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

holders of securities issued by The Allstate Corporation. In many respects, these laws and regulations limit our ability to grow and improve the profitability of our business.

In recent years, the state insurance regulatory framework has come under public scrutiny and members of Congress have discussed proposals to provide for optional federal chartering of insurance companies. We can make no assurances regarding the potential impact of state or federal measures that may change the nature or scope of insurance regulation.

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

Market conditions beyond our control determine the availability and cost of the reinsurance we purchase. No assurances can be made that reinsurance will remain continuously available to us to the same extent and on the same terms and rates as are currently available. Our ability to afford reinsurance required to reduce our catastrophe risk in designated areas may be dependent upon the ability to adjust rates for its cost. If we were unable to maintain our current level of reinsurance or purchase new reinsurance protection in amounts that we consider sufficient and at prices that we consider acceptable, we would have to either accept an increase in our exposure risk, reduce our insurance writings, or develop or seek other alternatives.

Reinsurance subjects us to the credit risk of our reinsurers and may not be adequate to protect us against losses arising from ceded insurance

The collectibility of reinsurance recoverables is subject to uncertainty arising from a number of factors, including whether insured losses meet the qualifying conditions of the reinsurance contract and whether reinsurers, or their affiliates, have the financial capacity and willingness to make payments under the terms of a reinsurance treaty or contract. Our inability to collect a material recovery from a reinsurer could have a material adverse effect on our operating results and financial condition.

The continued threat of terrorism and ongoing military actions may adversely affect the level of claim losses we incur and the value of our investment portfolio

The continued threat of terrorism, both within the United States and abroad, and ongoing military and other actions and heightened security measures in response to these types of threats, may cause significant volatility and losses from declines in the equity markets and from interest rate changes in the United States, Europe and elsewhere, and result in loss of life, property damage, additional disruptions to commerce and reduced economic activity. Some of the assets in our investment portfolio may be adversely affected by declines in the equity markets and reduced economic activity caused by the continued threat of terrorism. We seek to mitigate the potential impact of terrorism on our commercial mortgage portfolio by limiting geographical concentrations in key metropolitan areas and by requiring terrorism insurance to the extent that it is commercially available. Additionally, in the event that terrorist acts occur, both Allstate Protection and Allstate Financial could be adversely affected, depending on the nature of the event.

Any decrease in our financial strength ratings may have an adverse effect on our competitive position

Financial strength ratings are important factors in establishing the competitive position of insurance companies and generally have an effect on an insurance company's business. On an ongoing basis, rating agencies review the financial performance and condition of insurers and could downgrade or change the outlook on an insurer's ratings due to, for example, a change in an insurer's statutory capital; a change in a rating agency's determination of the amount of risk-adjusted capital required to maintain a particular rating; an increase in the perceived risk of an insurer's investment portfolio; a reduced

confidence in management or a host of other considerations that may or may not be under the insurer's control. The insurance financial strength ratings of both Allstate Insurance Company and Allstate Life Insurance Company are A+, AA and Aa2 from A.M. Best, Standard & Poor's and Moody's, respectively. Several other affiliates have been assigned their own financial strength ratings by one or more rating agencies. Because all of these ratings are subject to continuous review, the retention of these ratings cannot be assured. A multiple level downgrade in any of these ratings could have a material adverse effect on our sales, our competitiveness, the marketability of our product offerings, and our liquidity, operating results and financial condition.

Changes in accounting standards issued by the Financial Accounting Standards Board ("FASB") or other standard-setting bodies may adversely affect our financial statements

Our financial statements are subject to the application of generally accepted accounting principles, which is periodically revised and/or expanded. Accordingly, we are required to adopt new or revised accounting standards from time to time issued by recognized authoritative bodies, including the FASB. It is possible that future changes we are required to adopt could change the current accounting treatment that we apply to our consolidated financial statements and that such changes could have a material adverse effect on our results and financial condition. For a description of potential changes in accounting standards that could affect us currently, see Note 2 of the consolidated financial statements.

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

The Allstate Corporation is a holding company with no significant operations. The principal asset is the stock of its subsidiaries. State insurance regulatory authorities limit the payment of dividends by insurance subsidiaries, as described in Note 15 of the consolidated financial statements. In addition, competitive pressures generally require the subsidiaries to maintain insurance financial strength ratings. These restrictions and other regulatory requirements affect the ability of the subsidiaries to make dividend payments. Limits on the ability of the subsidiaries to pay dividends could adversely affect our liquidity, including our ability to pay dividends to shareholders, service our debt and complete share repurchase programs in the timeframe expected.

The occurrence of events unanticipated in our disaster recovery systems and management continuity planning could impair our ability to conduct business effectively

In the event of a disaster such as a natural catastrophe, an industrial accident, a terrorist attack or war, events unanticipated in our disaster recovery systems could have an adverse impact on our ability to conduct business and on our results of operations and financial condition, particularly if those events affect our computer-based data processing, transmission, storage and retrieval systems. In the event that a significant number of our managers could be unavailable in the event of a disaster, our ability to effectively conduct our business could be severely compromised.

5-YEAR SUMMARY OF SELECTED FINANCIAL DATA

(in millions, except per share data and ratios)	2006	2005	2004	2003	2002
Consolidated Operating Results					
Insurance premiums and contract charges	$ 29,333	$ 29,088	$ 28,061	$ 26,981	$ 25,654
Net investment income	6,177	5,746	5,284	4,972	4,849
Realized capital gains and losses	286	549	591	196	(924)
Total revenues	35,796	35,383	33,936	32,149	29,579
Income from continuing operations	4,993	1,765	3,356	2,720	1,465
Cumulative effect of change in accounting principle, after-tax	—	—	(175)	(15)	(331)
Net income	4,993	1,765	3,181	2,705	1,134
Net income per share:					
Diluted:					
Income before cumulative effect of change in accounting principle, after-tax	7.84	2.64	4.79	3.85	2.06
Cumulative effect of change in accounting principle, after-tax	—	—	(0.25)	(0.02)	(0.46)
Net income	7.84	2.64	4.54	3.83	1.60
Basic:					
Income before cumulative effect of change in accounting principle, after-tax	7.89	2.67	4.82	3.87	2.07
Cumulative effect of change in accounting principle, after-tax	—	—	(0.25)	(0.02)	(0.47)
Net income	7.89	2.67	4.57	3.85	1.60
Cash dividends declared per share	1.40	1.28	1.12	0.92	0.84
Redemption of Shareholder rights	—	—	—	0.01	—
Consolidated Financial Position					
Investments	$119,757	$118,297	$115,530	$103,081	$ 90,650
Total assets	157,554	156,072	149,725	134,142	117,426
Reserves for claims and claims expense, and life-contingent contract benefits and contractholder funds	93,683	94,639	86,801	75,805	67,697
Short-term debt	12	413	43	3	279
Long-term debt	4,650	4,887	5,291	5,073	3,961
Mandatorily redeemable preferred securities of subsidiary trusts(1)	—	—	—	—	200
Shareholders' equity	21,846	20,186	21,823	20,565	17,438
Shareholders' equity per diluted share	34.84	31.01	31.72	29.04	24.75
Property-Liability Operations					
Premiums earned	$ 27,369	$ 27,039	$ 25,989	$ 24,677	$ 23,361
Net investment income	1,854	1,791	1,773	1,677	1,656
Income before cumulative effect of change in accounting principle, after-tax	4,614	1,431	3,045	2,522	1,321
Cumulative effect of change in accounting principle, after-tax	—	—	—	(1)	(48)
Net income	4,614	1,431	3,045	2,521	1,273
Operating ratios(2)					
Claims and claims expense ("loss") ratio	58.5	78.3	68.7	70.6	75.6
Expense ratio	25.1	24.1	24.3	24.0	23.3
Combined ratio	83.6	102.4	93.0	94.6	98.9
Allstate Financial Operations					
Premiums and contract charges	$ 1,964	$ 2,049	$ 2,072	$ 2,304	$ 2,293
Net investment income	4,173	3,830	3,410	3,233	3,121
Income before cumulative effect of change in accounting principle, after-tax	464	416	421	322	261
Cumulative effect of change in accounting principle, after-tax	—	—	(175)	(17)	(283)
Net income (loss)	464	416	246	305	(22)
Investments	75,951	75,233	72,530	62,895	55,264

(1) Effective July 1, 2003, the mandatorily redeemable preferred securities of subsidiary trusts which the Company previously consolidated, are no longer consolidated. Previously, the trust preferred securities were reported in the Consolidated Statements of Financial Position as mandatorily redeemable preferred securities of subsidiary trusts and the dividends reported in the Consolidated Statements of Operations as dividends on preferred securities of subsidiary trusts. The impact of deconsolidation was to increase long-term debt and decrease mandatorily redeemable preferred securities of subsidiary trusts by $200 million. Prior periods have not been restated to reflect this change.

(2) We use operating ratios to measure the profitability of our Property-Liability results. We believe that they enhance an investor's understanding of our profitability. They are calculated as follows: Claims and claims expense ("loss") ratio is the ratio of claims and claims expense to premiums earned. Loss ratios include the impact of catastrophe losses. Expense ratio is the ratio of amortization of DAC, operating costs and expenses and restructuring and related charges to premiums earned. Combined ratio is the ratio of claims and claims expense, amortization of DAC, operating costs and expenses and restructuring and related charges to premiums earned. The combined ratio is the sum of the loss ratio and the expense ratio. The difference between 100% and the combined ratio represents underwriting income (loss) as a percentage of premiums earned.

OVERVIEW

The following discussion highlights significant factors influencing the consolidated financial position and results of operations of The Allstate Corporation (referred to in this document as "we", "our", "us", the "Company" or "Allstate"). It should be read in conjunction with the 5-year summary of selected financial data, consolidated financial statements and related notes found under Part II, Item 6 and Item 8 contained herein. Further analysis of our insurance segments is provided in Property-Liability Operations (which includes the Allstate Protection and Discontinued Lines and Coverages segments) and in 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.

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

- For Allstate Protection: premium written, the number of policies in force ("PIF"), retention, price changes, claim frequency (rate of claim occurrence) and severity (average cost per claim), catastrophes, loss ratio, expenses, underwriting results and sales of all products and services;
- For Allstate Financial: premiums, deposits, gross margin including investment and benefit margins, amortization of deferred policy acquisition costs, expenses, operating income, invested assets, and profitably growing distribution partner relationships;
- For Investments: credit quality/experience, stability of long-term returns, cash flows and asset and liability duration; and
- For financial condition: our financial strength ratings, operating leverage, debt leverage, and return on equity.

2006 HIGHLIGHTS

- Net income increased to $4.99 billion in 2006 from $1.77 billion in 2005. Net income per diluted share increased to $7.84 in 2006 from $2.64 in 2005.
- Total revenues reached a record $35.80 billion, an increase of 1.2% compared to last year.
- Property-Liability premiums earned increased 1.2% to $27.37 billion. The combined ratio improved 18.8 points to 83.6 in 2006.
- Catastrophe losses in 2006 totaled $810 million, with an impact to the combined ratio of 3.0 points, compared to $5.67 billion in 2005, with a combined ratio impact of 21.0 points.
- Allstate Financial investments as of December 31, 2006 increased 1.0% over December 31, 2005.
- Allstate Financial net income increased 11.5% to $464 million in 2006 from $416 million in 2005.
- Stock repurchases totaled $1.75 billion for the year.
- Book value per share increased 12.4% to $34.84 as of December 31, 2006 from $31.01 as of December 31, 2005.
- Return on equity improved 15.4 points to 23.8%.

CONSOLIDATED NET INCOME

(in millions)	For the years ended December 31, 2006	2005	2004
Revenues			
Property-liability insurance premiums	$27,369	$27,039	$25,989
Life and annuity premiums and contract charges	1,964	2,049	2,072
Net investment income	6,177	5,746	5,284
Realized capital gains and losses	286	549	591
Total revenues	35,796	35,383	33,936
Costs and expenses			
Property-liability insurance claims and claims expense	(16,017)	(21,175)	(17,843)
Life and annuity contract benefits	(1,570)	(1,615)	(1,618)
Interest credited to contractholder funds	(2,609)	(2,403)	(2,001)
Amortization of deferred policy acquisition costs	(4,757)	(4,721)	(4,465)
Operating costs and expenses	(3,033)	(2,997)	(3,040)
Restructuring and related charges	(182)	(41)	(51)
Interest expense	(357)	(330)	(308)
Total costs and expenses	(28,525)	(33,282)	(29,326)
Loss on disposition of operations	(93)	(13)	(24)
Income tax expense	(2,185)	(323)	(1,230)
Income before cumulative effect of change in accounting principle, after-tax	4,993	1,765	3,356
Cumulative effect of change in accounting principle, after-tax	—	—	(175)
Net income	$ 4,993	$ 1,765	$ 3,181
Property-Liability	$ 4,614	$ 1,431	$ 3,045
Allstate Financial	464	416	246
Corporate and Other	(85)	(82)	(110)
Net income	$ 4,993	$ 1,765	$ 3,181

APPLICATION OF CRITICAL ACCOUNTING ESTIMATES

We have identified five accounting policies that require us to make estimates that are significant to the consolidated financial statements. It is reasonably likely that changes in these estimates could occur from period to period and result in a material impact on our consolidated financial statements. A brief summary of each of these critical accounting estimates follows. For a more detailed discussion of the effect of these estimates on our consolidated financial statements, and the judgments and assumptions related to these estimates, see the referenced sections of the MD&A. For a complete summary of our significant accounting policies see Note 2 of the consolidated financial statements.

Investment Valuation The fair value of publicly traded fixed income and equity securities is based on independent market quotations, whereas the fair value of non-publicly traded securities is based on either widely accepted pricing valuation models, which use internally developed ratings and independent third party data as inputs, or independent third party pricing sources. Factors used in our internally

developed models, such as liquidity risk associated with privately-placed securities, are difficult to independently observe and quantify. Because of this, judgment is required in developing certain of these estimates and, as a result, the estimated fair value of non-publicly traded securities may differ from amounts that would be realized upon an immediate sale of the securities.

For investments classified as available for sale, the difference between fair value and amortized cost for fixed income securities or cost for equity securities, net of deferred income taxes and certain other items (as disclosed in Note 5), is reported as a component of accumulated other comprehensive income on the Consolidated Statements of Financial Position and is not reflected in the operating results of any period until reclassified to net income upon the consummation of a transaction with an unrelated third party or when declines in fair values are deemed other-than-temporary. The assessment of other-than-temporary impairment of a security's fair value is performed on a portfolio review as well as a case-by-case basis considering a wide range of factors. For our portfolio review evaluations, we ascertain whether there are any approved programs involving the disposition of investments such as changes in duration, revision to strategic asset allocations and liquidity actions; and any dispositions anticipated by the portfolio managers. In these instances, we recognize impairment on securities being considered for these approved anticipated actions if the security is in an unrealized loss position. There are a number of assumptions and estimates inherent in evaluating impairments and determining if they are other-than-temporary, including 1) our ability and intent to hold the investment for a period of time sufficient to allow for an anticipated recovery in value; 2) the expected recoverability of principal and interest; 3) the duration and extent to which the fair value has been less than amortized cost for fixed income securities or cost for equity securities; 4) the financial condition, near-term and long-term prospects of the issuer, including relevant industry conditions and trends, and implications of rating agency actions and offering prices; and 5) the specific reasons that a security is in a significant unrealized loss position, including market conditions which could affect liquidity. Additionally, once assumptions and estimates are made, any number of changes in facts and circumstances could cause us to later determine that an impairment is other-than-temporary, including 1) general economic conditions that are worse than previously assumed or that have a greater adverse effect on a particular issuer than originally estimated; 2) changes in the facts and circumstances related to a particular issuer's ability to meet all of its contractual obligations; and 3) changes in facts and circumstances or new information obtained which causes a change in our ability or intent to hold a security to maturity or until it recovers in value. Changes in assumptions, facts and circumstances could result in additional charges to earnings in future periods to the extent that losses are realized. The charge to earnings, while potentially significant to net income, would not have a significant effect on shareholders' equity since the majority of our portfolio is carried at fair value and as a result, any related net unrealized loss would already be reflected as a component of accumulated other comprehensive income in shareholders' equity.

For a more detailed discussion of the risks relating to changes in investment values and levels of investment impairment, and the potential causes of such changes, see Note 5 of the consolidated financial statements and the Investments, Market Risk, Enterprise Risk Management and Forward-looking Statements and Risk Factors sections of this document.

Derivative Instrument Hedge Effectiveness We primarily use derivative financial instruments to reduce our exposure to market risk and in conjunction with asset/liability management, particularly in the Allstate Financial segment. The fair value of exchange traded derivative contracts is based on independent market quotations, whereas the fair value of non-exchange traded derivative contracts is based on either widely accepted pricing valuation models which use independent third party data as inputs or independent third party pricing sources.

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. When designating a derivative as an accounting hedge, we formally document the hedging relationship, risk management objective and strategy. The documentation identifies the hedging instrument, the hedged item, the nature of the risk being hedged and the assumptions used to assess how effective the hedging instrument is in offsetting the exposure to changes in the hedged item's fair value attributable to the hedged risk. In the case of a cash flow hedge, this documentation includes the exposure to changes in the hedged transaction's variability in cash flows attributable to the hedged risk. We do not exclude any component of the change in fair value of the hedging instrument from the effectiveness assessment. At each reporting date, we confirm that the hedging instrument continues to be highly effective in offsetting the hedged risk. For further discussion of these policies and quantification of the impact of these estimates and assumptions, see Note 6 of the consolidated financial statements and the Investments, Market Risk, Enterprise Risk Management and Forward-looking Statements and Risk Factors sections of this document.

Deferred Policy Acquisition Cost (''DAC'') Amortization We incur significant costs in connection with acquiring business. In accordance with generally accepted accounting principles (''GAAP''), costs that vary with and are primarily related to acquiring business are deferred and recorded as an asset on the Consolidated Statements of Financial Position.

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

DAC related to traditional life insurance is amortized over the premium paying period of the related policies in proportion to the estimated revenues on such business. Significant assumptions relating to estimated premiums, investment income and realized capital gains and losses, as well as to all other aspects of DAC are determined based upon conditions as of the date of policy issuance and are generally not revised during the life of the policy. Any deviations from projected business in force resulting from actual policy terminations differing from expected levels and any estimated premium deficiencies change the rate of amortization in the period such events occur. Generally, the amortization periods for these contracts approximate the estimated lives of the policies.

DAC related to interest-sensitive life, annuities and other investment contracts is amortized in proportion to the incidence of the total present value of gross profits which includes both actual historical gross profits (''AGP'') and estimated future gross profits (''EGP'') expected to be earned over the estimated lives of the contracts. Actual amortization periods range from 15-30 years; however, incorporating estimates of customer surrender rates, partial withdrawals and deaths generally results in the majority of the DAC being amortized over the surrender charge period. AGP and EGP consist of the following components: benefit margins primarily from mortality; investment margin including realized capital gains and losses; and contract administration, surrender and other contract charges, less maintenance expenses. We periodically review and make revisions to EGPs resulting in changes in the cumulative amounts expensed as a component of amortization of DAC in the period in which the revision is made. This is commonly known as ''DAC unlocking''.

For quantification of the impact of these estimates and assumptions on Allstate Financial, see the Allstate Financial Segment and Forward-looking Statements and Risk Factors sections of this document and Note 2 and 10 of the consolidated financial statements.

Reserve for Property-Liability Insurance Claims and Claims Expense Estimation Reserves are established to provide for the estimated costs of paying claims and claims expenses under insurance

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

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

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

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

In the chain ladder estimation technique, a ratio (development factor) is calculated which compares current period results to results in the prior period for each accident year. A three-year or two-year average development factor, based on historical results, is usually multiplied by the current period experience to estimate the development of losses of each accident year into the next time period. The development factors for the future time periods for each accident year are compounded over the remaining future periods to calculate an estimate of ultimate losses for each accident year. The implicit assumption of this technique is that an average of historical development factors is predictive of future loss development, as the significant size of our experience data base achieves a high degree of statistical credibility in actuarial projections of this type. The effects of inflation are implicitly considered in the reserving process, the implicit assumption being that a multi-year average development factor includes an adequate provision. Occasionally, unusual aberrations in loss patterns are caused by external and internal factors such as changes in claim reporting, settlement patterns, unusually large losses, process changes,

legal or regulatory changes, and other influences. In these instances, analyses of alternate development factor selections are performed to evaluate the effect of these factors, and actuarial judgment is applied to make appropriate development factor assumptions needed to develop a best estimate of ultimate losses.

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

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

Reserves are reestimated quarterly, by combining historical results with current actual results to calculate new development factors. This process incorporates the historic and latest actual trends, and other underlying changes in the data elements used to calculate reserve estimates. New development factors are likely to differ from previous development factors used in prior reserve estimates because actual results (claims reported or settled, losses paid, or changes to case reserves) occur differently than the implied assumptions contained in the previous development factor calculations. If claims reported, paid losses, or case reserves changes are greater or lower than the levels estimated by previous development factors, reserve reestimates increase or decrease. When actual development of these data elements is different than the historical development pattern used in a prior period reserve estimate, a new reserve is determined. The difference between indicated reserves based on new reserve estimates and recorded reserves (the previous estimate) is the amount of reserve reestimate and an increase or decrease in property-liability insurance claims and claims expense will be recorded in the Consolidated Statements of Operations. Total Property-liability reserve reestimates, after-tax, as a percent of net income, from 2004, 2005 and 2006 were 4.7%, 17.2% and 12.6%, respectively. For Property-Liability, the 3-year average of reserve reestimate as a percentage of total reserves was 3.1% favorable reestimate, for Allstate Protection the 3-year average of reserve estimates was a favorable 5.7% and for Discontinued Lines and Coverages the 3-year average of reserve reestimates was an unfavorable 15.9%, each of these results being consistent within a reasonable actuarial tolerance for our respective businesses. Allstate Protection

reserve reestimates were primarily the result of claim severity development that was better than expected and late reported loss development that was better than expected due to lower frequency trends, and for Discontinued Lines and Coverages, reestimates were primarily a result of increased reported claim activity (claims frequency). A more detailed discussion of reserve reestimates is presented in the Property-Liability Claims and Claims Expense Reserves section of the MD&A.

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

(in millions)	2006	2005	2004
Allstate Protection			
Auto	$ 9,995	$10,460	$10,228
Homeowners	2,226	3,675	1,917
Other Lines	2,235	2,619	2,289
Total Allstate Protection	$14,456	$16,754	$14,434
Discontinued Lines and Coverages			
Asbestos	1,375	1,373	1,464
Environmental	194	205	232
Other Discontinued Lines	585	599	631
Total Discontinued Lines and Coverages	$ 2,154	$ 2,177	$ 2,327
Total Property-Liability	$16,610	$18,931	$16,761

Allstate Protection Reserve Estimates

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

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

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

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

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

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

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

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

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

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

Reserves for Catastrophe Losses Property-Liability claims and claims expense reserves also include reserves for catastrophe losses. Catastrophe losses are an inherent risk of the property-liability insurance industry that have contributed, and will continue to contribute, to potentially material year-to-year fluctuations in our results of operations and financial position. We define a ''catastrophe'' as an event that produces pretax losses before reinsurance in excess of $1 million and involves multiple first party policyholders, or an event that produces a number of claims in excess of a preset, per-event threshold of average claims in a specific area, occurring within a certain amount of time following the event. Catastrophes are caused by various natural events including earthquakes, volcanoes, wildfires, tornadoes, hailstorms, hurricanes, tropical storms, high winds and winter storms. We are also exposed to man-made catastrophic events, such as certain acts of terrorism or industrial accidents. The nature and level of catastrophes in any period cannot be predicted.

The estimation of claims and claims expense reserves for catastrophes also comprises estimates of losses from reported claims and IBNR, primarily for damage to property. In general, our estimates for catastrophe reserves are based on claim adjuster inspections and the application of historical loss development factors as described previously. However, depending on the nature of the catastrophe, as noted above, the estimation process can be further complicated. For example, for hurricanes, complications could include the inability of insureds to be able to promptly report losses, limitations placed on claims adjusting staff affecting their ability to inspect losses, determining whether losses are covered by our homeowners policy (generally for damage caused by wind or wind driven rain), or specifically excluded coverage caused by flood, estimating additional living expenses, and assessing the impact of demand surge, exposure to mold damage, and the effects of numerous other considerations, including the timing of a catastrophe in relation to other events, such as at or near the end of a financial reporting period, which can affect the availability of information needed to estimate reserves for that reporting period. In these situations, we may need to adapt our practices to accommodate these circumstances in order to determine a best estimate of our loss from a catastrophe. As an example, to complete an estimate for certain areas affected by Hurricane Katrina and not yet inspected by our claims adjusting staff, or where we believed our historical loss development factors were not predictive, we relied on analysis of actual claim notices received compared to total policies in force, as well as visual, governmental and third party information, including aerial photos, area observations, and data on wind speed and flood depth to the extent available.

Potential Reserve Estimate Variability The aggregation of numerous micro-level estimates for each business segment, line of insurance, major components of losses (such as coverages and perils), and major states or groups of states for reported losses and IBNR forms the reserve liability recorded in

the Consolidated Statements of Financial Position. Because of this detailed approach to developing our reserve estimates, there is not a single set of assumptions that determine our reserve estimates at the consolidated level. Moreover, management does not compile a range of reserve estimates, because management does not believe the processes that we follow will produce a statistically credible or reliable actuarial reserve range that would be meaningful. Reserve estimates, by their very nature, are very complex to determine and subject to significant judgment, and do not represent an exact determination for each outstanding claim. Accordingly, as actual claims, and/or paid losses, and/or case reserve results emerge, our estimate of the ultimate cost to settle will be different than previously estimated.

To develop a statistical indication of potential reserve variability within reasonably likely possible outcomes, an actuarial (stochastic modeling) technique is applied to the countrywide consolidated data elements for paid losses and paid losses combined with case reserves separately for injury losses, auto physical damage losses, and homeowners losses excluding catastrophe losses. Based on the combined historical variability of the development factors calculated for these data elements an estimate of the standard error or standard deviation around these reserve estimates is calculated within each accident year for the last eleven years for each type of loss. The variability of these reserve estimates within one standard deviation of the mean (a measure of frequency of dispersion often viewed to be an acceptable level of accuracy) is believed by management to represent a reasonable and statistically probable measure of potential variability. Based on our products and coverages, historical experience, the statistical credibility of our extensive data, and stochastic modeling of actuarial chain ladder methodologies used to develop reserve estimates, we estimate that the potential variability of our Allstate Protection reserves, after-tax, within a reasonable probability of other possible outcomes, may be approximately plus or minus 4%, or plus or minus $400 million in net income. A lower level of variability exists for auto injury losses, which comprise approximately 70% of reserves, due to their relatively stable development patterns over a longer duration of time required to settle claims. Other types of losses, such as auto physical damage, homeowners losses and other losses, which comprise about 30% of reserves, tend to have greater variability, but are settled in a much shorter period of time. Although this evaluation reflects most reasonably likely outcomes, it is possible the final outcome may fall below or above these amounts. Historical variability of reserve estimates is reported in the Property-Liability Claims and Claims Expense Reserves section of the MD&A.

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

Discontinued Lines and Coverages Reserve Estimates

Characteristics of Discontinued Lines Exposure We continue to receive asbestos and environmental claims. Asbestos claims relate primarily to bodily injuries asserted by people who were exposed to asbestos or products containing asbestos. Environmental claims relate primarily to pollution and related clean-up costs.

Our exposure to asbestos, environmental and other discontinued lines claims arises principally from assumed reinsurance coverage written during the 1960s through the mid-1980s, including reinsurance on primary insurance written on large United States companies, and from direct excess insurance written from 1972 through 1985, including substantial excess general liability coverages on Fortune 500

companies. Additional exposure stems from direct primary commercial insurance written during the 1960s through the mid-1980s. Other discontinued lines exposures primarily relate to general liability and product liability mass tort claims, such as those for medical devices and other products.

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

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

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

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

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

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

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

Evaluation of both the insureds' estimated liabilities and our exposure to the insureds depends heavily on an analysis of the relevant legal issues and litigation environment. This analysis is conducted by our specialized claims adjusting staff and legal counsel. Based on these evaluations, case reserves are established by claims adjusting staff and actuarial analysis is employed to develop an IBNR reserve, which includes estimated potential reserve development and claims that have occurred but have not been reported. As of December 31, 2006, IBNR was 66.5% of combined asbestos and environmental reserves.

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

Other Discontinued Lines and Coverages Reserves for Other Discontinued Lines provide for remaining loss and loss expense liabilities related to business no longer written by us, other than asbestos and environmental, and are presented in the following table.

(in millions)	2006	2005	2004
Other mass torts	$185	$203	$205
Workers' compensation	140	151	152
Commercial and other	260	245	274
Other discontinued lines	$585	$599	$631

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

Potential Reserve Estimate Variability Establishing Discontinued Lines and Coverages net loss reserves for asbestos, environmental and other discontinued lines claims is subject to uncertainties that are much greater than those presented by other types of claims. Among the complications are lack of historical data, long reporting delays, uncertainty as to the number and identity of insureds with potential exposure and unresolved legal issues regarding policy coverage; unresolved legal issues regarding the determination, availability and timing of exhaustion of policy limits; plaintiffs' evolving and expanding theories of liability, availability and collectibility of recoveries from reinsurance; retrospectively determined premiums and other contractual agreements; estimates of the extent and timing of any contractual liability; the impact of bankruptcy protection sought by various asbestos producers and other asbestos defendants; and other uncertainties. There are also complex legal issues concerning the interpretation of various insurance policy provisions and whether those losses are covered, or were ever intended to be covered, and could be recoverable through retrospectively determined premium, reinsurance or other contractual agreements. Courts have reached different and sometimes inconsistent conclusions as to when losses are deemed to have occurred and which policies provide coverage; what types of losses are covered; whether there is an insurer obligation to defend; how policy limits are determined; how policy exclusions and conditions are applied and interpreted; and whether clean-up costs represent insured property damage. Our reserves for asbestos and environmental exposures could be affected by tort reform, class action litigation, and other potential legislation and judicial decisions. Environmental exposures could also be affected by a change in the existing federal Superfund law and similar state statutes. There can be no assurance that any reform legislation will be enacted or that any such legislation will provide for a fair, effective and cost-efficient system for settlement of asbestos or

environmental claims. We believe these issues are not likely to be resolved in the near future, and the ultimate costs may vary materially from the amounts currently recorded resulting in material changes in loss reserves. Historical variability of reserve estimates is demonstrated in the Property-Liability Claims and Claims Expense Reserves section of the MD&A.

Adequacy of Reserve Estimates Management believes its net loss reserves for environmental, asbestos and other discontinued lines exposures are appropriately established based on available facts, technology, laws, regulations, and assessments of other pertinent factors and characteristics of exposure (e.g. claim activity, potential liability, jurisdiction, products versus non-products exposure) presented by individual policyholders, assuming no change in the legal, legislative or economic environment. Due to the uncertainties and factors described above, management believes it is not practicable to develop a meaningful range for any such additional net loss reserves that may be required.

Further Discussion of Reserve Estimates For further discussion of these estimates and quantification of the impact of reserve estimates, reserve reestimates and assumptions, see Notes 7 and 13 to the consolidated financial statements and the Catastrophe Losses, Property-Liability Claims and Claims Expense Reserves and Forward-looking Statements and Risk Factors sections of this document.

Reserve for Life-Contingent Contract Benefits Estimation Long-term actuarial assumptions of future investment yields, mortality, morbidity, policy terminations and expenses are used when establishing the reserve for life-contingent contract benefits. These assumptions, which for life contingent annuities and traditional life insurance are applied using the net level premium method, include provisions for adverse deviation and generally vary by such characteristics as type of annuity benefit or coverage, year of issue and policy duration. Future investment yield assumptions are determined at the time the policy is issued based upon prevailing investment yields as well as estimated reinvestment yields. Mortality, morbidity and policy termination assumptions are based on our experience and industry experience prevailing at the time the policies are issued. Expense assumptions include the estimated effects of inflation and expenses to be incurred beyond the premium-paying period.

For further discussion of these policies, see Note 8 of the consolidated financial statements and the Forward-looking Statements and Risk Factors section of this document.

PROPERTY-LIABILITY 2006 HIGHLIGHTS

- Premiums written, an operating measure that is defined and reconciled to premiums earned on page 28, increased 0.5% to $27.53 billion in 2006 over 2005. Allstate brand standard auto premiums written increased 3.5% in 2006 over 2005. Allstate brand homeowners premiums written decreased 1.9% in 2006 from 2005.
- The impact of the cost of the catastrophe reinsurance program on premiums written totaled $607 million in 2006 compared to $196 million in 2005. Excluding this cost, premiums written grew 2.0% in 2006 over 2005.
- Allstate brand standard auto new issued applications increased 2.9% in 2006 over 2005. Allstate brand homeowners new issued applications decreased 16.5% in 2006 from 2005.
- PIF as of December 31, 2006 when compared to December 31, 2005 for Allstate brand standard auto and homeowners increased 2.7% and 0.1%, respectively.
- The Allstate brand standard auto renewal ratio was 90.0 in 2006 compared to 90.5 in 2005. The Allstate brand homeowners renewal ratio was 87.3 in 2006 compared to 88.2 in 2005.

- Claim frequencies, excluding catastrophes, in the auto and homeowners insurance lines continued to decline, while current year claim severity was higher, when compared to 2005.
- Underwriting income for Property-Liability was $4.50 billion in 2006 compared to an underwriting loss of $636 million in 2005. The combined ratio was 83.6 in 2006 compared to 102.4 in 2005. Underwriting income (loss), a measure that is not based on GAAP, is defined below.
- Catastrophe losses in 2006 totaled $810 million compared to $5.67 billion in 2005. The effect of catastrophe losses on the combined ratio was 3.0 and 21.0 points in 2006 and 2005, respectively.
- Prior year favorable net reserve reestimates in 2006 totaled $971 million compared to $468 million in 2005, including reserve reestimates of catastrophe losses of $223 million favorable in 2006 and $94 million unfavorable in 2005.

PROPERTY-LIABILITY OPERATIONS

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

Underwriting income (loss), is not a GAAP measure and is reconciled to net income on page 26. It 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. Underwriting income (loss) should not be considered as a substitute for net income and does not reflect the overall profitability of the business. Net income is the GAAP measure most directly comparable to underwriting income (loss).

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

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

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 expenses to premiums earned. This ratio includes prior year reserve reestimates.
- Effect of pretax reserve reestimates on combined ratio—the percentage of pretax reserve reestimates included in claims and claims expense to premiums earned. This ratio includes prior year reserve reestimates including 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.

Summarized financial data, a reconciliation of underwriting income (loss) to net income and GAAP operating ratios for our Property-Liability operations for the years ended December 31, are presented in the following table.

(in millions, except ratios)	2006	2005	2004
Premiums written	$27,526	$27,391	$26,531
Revenues			
Premiums earned	$27,369	$27,039	$25,989
Net investment income	1,854	1,791	1,773
Realized capital gains and losses	348	516	592
Total revenues	29,571	29,346	28,354
Costs and expenses			
Claims and claims expense	(16,017)	(21,175)	(17,843)
Amortization of DAC	(4,131)	(4,092)	(3,874)
Operating costs and expenses	(2,567)	(2,369)	(2,396)
Restructuring and related charges	(157)	(39)	(46)
Total costs and expenses	(22,872)	(27,675)	(24,159)
Loss on disposition of operations	(1)	–	–
Income tax expense	(2,084)	(240)	(1,150)
Net income	$ 4,614	$ 1,431	$ 3,045
Underwriting income (loss)	4,497	$ (636)	$ 1,830
Net investment income	1,854	1,791	1,773
Income tax expense on operations	(1,963)	(63)	(955)
Realized capital gains and losses, after-tax	227	339	397
Loss on disposition of operations, after-tax	(1)	–	–
Net income	$ 4,614	$ 1,431	$ 3,045
Catastrophe losses	$ 810	$ 5,674	$ 2,468
GAAP operating ratios			
Claims and claims expense ratio	58.5	78.3	68.7
Expense ratio	25.1	24.1	24.3
Combined ratio	83.6	102.4	93.0
Effect of catastrophe losses on combined ratio	3.0	21.0	9.5
Effect of pretax reserve reestimates on combined ratio	(3.5)	(1.7)	(0.9)
Effect of restructuring and related charges on combined ratio	0.6	0.1	0.2
Effect of Discontinued Lines and Coverages on combined ratio	0.5	0.7	2.5

ALLSTATE PROTECTION SEGMENT

Overview and Strategy The Allstate Protection segment sells primarily private passenger auto and homeowner insurance to individuals through Allstate Exclusive Agencies, Customer Information Centers and over the Internet under the Allstate brand and through independent agencies under the Encompass® and Deerbrook® brands. The Encompass brand includes standard auto and homeowners products while the Deerbrook brand is used for non-standard auto products.

The key elements of the Allstate Protection strategy are:

- Investing in marketing and brand awareness
- Improving the customer experience
- Expanding distribution
- Utilizing sophisticated pricing and underwriting discipline
- Developing innovative and differentiated products
- Leveraging claims capabilities

We are seeking, through the utilization of our distribution channels, our sophisticated risk segmentation process (''Tiered Pricing'') and consumer marketing, to attract and retain high lifetime value customers who will potentially provide favorable prospects for profitability over the course of their relationship with us.

We maintain a broad marketing approach throughout the U.S. We have aligned agency and management compensation and the overall strategies of the Allstate brand to best serve our customers by basing certain incentives on Allstate brand profitability, unit growth, retention, and sales of financial products. We differentiate the Allstate brand from competitors by offering a choice of products, including our innovative Allstate® Your Choice Auto (''YCA'') with options such as safe driving deductibles and a safe driving bonus, Allstate® Your Choice Homeowners (''YCH'') with options such as claims free bonus and personalized coverage and Allstate Blue℠ our new non-standard auto product with features such as loyalty bonuses and roadside assistance, as well as other discount options available depending on a consumer's needs.

Tiered Pricing and underwriting are designed to enhance both our competitive position and profit potential, and produce a broader range of premiums that is more refined than the range generated by the standard/non-standard model. Tiered Pricing includes our Strategic Risk Management program, which uses a number of risk evaluation factors including, to the extent legally permissible, insurance scoring based on information that is obtained from credit reports. We continue to expand the number of tiers with successive rating program releases.

Substantially all of new and approximately 86% of renewal business written for Allstate brand auto uses Tiered Pricing. For Allstate brand homeowners, approximately 87% of new and 53% of renewal business written uses Tiered Pricing. For Allstate brand auto and homeowners business written under Tiered Pricing, our results indicate a shift toward more customers who we consider high lifetime value that generally are retained longer and have more favorable loss results.

As we continue to use Tiered Pricing, there is a diminishing capacity to draw meaningful comparisons to historical presentations, including the distinctions between standard and non-standard which have become less relevant in certain states. Generally, standard auto customers are expected to have lower risks of loss than non-standard auto customers.

We are pursuing improvements in the overall customer experience through actions targeted to increase customer satisfaction and retention. These programs are designed around establishing customer service expectations and customer relationship building. Our claims strategy focuses on delivering fast, fair and consistent claim service while achieving loss cost management and customer satisfaction.

We continue to enhance technology to integrate our distribution channels, improve customer service, facilitate the introduction of new products and services and reduce infrastructure costs related to supporting agencies and handling claims. These actions and others are designed to optimize the

effectiveness of our distribution and service channels by increasing the productivity of the Allstate brand's exclusive agencies and our direct channels: the Internet and call centers.

Our strategy for the Encompass brand includes enhancing pricing and product sophistication through our Tiered Pricing approach Encompass Edge®, increasing distribution effectiveness and improving agency technology interfaces to support profitable growth. We are positioning the brand to expand product breadth and improve agency penetration by leveraging technology and service capabilities

We continue to pursue our strategy to manage our property catastrophe exposure to provide our shareholders an acceptable return on the risks assumed in our property business and to reduce the variability of our earnings, while providing protection to our customers. Although in many areas of the country we are currently achieving returns within acceptable risk tolerances, we continue to seek solutions to improve returns in areas that have known exposure to hurricanes, earthquakes, fires following earthquakes and other catastrophes. Management's measurements for our property business include exposure limits based on hurricane and earthquake losses which have a one percent probability of occurring on an annual aggregate countrywide basis. We are working for changes in the regulatory environment, including fewer restrictions on underwriting, recognizing the need for and improving appropriate risk based pricing and promoting the creation of government sponsored, privately funded solutions. Our property business includes personal homeowners, commercial property and other property lines. While the actions that we take will be primarily focused on reducing the catastrophe exposure in our property business, we also consider their impact on our ability to market our auto lines.

Pricing of property products is typically intended to establish returns that we deem acceptable over a long-term period. Losses, including losses from catastrophic events and weather-related losses (such as wind, hail, lightning and freeze losses not meeting our criteria to be declared a catastrophe) are accrued on an occurrence basis within the policy period. Therefore, in any reporting period, loss experience from catastrophic events and weather-related losses may contribute to negative or positive underwriting performance relative to the expectations we incorporated into the products' pricing. Accordingly, property products are more capital intensive than other personal lines products.

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 Consolidated Statements of Financial Position. Since the Allstate brand policy periods are typically 6 months for auto and 12 months for homeowners, Encompass auto and homeowners policy periods are typically 12 months and Deerbrook auto policy periods are typically 6 months, rate changes will generally be recognized in premiums earned over a period of 6 to 24 months. During this period, premiums written at a higher rate will cause an increase in the balance of unearned premiums on our Consolidated Statements of Financial Position.

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

(in millions)	2006	2005	% earned after 90 days	180 days	270 days	360 days
Allstate brand:						
Standard auto	$ 3,971	$3,851	74.3%	98.7%	99.7%	100.0%
Non-standard auto	349	401	71.5%	96.7%	99.3%	100.0%
Auto	4,320	4,252	74.0%	98.6%	99.7%	100.0%
Homeowners	3,332	3,252	43.6%	75.8%	94.3%	100.0%
Other personal lines[1]	1,441	1,302	40.1%	69.4%	86.7%	93.0%
Total Allstate brand	9,093	8,806	57.5%	85.6%	95.7%	98.9%
Encompass brand:						
Standard auto	573	594	44.3%	76.1%	94.4%	100.0%
Non-standard auto (Deerbrook)	23	28	75.2%	100.0%	100.0%	100.0%
Auto	596	622	45.5%	77.0%	94.6%	100.0%
Homeowners	316	317	44.2%	76.2%	94.5%	100.0%
Other personal lines	73	84	44.3%	76.2%	94.4%	100.0%
Total Encompass brand	985	1,023	45.0%	76.7%	94.5%	100.0%
Total Allstate Protection unearned premiums	$10,078	$9,829	56.3%	84.7%	95.5%	99.0%

(1) December 31, 2006 includes $201 million of unearned premiums related to the loan protection business previously managed by Allstate Financial. Policies have terms of up to 7 years.

A reconciliation of premiums written to premiums earned for the years ended December 31 is presented in the following table.

(in millions)	2006	2005	2004
Premiums written:			
Allstate Protection	$27,525	$27,393	$26,527
Discontinued Lines and Coverages	1	(2)	4
Property-Liability premiums written	27,526	27,391	26,531
Increase in unearned premiums	(354)	(349)	(608)
Other[1]	197	(3)	66
Property-Liability premiums earned	$27,369	$27,039	$25,989
Premiums earned:			
Allstate Protection	$27,366	$27,038	$25,983
Discontinued Lines and Coverages	3	1	6
Property-Liability	$27,369	$27,039	$25,989

(1) Includes the transfer at January 1, 2006 of $152 million to Property-Liability unearned premiums related to the loan protection business previously managed by Allstate Financial. Prior periods have not been reclassified.

Premiums written by brand are shown in the following table.

(in millions)	Allstate brand 2006	Allstate brand 2005	Allstate brand 2004	Encompass brand 2006	Encompass brand 2005	Encompass brand 2004	Total Allstate Protection 2006	Total Allstate Protection 2005	Total Allstate Protection 2004
Standard auto	$15,704	$15,173	$14,491	$1,138	$1,174	$1,212	$16,842	$16,347	$15,703
Non-standard auto	1,386	1,587	1,777	94	116	153	1,480	1,703	1,930
Auto	17,090	16,760	16,268	1,232	1,290	1,365	18,322	18,050	17,633
Homeowners	5,926	6,040	5,639	589	611	552	6,515	6,651	6,191
Other personal lines[1]	2,548	2,523	2,551	140	169	152	2,688	2,692	2,703
Total	$25,564	$25,323	$24,458	$1,961	$2,070	$2,069	$27,525	$27,393	$26,527

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

Premiums earned by brand are shown in the following table.

(in millions)	Allstate brand 2006	Allstate brand 2005	Allstate brand 2004	Encompass brand 2006	Encompass brand 2005	Encompass brand 2004	Total Allstate Protection 2006	Total Allstate Protection 2005	Total Allstate Protection 2004
Standard auto	$15,591	$15,034	$14,290	$1,160	$1,186	$1,208	$16,751	$16,220	$15,498
Non-standard auto	1,436	1,642	1,823	98	125	161	1,534	1,767	1,984
Auto	17,027	16,676	16,113	1,258	1,311	1,369	18,285	17,987	17,482
Homeowners	5,793	5,792	5,349	590	583	529	6,383	6,375	5,878
Other personal lines	2,546	2,514	2,482	152	162	141	2,698	2,676	2,623
Total	$25,366	$24,982	$23,944	$2,000	$2,056	$2,039	$27,366	$27,038	$25,983

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 and specialty auto. Encompass brand statistics are subject to some distortion due to the integration of systems and exclude specialty auto.

- 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.
- Renewal ratio: Renewal policies issued during the period, based on contract effective dates, divided by the total policies issued 6 months prior for auto (12 months prior for Encompass brand standard auto) or 12 months prior for homeowners.
- 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 legal 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, or premium refund accruals. Allstate brand average premiums represent the appropriate policy term for each line, which is 6 months for auto and 12 months for homeowners. Encompass brand average 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.

Standard auto premiums written increased 3.0% to $16.84 billion in 2006 from $16.35 billion in 2005, following a 4.1% increase in 2005 from $15.70 billion in 2004.

Allstate brand standard auto premiums written increased 3.5% to $15.70 billion in 2006 from $15.17 billion in 2005, following a 4.7% increase in 2005 from $14.49 billion in 2004. Our Allstate brand standard auto growth strategy includes actions such as the continued rollout of YCA policy options which represented $1.15 billion of premiums written in 2006, increased marketing, the continued refinement of Tiered Pricing, underwriting actions and agency growth, while recognizing that the impact of catastrophe management actions on cross-sell opportunities and competitive pressures in certain markets may lessen their success. These growth strategies are particularly emphasized as applicable in states most impacted by our catastrophe management actions such as Florida, New York and Texas.

Allstate brand standard auto new issued applications are shown in the table below.

(in thousands)	2006	2005	2004
Allstate brand standard auto			
Hurricane exposure states[1]	1,037	999	1,089
California	319	316	322
All other states	627	612	658
Total new issued applications	1,983	1,927	2,069

(1) Hurricane exposure states are Alabama, Connecticut, Delaware, Florida, Georgia, Louisiana, Maine, Maryland, Mississippi, New Hampshire, New Jersey, New York, North Carolina, Pennsylvania, Rhode Island, South Carolina, Texas and Virginia and Washington, D.C.

Allstate brand standard auto new issued applications in the hurricane exposure states increased 3.8% in 2006 when compared to 2005. Included in this increase was a 25.5% increase in the state of Florida due to agency growth, price and product modifications, and improved marketing effectiveness. New issued applications in the hurricane exposure states continue to be impacted by catastrophe management actions on cross-sell opportunities and competitive pressures in certain markets.

Allstate brand standard auto new issued applications decreased 6.9% in 2005 when compared to 2004 primarily due to competitive pressures in certain states and the effects of our catastrophe management actions.

	Allstate brand		
Standard Auto	**2006**	**2005**	**2004**
Renewal ratio (%)	90.0	90.5	90.8
PIF (thousands)	18,084	17,613	17,122
Average premium—gross written (six months)	$ 420	$ 417	$ 411

Allstate brand standard auto premiums written increased in 2006 when compared to 2005 due to increases in PIF and average premium. The 2.7% increase in Allstate brand standard auto PIF as of December 31, 2006 as compared to December 31, 2005 was primarily the result of growth in policies available for renewal and new issued applications, resulting in increases in 35 of our 49 states and in the District of Columbia. Allstate brand standard auto average premium increased 0.7% in 2006 compared to 2005 primarily due to higher average new premiums reflecting a shift by policyholders to newer and more expensive autos, partly offset by net rate decreases. The Allstate brand standard auto renewal ratio declined 0.5 points in 2006 compared to 2005 due to competitive pressures in certain states.

Allstate brand standard auto premiums written increased in 2005 when compared to 2004 due to increases in PIF and average premium. The increase in Allstate brand standard auto PIF as of December 31, 2005 as compared to December 31, 2004 was primarily the result of growth in policies

available for renewal and new issued applications. The increase in the Allstate brand standard auto average premium in 2005 compared to 2004 was primarily due to a shift by policyholders to newer and more expensive autos and, to a lesser extent, rate actions.

Encompass brand standard auto premiums written decreased 3.1% to $1.14 billion in 2006 from $1.17 billion in 2005 due to declines in PIF. PIF declined 1.8% to 1.12 million as of December 31, 2006 as compared to December 31, 2005 due to a decline in the policies available to renew and from the negative impact of our catastrophe management actions in certain markets more than offsetting new business. We expect the rate of decline in Encompass brand standard auto PIF to continue to moderate as we pursue growth opportunities in this channel. The 12-month average premium decreased 0.1% to $983 in 2006 from $984 in 2005. The renewal ratio was 76.4% in 2006 compared to 75.0% in 2005.

Encompass brand standard auto premiums written decreased in 2005 when compared to 2004 due to declines in PIF, partially offset by increases in average premium. PIF declined in 2005 due to insufficient new business to offset the decline in the renewal ratio. The increases in average premium were primarily due to rate activity.

Rate increases that are indicated based on loss trend analysis to achieve a targeted return will continue to be pursued in all locations. The following table shows the net rate changes that were approved for standard auto during 2006 and 2005. These rate changes do not reflect initial rates filed for insurance subsidiaries initially writing new business in a state.

	# of States		Countrywide(%)[1]		State Specific(%)[2]	
	2006	2005	2006[3]	2005[4]	2006[3]	2005[4]
Allstate brand	26	23	(0.2)	0.4	(0.5)	1.0
Encompass brand	16	22	(0.4)	0.7	(1.6)	1.6

(1) Represents the impact in the states where rate changes were approved during 2006 as a percentage of total countrywide prior year-end premiums written.

(2) Represents the impact in the states where rate changes were approved during 2006 as a percentage of total prior year-end premiums written in those states.

(3) Excluding the impact of rate reductions in North Carolina and Texas for Allstate brand, the countrywide rate change is 0.2% and the state specific rate change is 0.9%.

(4) Excluding the impact of a rate reduction in the state of New York for Allstate brand, the countrywide rate change is 0.8% and the state specific rate change is 2.5%.

Non-standard auto premiums written decreased 13.1% to $1.48 billion in 2006 from $1.70 billion in 2005, following an 11.8% decrease in 2005 from $1.93 billion in 2004.

Allstate brand non-standard auto premiums written decreased 12.7% to $1.39 billion in 2006 from $1.59 billion in 2005, following a 10.7% decrease in 2005 from $1.78 billion in 2004. Our Allstate brand non-standard growth strategy includes our new Allstate Blue product which is targeted toward consumers who prefer a recognized brand of insurance and generally have a long-term relationship with their insurer. It was introduced in the state of Virginia during 2006.

	Allstate brand		
Non-Standard Auto	**2006**	**2005**	**2004**
Renewal ratio (%)	75.9	77.6	78.2
PIF (thousands)	943	1,110	1,267
Average premium—gross written (six months)	$ 617	$ 629	$ 631

Allstate brand non-standard auto premiums written decreased in 2006 when compared to 2005 due to declines in PIF and average premium. Allstate brand non-standard auto new issued applications decreased 11.4% in 2006 when compared to 2005 due to lower new business production as agencies continued to focus on our standard auto business. PIF decreased 15.0% as of December 31, 2006 compared to December 31, 2005 due to new business production insufficient to offset the inherently low renewal ratio in this business. The decline of 1.9% in average premium in 2006 compared to 2005 is due to a shift in the geographic mix of business and net rate decreases.

Allstate brand non-standard auto premiums written declined during 2005 when compared to 2004 due to lower new business production, PIF and average premium. The decline in average premium during 2005 when compared to 2004 was due to a shift in the geographic mix of business and net rate decreases.

Encompass brand (Deerbrook) non-standard auto premiums written decreased 19.0% to $94 million in 2006 from $116 million in 2005, primarily due to declines in PIF and average premium. PIF declined 14.4% to 85 thousand as of December 31, 2006 compared to December 31, 2005. Average premium declined 4.6% to $535 in 2006 from $561 in 2005. The renewal ratio was 67.3% in 2006 compared to 65.3% in 2005.

Encompass brand non-standard auto premiums written decreased in 2005 when compared to 2004 primarily because of declines in new business.

Rate increases that are indicated based on loss trend analysis to achieve a targeted return will continue to be pursued in all locations. The following table shows the net rate changes that were approved for non-standard auto during 2006 and 2005. These rate changes do not reflect initial rates filed for insurance subsidiaries initially writing new business in a state.

	# of States		Countrywide(%)[1]		State Specific(%)[2]	
	2006	2005	2006[3]	2005	2006[3]	2005
Allstate brand	3	6	(1.6)	(0.3)	(3.5)	(1.4)
Encompass brand	3	1	—	(0.1)	(0.2)	(0.2)

(1) Represents the impact in the states where rate changes were approved during 2006 as a percentage of total countrywide prior year-end premiums written.

(2) Represents the impact in the states where rate changes were approved during 2006 as a percentage of total prior year-end premiums written in those states.

(3) Excluding the impact of the rate reduction in Texas for Allstate brand, the countrywide rate change is (0.6)% and the state specific rate change is (1.7)%.

Auto premiums written (standard and non-standard) increased 1.5% to $18.32 billion in 2006 from $18.05 billion in 2005, following a 2.4% increase in 2005 from $17.63 billion in 2004.

Allstate brand auto premiums written increased 2.0% to $17.09 billion in 2006 from $16.76 billion in 2005, following a 3.0% increase in 2005 from $16.27 billion in 2004.

	Allstate brand		
Auto	**2006**	**2005**	**2004**
Renewal ratio (%)	89.1	89.6	89.7
PIF (thousands)	19,027	18,723	18,390
Average premium—gross written	$ 431	$ 431	$ 428

Allstate brand auto premiums written increased in 2006 when compared to 2005 due to increases in PIF. The 1.6% increase in Allstate brand auto PIF as of December 31, 2006 compared to December 31, 2005 was the result of growth in policies available for renewal and new issued applications. Allstate brand auto new issued applications increased 0.9% to 2.26 million in 2006 when compared to 2005 due to agency growth and national and local marketing, partially offset by the impact of catastrophe management actions on cross-sell opportunities and competitive pressures in certain markets. The Allstate brand auto average premium was comparable in 2006 to 2005 as Allstate brand standard auto average premium increase was offset by Allstate brand non-standard auto average premium decrease in 2006 compared to 2005. The Allstate brand auto renewal ratio declined 0.5 points in 2006 compared to 2005 due to competitive pressures in certain states.

Allstate brand auto premiums written increased in 2005 when compared to 2004 due to increases in PIF and average premiums, partially offset by a decrease in new issued applications of 7.9% primarily related to competitive pressures in certain states and the effects of our catastrophe management actions.

The increase in Allstate brand auto PIF as of December 31, 2005 as compared to December 31, 2004 was the result of new business. The increase in the Allstate brand auto average premium in 2005 compared to 2004 was primarily due to a shift by policyholders to newer and more expensive autos and, to a lesser extent, rate actions.

Encompass brand auto premiums written decreased 4.5% to $1.23 billion in 2006 compared to $1.29 billion in 2005 due to declines in PIF. PIF declined 2.8% as of December 31, 2006 compared to December 31, 2005 due to a decline in policies available for renewal and from the negative impact of our catastrophe management actions in certain markets more than offsetting new business. Average premium (12-month for standard auto and six-month for non-standard) increased 0.4% to $926 in 2006 from $922 in 2005 primarily due to a shift by policyholders to newer and more expensive autos, partially offset by a change in the mix of business to polices with a lower average premium. The renewal ratio was 75.2% in 2006 compared to 73.5% in 2005.

Encompass brand auto premiums written decreased in 2005 when compared to 2004 due to declines in PIF, partially offset by increase in average premium. The increases in average premium are primarily due to rate activity. PIF declined in 2005 due to insufficient new business to offset declines due to decreases in the renewal ratio.

Rate increases that are indicated based on loss trend analysis to achieve a targeted return will continue to be pursued in all locations. The following table shows the net rate changes that were approved for auto during 2006 and 2005. These rate changes do not reflect initial rates filed for insurance subsidiaries initially writing new business in a state.

	# of States		Countrywide(%)[1]		State Specific(%)[2]	
	2006	2005	2006[3]	2005[4]	2006[3]	2005[4]
Allstate brand	26	23	(0.3)	0.3	(0.9)	0.9
Encompass brand	18	22	(0.3)	0.6	(1.6)	1.5

(1) Represents the impact in the states where rate changes were approved during 2006 as a percentage of total countrywide prior year-end premiums written.

(2) Represents the impact in the states where rate changes were approved during 2006 as a percentage of total prior year-end premiums written in those states.

(3) Excluding the impact of rate reductions in North Carolina and Texas for Allstate brand, the countrywide rate change is 0.1% and the state specific rate change is 0.6%.

(4) Excluding the impact of a rate reduction in the state of New York for Allstate brand, the countrywide rate change is 0.7% and the state specific rate change is 2.3%.

Homeowners premiums written decreased 2.0% to $6.52 billion in 2006 from $6.65 billion in 2005, following a 7.4% increase in 2005 from $6.19 billion in 2004. Excluding the cost of catastrophe reinsurance, premiums written grew 3.0% in 2006 and 8.5% in 2005 compared to the prior year. For a more detailed discussion on reinsurance, see the Property-Liability Claims and Claims Expense Reserves section of the MD&A and Note 9 of the consolidated financial statements.

Allstate brand homeowners premiums written declined 1.9% to $5.93 billion in 2006 from $6.04 billion in 2005, following a 7.1% increase in 2005 from $5.64 billion in 2004. Catastrophe management actions have had an impact on our new business writings for homeowners insurance during 2006 and 2005, as demonstrated by the decline in Allstate brand homeowners new issued applications in the following table. We expect this trend to continue in 2007 while we address our catastrophe exposure.

(in thousands)	2006	2005	2004
Allstate brand homeowners			
Hurricane exposure states[1]	472	574	639
California	56	111	156
All other states	459	497	495
Total new issued applications	987	1,182	1,290

(1) Hurricane exposure states are Alabama, Connecticut, Delaware, Florida, Georgia, Louisiana, Maine, Maryland, Mississippi, New Hampshire, New Jersey, New York, North Carolina, Pennsylvania, Rhode Island, South Carolina, Texas and Virginia and Washington, D.C.

Allstate brand homeowners new issued applications decreased in almost all hurricane exposure states in 2006 when compared to 2005 as a result of our catastrophe management actions. The decrease in California new issued applications in 2006 is due to changes in underwriting requirements related to

catastrophe management actions. The decrease in all other states in 2006 includes the impact of earthquake coverage-related actions.

Homeowners	Allstate brand		
	2006	2005	2004
Renewal ratio (%)	87.3	88.2	88.4
PIF (thousands)	7,836	7,828	7,572
Average premium—gross written (12 months)	$ 832	$ 799	$ 757

Allstate brand homeowners premiums written declined in 2006 when compared to 2005 due to increases in ceded reinsurance premiums, partially offset by increases in PIF and average premium. The 0.1% increase in Allstate brand homeowners PIF as of December 31, 2006 as compared to December 31, 2005 is the result of growth in policies available for renewal.

PIF and renewal ratio have been negatively impacted by our catastrophe management actions. This trend will continue into 2007 due to actions such as our decision to discontinue offering coverage by Allstate Floridian Insurance Company and its subsidiaries ("Allstate Floridian") on approximately 120,000 property policies, as part of a renewal rights and reinsurance arrangement with Royal Palm Insurance Company ("Royal Palm") commencing in the fourth quarter of 2006 ("Royal Palm 1"), and an additional 106,000 property policies under a renewal rights agreement in anticipation of entering into a reinsurance agreement with Royal Palm ("Royal Palm 2"), and as noted below the impact of a similar arrangement with Universal Insurance Company of North America ("Universal") entered into in 2005. Allstate Floridian plans to no longer offer coverage on the policies involved in Royal Palm 1 and Royal Palm 2, at which time Royal Palm may offer coverage to these policyholders. The policies involved in Royal Palm 1 expired at the rate of 4% in the fourth quarter of 2006. The policies involved in Royal Palm 1 and Royal Palm 2 are expected to expire at a rate of 3% in the first quarter of 2007, 26% in the second quarter of 2007, 27% in the third quarter of 2007, 22% in the fourth quarter of 2007 and 18% in the first quarter of 2008. As of February 1, 2007, Royal Palm 1 had approximately 94,000 policies that had not expired.

On January 30, 2007, Emergency Rule 69OER7-1 was enacted by the Florida Financial Services Commission, the provisions of which temporarily limit policy non-renewals and filings for rate increases. Subsequently on February 19, 2007, an Order that the Office of Insurance Regulation was required to make by new property legislation provided further clarity on the temporary limitations on policy renewals imposed by Emergency Rule 69OER7-1. The February 19 order requires property insurers to file new and lower rates, which reflect the lower cost of acquiring additional reimbursement protection from the Florida Hurricane Catastrophe Fund ("FHCF") as compared to purchasing reinsurance coverage, prior to commencing new non-renewal notices. We intend to comply with these requirements and do not anticipate any signficant delays or impacts on the renewal rights agreements and anticipated reinsurance agreement with Royal Palm.

The Allstate brand homeowners average premium increased 4.1% in 2006 when compared to 2005 primarily due to higher average renewal premiums related to increases in insured value and rate changes approved including our net cost of reinsurance. The Allstate brand homeowners renewal ratio declined 0.9 points in 2006 compared to 2005 primarily due to our catastrophe management actions.

Allstate brand homeowners premiums written increased in 2005 compared to 2004, primarily due increases in PIF and average premium. The increase in Allstate brand homeowners PIF as of December 31, 2005 compared to December 31, 2004 is the result of new business partly offset by the impact of our agreement with Universal. Under our agreement with Universal we discontinued offering coverage by Allstate Floridian on approximately 95,000 property policies commencing in the third quarter

of 2005. Allstate Floridian no longer offers coverage when these policies expire. The policies involved in the Universal agreement expired at a rate of 13% in the third quarter of 2005, 21% in the fourth quarter of 2005, 20% in the first quarter of 2006, 25% in the second quarter of 2006, 13% in the third quarter of 2006, 2% in the fourth quarter of 2006. Of the remaining 6%, 1% expired in January 2007 and 5% are subject to the non-renewal regulations in Florida discussed above.

The increases in Allstate brand homeowners average premium during 2005 were primarily due to higher average renewal premiums, primarily related to increases in insured value along with rate actions taken in the current and prior years.

Encompass brand homeowners premiums written decreased 3.6% to $589 million in 2006 as compared to $611 million in 2005 due to increases in ceded reinsurance and declines in PIF, partially offset by increases in average premium. PIF declined 3.3% to 527 thousand as of December 31, 2006 compared to December 31, 2005 due to lower retention. The 12 month average premium increased 4.6% to $1,136 in 2006 from $1,086 in 2005, due to rate actions taken during the current and prior year and increases in insured value. The renewal ratio was 84.0% in 2006 compared to 88.1% in 2005. The decline in the renewal ratio was primarily due to catastrophe management actions.

Encompass brand homeowners premiums written increased in 2005 due to increases in PIF and average premium. Increases in Encompass brand homeowners average premium were due to rate actions taken during the current and prior year and increases in insured value.

We continue to pursue rate changes for homeowners in all locations when indicated. The following table shows the net rate changes that were approved for homeowners during 2006 and 2005, including rate changes approved based on our net cost of reinsurance. For a discussion relating to reinsurance costs, see the Property-Liability Claims and Claims Expense Reserves section of the MD&A.

	# of States		**Countrywide(%)[1]**		**State Specific(%)[2]**	
	2006	**2005**	**2006[3]**	**2005**	**2006[3]**	**2005**
Allstate brand	26[4]	13	2.4	1.0	2.6	5.0
Encompass brand	22[4]	19	2.3	1.5	4.9	3.6

(1) Represents the impact in the states where rate changes were approved during 2006 as a percentage of total countrywide prior year-end premiums written.

(2) Represents the impact in the states where rate changes were approved during 2006 as a percentage of total prior year-end premiums written in those states.

(3) Excluding the impact of rate reductions in Texas for the Allstate brand, the countrywide rate change is 3.1% and the state specific rate change is 5.7%.

(4) Includes Washington D.C.

Underwriting results are shown in the following table.

(in millions)	2006	2005	2004
Premiums written	$ 27,525	$ 27,393	$ 26,527
Premiums earned	$ 27,366	$ 27,038	$ 25,983
Claims and claims expense	(15,885)	(21,008)	(17,208)
Amortization of DAC	(4,131)	(4,092)	(3,874)
Other costs and expenses	(2,557)	(2,360)	(2,387)
Restructuring and related charges	(157)	(39)	(46)
Underwriting income (loss)	$ 4,636	$ (461)	$ 2,468
Catastrophe losses	$ 810	$ 5,674	$ 2,468
Underwriting income (loss) by brand			
Allstate brand	$ 4,451	$ (437)	$ 2,340
Encompass brand	185	(24)	128
Underwriting income (loss)	$ 4,636	$ (461)	$ 2,468

Allstate Protection generated underwriting income of $4.64 billion during 2006 compared to an underwriting loss of $461 million in 2005. The improvement was due to lower catastrophe losses, increased premiums earned, declines in auto and homeowners claim frequency excluding catastrophes and higher favorable reserve reestimates related to prior years including $223 million of favorable development relating to catastrophe losses, partially offset by the higher cost of the catastrophe reinsurance program and increased current year severity. For further discussion and quantification of the impact of reserve estimates and assumptions, see the Claims and Claims Expense Reserves section of the MD&A.

Allstate Protection generated an underwriting loss of $461 million during 2005 compared to underwriting income of $2.47 billion in 2004. The decline was the result of increased catastrophe losses, lower favorable reserve reestimates related to prior years including $94 million of unfavorable development relating to catastrophe losses and increased current year claim severity, partly offset by increased premiums earned, declines in auto and homeowners claim frequency excluding catastrophes and lower operating costs. In 2005, claims and claims expense and the claims and claims expense ratio include the effect of $120 million or 0.4 points related to an accrual for a settlement of a worker classification lawsuit challenging our overtime exemption under California wage and hour laws ("accrual for litigation"). Claims and claims expense during 2005 includes estimated catastrophe losses of $5.00 billion, net of reinsurance and other recoveries, related to hurricanes Katrina, Rita and Wilma, and 2004 includes estimated catastrophe losses of $2.00 billion, net of recoveries from the FHCF, related to hurricanes Charley, Frances, Ivan, and Jeanne. These estimates include net losses on personal lines auto and property policies and net losses on commercial policies. For a further discussion of catastrophe losses, see page 41.

Loss ratios are a measure of profitability. Loss ratios by product, and expense and combined ratios by brand, are shown in the following table. These ratios are defined on page 24.

				Effect of Catastrophe Losses on the Loss Ratio		
	2006	**2005**	**2004**	**2006**	**2005**	**2004**
Allstate brand loss ratio:						
Standard auto	61.5	65.7	64.4	0.6	2.9	0.7
Non-standard auto	56.1	57.8	53.9	—	2.6	0.9
Auto	61.1	64.9	63.2	0.5	2.8	0.7
Homeowners	50.4	110.7	67.4	10.9	70.5	29.2
Other	52.1	91.7	84.6	(0.9)	35.3	27.7
Total Allstate brand loss ratio	57.8	78.2	66.3	2.8	21.8	9.8
Allstate brand expense ratio	24.7	23.5	23.9			
Allstate brand combined ratio	82.5	101.7	90.2			
Encompass brand loss ratio:						
Standard auto	60.0	66.9	61.3	(0.3)	1.7	0.5
Non-standard auto (Deerbrook)	76.5	67.2	75.8	1.0	0.8	0.6
Auto	61.3	67.0	63.1	(0.2)	1.7	0.6
Homeowners	58.6	77.8	63.7	17.3	30.6	16.4
Other	81.6	82.1	84.4	7.9	17.9	5.7
Total Encompass brand loss ratio	62.1	71.3	64.7	5.6	11.2	5.1
Encompass brand expense ratio	28.7	29.9	29.0			
Encompass brand combined ratio	90.8	101.2	93.7			
Total Allstate Protection loss ratio	58.1	77.7	66.2	3.0	21.0	9.5
Allstate Protection expense ratio	25.0	24.0	24.3			
Allstate Protection combined ratio	83.1	101.7	90.5			

MD&A

Standard auto loss ratio decreased 4.2 points for the Allstate brand and 6.9 points for the Encompass brand in 2006 when compared to 2005 due to lower catastrophes, higher premiums earned in Allstate brand, lower claim frequency excluding catastrophes and favorable reserve reestimates related to prior years, partially offset by higher current year claim severity. Standard auto loss ratio increased 1.3 points for the Allstate brand and 5.6 points for the Encompass brand in 2005 when compared to 2004. The increases were due to higher catastrophe losses and higher current year claim severity more than offsetting higher premiums earned in Allstate brand and lower claim frequency excluding catastrophes. The Allstate brand loss ratio in 2005 also included the impact of an accrual for litigation of 0.6 points. The Encompass brand standard auto loss ratio in 2005 was also unfavorably impacted as a result of higher current year claim severity partially offset by lower claim frequency.

Non-standard auto loss ratio for the Allstate brand decreased 1.7 points in 2006 when compared to 2005 due to lower catastrophes, lower claim frequency and favorable reserve reestimates related to prior years, partially offset by higher current year claim severity and lower premiums earned. Non-standard auto loss ratio for the Encompass brand increased 9.3 points in 2006 when compared to 2005 due to higher current year claim severity and lower premiums earned, partially offset by lower catastrophes and

lower claim frequency excluding catastrophes. Non-standard auto loss ratio for the Allstate brand increased 3.9 points in 2005 when compared to 2004 due to decreases in premiums earned, higher catastrophe losses and higher current year claim severity partly offset by lower claim frequency. The Allstate brand loss ratio in 2005 also included an accrual for litigation of 0.2 points. Non-standard auto loss ratio for the Encompass brand decreased 8.6 points in 2005 when compared to 2004 due to lower claim frequency, partially offset by higher current year claim severity.

Auto loss ratio decreased 3.8 points for the Allstate brand and 5.7 points for the Encompass brand in 2006 when compared to 2005 due to lower catastrophes, higher premiums earned in Allstate brand, lower claim frequency excluding catastrophes and favorable reserve reestimates related to prior years, partially offset by higher current year claim severity. Auto loss ratio increased 1.7 points for the Allstate brand and 3.9 points for the Encompass brand in 2005 when compared to 2004. The increases were due to higher premiums earned in Allstate brand and lower claim frequency excluding catastrophes being more than offset by higher catastrophe losses and higher current year claim severity. The Allstate brand loss ratio in 2005 also included an accrual for litigation of 0.6 points.

Homeowners loss ratio decreased 60.3 points for the Allstate brand and 19.2 points for the Encompass brand in 2006 when compared to 2005 due to lower catastrophes, higher premiums earned, lower claim frequency excluding catastrophes, and higher favorable Allstate brand reserve reestimates related to prior years, partially offset by higher current year claim severity and higher ceded earned premium for catastrophe reinsurance. Homeowners loss ratio increased 43.3 points for the Allstate brand and 14.1 points for the Encompass brand in 2005 when compared to 2004. The increases were due to higher catastrophe losses, unfavorable reserve reestimates related to prior years and higher current year claim severity partially offset by higher premiums earned and lower claim frequency excluding catastrophes. The Allstate brand loss ratio in 2005 also included an accrual for litigation of 0.2 points.

Expense ratio for Allstate Protection increased 1.0 points in 2006 when compared to 2005 primarily due to increased restructuring and related charges due to a Voluntary Termination Offer (''VTO''), increased employee benefits and incentives, increased marketing and the impact of higher ceded premiums for catastrophe reinsurance. In 2005, the ratio decreased primarily due to a reduction in employee incentives due to lower financial results for 2005.

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

	Allstate brand			Encompass brand			Allstate Protection		
	2006	2005	2004	2006	2005	2004	2006	2005	2004
Amortization of DAC	14.7	14.7	14.5	19.7	20.5	19.6	15.1	15.1	14.9
Other costs and expenses	9.4	8.7	9.2	8.7	9.1	9.0	9.3	8.7	9.2
Restructuring and related charges	0.6	0.1	0.2	0.3	0.3	0.4	0.6	0.2	0.2
Total expense ratio	24.7	23.5	23.9	28.7	29.9	29.0	25.0	24.0	24.3

The expense ratio for the standard auto and homeowners businesses generally approximates the total Allstate Protection expense ratio of 25.0 in 2006, 24.0 in 2005 and 24.3 in 2004. The expense ratio for the non-standard auto business generally is lower than the total Allstate Protection expense ratio due to lower agent commission rates and higher average premiums for non-standard auto as compared to standard auto. The Encompass brand DAC amortization is higher on average than Allstate brand DAC amortization due to higher commission rates.

Allstate Protection underwriting income was impacted by restructuring charges. For a more detailed discussion of these charges, see Note 12 of the consolidated financial statements. Net income was favorably impacted in 2005 by adjustments of prior years' tax liabilities totaling $40 million.

DAC We establish a DAC asset for costs that vary with and are primarily related to acquiring business, principally agents' remuneration, premium taxes, certain underwriting and direct mail solicitation expenses. For the Allstate Protection business, DAC is amortized to income consistent with the time frames in which premiums are earned.

The balance of DAC for each product type at December 31, is included in the following table.

	Allstate brand		Encompass brand		Total Allstate Protection	
(in millions)	2006	2005	2006	2005	2006	2005
Standard auto	$ 575	$ 554	$108	$113	$ 683	$ 667
Non-standard auto	47	55	3	3	50	58
Auto	622	609	111	116	733	725
Homeowners	470	464	62	65	532	529
Other personal lines	207	214	13	16	220	230
Total DAC	$1,299	$1,287	$186	$197	$1,485	$1,484

Catastrophe Management

Catastrophe Losses are an inherent risk of the property-liability insurance industry that have contributed, and will continue to contribute, to potentially material year-to-year fluctuations in our results of operations and financial position. We define a "catastrophe" as an event that produces pretax losses before reinsurance in excess of $1 million and involves multiple first party policyholders, or an event that produces a number of claims in excess of a preset, per-event threshold of average claims in a specific area, occurring within a certain amount of time following the event. Catastrophes are caused by various natural events including earthquakes, volcanoes, wildfires, tornadoes, hailstorms, hurricanes, tropical storms, high winds and winter storms. We are also exposed to certain human-made catastrophic events, such as certain acts of terrorism or industrial accidents. The nature and level of catastrophes in any period cannot be predicted.

Historical Catastrophe Experience Since the beginning of 1992, the average annual impact of catastrophes on our Property-Liability loss ratio was 7.2 points. However, this average does not reflect the

impact of some of the more significant actions we have taken to limit our catastrophe exposure. Consequently, we think it is useful to consider the impact of catastrophes after excluding losses that are now partially or substantially covered by the California Earthquake Authority (''CEA''), FHCF or placed with a third party, such as hurricane coverage in Hawaii. The average annual impact of all catastrophes, excluding losses from Hurricanes Andrew and Iniki and losses from California earthquakes, on our Property-Liability loss ratio was 5.8 points since the beginning of 1992.

Comparatively, the average annual impact of catastrophes on the homeowners loss ratio for the years 1992 through 2006 is shown in the following table.

	Average annual impact of catastrophes on the homeowners loss ratio	Average annual impact of catastrophes on the homeowners loss ratio excluding losses from Hurricanes Andrew and Iniki, and losses from California earthquakes
Hurricane exposure states	34.7	28.9
All other	21.4	14.6
Total	28.7	22.4

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

Actions we have taken or are considering to attain an acceptable catastrophe exposure level in our property business include:

- removing wind coverage from certain policies and allowing our agencies to help customers apply for wind coverage through state facilities such as wind pools;
- changes in rates, deductibles and coverage;
- limitations on new business writings;
- changes to underwriting requirements, including limitations in coastal and adjacent counties;
- not offering continuing coverage to some existing policyholders;
- purchasing reinsurance or engaging in other forms of risk transfer arrangements;
- discontinuing coverage for certain types of residences; and/or
- withdrawing from certain geographic markets.

In the normal course of business, we may supplement our 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. For example, our longstanding contract with Pilot Catastrophe Services (''Pilot'') for additional claims adjusters contributes to our ability to complete more timely settlement of catastrophe claims.

Hurricanes

We consider the greatest areas of potential catastrophe losses due to hurricanes to generally be major metropolitan centers in counties along the eastern and gulf coasts of the United States. Generally, the average premium on a property policy near these coasts is greater than other areas.

We are addressing our risk of hurricane loss by, among other actions, purchasing additional reinsurance for specific states and on a countrywide basis for our personal lines property insurance, and in areas most exposed to hurricanes (for further information on our reinsurance program see the Property-Liability Claims and Claims Expense Reserves section of the MD&A); limiting personal homeowners new business writings in coastal areas in southern and eastern states; not offering continuing coverage on certain policies in coastal counties in New York and certain other states; and entering into Royal Palm 1 and Royal Palm 2. Our actions are expected to continue during 2007 in northeastern and certain other hurricane prone states.

In January of 2007 the state of Florida enacted new property legislation which, among other actions, expands the capacity of the FHCF, prohibits excess profits for property insurers in the state, expands the time for non-renewal notification, requires carriers writing certain types of auto coverages in the state to also write homeowners coverage unless that carrier is affiliated with a carrier that writes homeowners insurance in that state, and expands policyholder eligibility for Citizens Property Insurance Corporation (''FL Citizens''). FL Citizens was created by the state to provide insurance to property owners unable to obtain coverage in the private insurance market. The comprehensive and extensive legislative changes essentially position FL Citizens to be a direct competitor to the private insurance property market participants. See Note 13 for a description of the ability of FL Citizens to assess participating insurance companies for its financial deficit. We are currently assessing the impact of this legislation on our catastrophe risk management strategy in the state of Florida.

Earthquakes

Actions taken related to our risk of earthquake loss include purchasing reinsurance on a countrywide basis and in the state of Kentucky for our personal lines property insurance; no longer offering new optional earthquake coverage in most states; removing optional earthquake coverage on approximately 250,000 property policies at December 31, 2006 (approximately 400,000 property policies at December 31, 2005) upon renewal in most states; and entering into arrangements to make earthquake coverage available through other insurers for new and renewal business. These arrangements with third party insurers include many of the approximately 170,000 renewal property customers at December 31, 2006 in the states of Alabama, Alaska, Arkansas, Illinois, Indiana, Missouri, Mississippi, Ohio, Oregon, South Carolina, Tennessee, Utah and Washington.

By the end of 2007, we anticipate that we will have eliminated approximately 90% of our optional earthquake coverages countrywide, based on our policies in force at December 31, 2005. Allstate's premiums written attributable to optional earthquake coverage totaled approximately $33 million in 2006 ($60 million in 2005).

While this is a countrywide strategy, we will continue to have optional earthquake coverage available in certain states due to regulatory and other reasons. We also will continue to have exposure to earthquake risk on certain policies and coverages that do not specifically exclude coverage for earthquake losses, including our auto policies, and to fires following earthquakes. Allstate policyholders in the state of California are offered coverage through the CEA, a privately-financed, publicly-managed state agency created to provide insurance coverage for earthquake damage. Allstate is subject to assessments from the CEA under certain circumstances.

Fires Following Earthquakes

Actions taken related to our risk of loss from fires following earthquakes include changing homeowners underwriting requirements in California and purchasing additional reinsurance on a countrywide basis, in California and in Kentucky.

Allstate Protection Outlook

- Allstate Protection premiums written in 2007 will be slightly higher than 2006 levels. We expect continued growth of Allstate brand auto premiums written due to increased PIF resulting from increases in the number of agencies representing us, advertising effectiveness and higher customer loyalty, being partially offset by the estimated effects of catastrophe management actions on homeowners and other property premiums, including the impacts of increased ceded premiums for catastrophe reinsurance totaling approximately $165 million during 2007.
- We plan to introduce our new non-standard auto product, Allstate Blue, in selective states during 2007. We anticipate that this new product will contribute favorably to the non-standard premiums written trends.
- We expect that volatility in the level of catastrophes we experience will contribute to variation in our underwriting results, however this volatility will be somewhat mitigated due to our catastrophe management actions including purchases of reinsurance.
- We expect our auto and homeowners frequencies, excluding catastrophes, during 2007 to be comparable with 2006 results and auto and homeowners severity increases to be consistent with relevant indices.
- We plan to continue to study the efficiencies of our operations and cost structure for additional areas where costs may be reduced. Any reductions in costs we achieve, however, may be offset by the costs of other new initiatives, such as increased expenditures for marketing and technology.

DISCONTINUED LINES AND COVERAGES SEGMENT

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

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

(in millions)	2006	2005	2004
Premiums written	$ 1	$ (2)	$ 4
Premiums earned	$ 3	$ 1	$ 6
Claims and claims expense	(132)	(167)	(635)
Other costs and expenses	(10)	(9)	(9)
Underwriting loss	$(139)	$(175)	$(638)

Underwriting loss of $139 million in 2006 primarily related to an $86 million reestimate of asbestos reserves. Also contributing to the 2006 underwriting loss was a $10 million reestimate of environmental reserves and a $26 million increase in the allowance for future uncollectible reinsurance recoverables. The cost of administering claims settlements totaled $19 million, $18 million and $22 million for the years ended December 31, 2006, 2005 and 2004, respectively.

During 2005, the underwriting loss was primarily due to reestimates of asbestos reserves totaling $139 million.

During 2004, the underwriting loss was primarily due to reestimates of asbestos reserves totaling $463 million, and an increase of $136 million in the allowance for future uncollectible reinsurance.

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

Discontinued Lines and Coverages Outlook

- We may continue to experience asbestos losses in the future. These losses could be due to the potential adverse impact of new information relating to new and additional claims or the impact of resolving unsettled claims based on unanticipated events such as litigation or legislative, judicial and regulatory actions. Because of our annual "ground up" review, we believe that our reserves are appropriately established based on available information, technology, laws and regulations.
- We are somewhat encouraged that the pace of industry asbestos claim activity seems to be slowing, perhaps reflecting various recent state legislative and judicial actions with respect to medical criteria and increased legal scrutiny of the legitimacy of claims.

PROPERTY-LIABILITY INVESTMENT RESULTS

Net investment income increased 3.5% in 2006 when compared to 2005, after increasing 1.0% in 2005 when compared to 2004. These increases were due to higher income from partnerships and higher fixed income portfolio balances.

The following table presents the average pretax investment yields for the year ended December 31.

	2006[1][3]	2005[1][3]	2004[2][3]
Fixed income securities: tax-exempt	5.1%	5.2%	5.4%
Fixed income securities: tax-exempt equivalent	7.4	7.6	7.9
Fixed income securities: taxable	5.3	5.0	5.2
Equity securities	5.1	4.8	4.6
Mortgage loans	5.2	5.5	5.5
Total portfolio	5.2	5.0	5.1

(1) Pretax yield is calculated as investment income (including dividend income in the case of equity securities) divided by the average of the investment balances at the beginning and end of period and any interim quarters.

(2) Pretax yield is calculated as investment income (including dividend income in the case of equity securities) divided by the average of the beginning and end of period investment balances.

(3) Amortized cost basis is used to calculate the average investment balance for fixed income securities and mortgage loans. Cost is used for equity securities.

Net realized capital gains and losses, after-tax were $227 million in 2006 compared to $339 million in 2005 and $397 million in 2004. The following table presents the factors driving the net realized capital gains and losses results.

(in millions)	2006	2005	2004
Investment write-downs	$ (26)	$ (30)	$ (46)
Dispositions	451	516	697
Valuation of derivative instruments	43	10	10
Settlements of derivative instruments	(120)	20	(69)
Realized capital gains and losses, pretax	348	516	592
Income tax expense	(121)	(177)	(195)
Realized capital gains and losses, after-tax	$ 227	$ 339	$ 397

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

Property-Liability Investment Outlook

- We expect the level of dividends paid by Allstate Insurance Company ("AIC") to The Allstate Corporation in 2007 to increase from 2006 which may lead to a decline in portfolio balances and investment income.

PROPERTY-LIABILITY CLAIMS AND CLAIMS EXPENSE RESERVES

Underwriting results of Property-Liability are significantly influenced by estimates of property-liability claims and claims expense reserves. For a description of our reserve process, see Note 7 of the consolidated financial statements and for a further description of our reserving policies and the potential variability in our reserve estimates, see the Application of Critical Accounting Estimates section of the MD&A. These reserves are an estimate of amounts necessary to settle all outstanding claims, including IBNR claims, as of the reporting date.

The facts and circumstances leading to our reestimate of reserves relate to revisions to the development factors used to predict how losses are likely to develop from the end of a reporting period until all claims have been paid. Reestimates occur because actual losses are different than that predicted by the estimated development factors used in prior reserve estimates. At December 31, 2006, the impact of a reserve reestimation resulting in a one percent increase or decrease in net reserves would be a decrease or increase of approximately $108 million in net income.

The table below shows total net reserves as of December 31, 2006, 2005 and 2004 for Allstate brand, Encompass brand and Discontinued Lines and Coverages lines of business.

(in millions)	2006	2005	2004
Allstate brand	$13,220	$15,423	$13,204
Encompass brand	1,236	1,331	1,230
Total Allstate Protection	$14,456	$16,754	$14,434
Discontinued Lines and Coverages	2,154	2,177	2,327
Total Property-Liability	$16,610	$18,931	$16,761

The table below shows reserves, net of reinsurance, representing the estimated cost of outstanding claims as they were recorded at the beginning of years 2006, 2005 and 2004, and the effect of reestimates in each year.

(in millions)	2006 Jan 1 Reserves	2006 Reserve Reestimate(1)	2005 Jan 1 Reserves	2005 Reserve Reestimate(1)	2004 Jan 1 Reserves	2004 Reserve Reestimate(1)
Allstate brand	$15,423	$(1,085)	$13,204	$(613)	$12,866	$(872)
Encompass brand	1,331	(18)	1,230	(22)	1,277	7
Total Allstate Protection	$16,754	$(1,103)	$14,434	$(635)	$14,143	$(865)
Discontinued Lines and Coverages	2,177	132	2,327	167	1,837	635
Total Property-Liability	$18,931	$ (971)	$16,761	$(468)	$15,980	$(230)
Reserve reestimates, after-tax		$ (631)		$(304)		$(150)
Net income		4,993		1,765		3,181
Reserve reestimates as a % of net income		12.6%		17.2%		4.7%

(1) Favorable reserve reestimates are shown in parentheses.

Allstate Protection

The table below shows Allstate Protection net reserves representing the estimated cost of outstanding claims as they were recorded at the beginning of years 2006, 2005 and 2004, and the effect of reestimates in each year.

(in millions)	2006 Jan 1 Reserves	2006 Reserve Reestimate	2005 Jan 1 Reserves	2005 Reserve Reestimate	2004 Jan 1 Reserves	2004 Reserve Reestimate
Auto	$10,460	$ (737)	$10,228	$(661)	$10,419	$(657)
Homeowners	3,675	(244)	1,917	7	1,873	(169)
Other Lines	2,619	(122)	2,289	19	1,851	(39)
Total Allstate Protection	$16,754	$(1,103)	$14,434	$(635)	$14,143	$(865)
Underwriting income (loss)		4,636		(461)		2,468
Reserve reestimates as a % of underwriting income (loss)		23.8%		137.7%		35.0%

Auto reserve reestimates in 2006, 2005 and 2004 were primarily the result of auto injury severity development that was better than expected and late reported loss development that was better than expected, primarily due to lower frequency trends in recent years.

Homeowners reserve reestimates in 2006 were primarily due to favorable catastrophe reestimates including a decrease in the expected assessment from FL Citizens, late reported loss development that was better than expected and injury severity development that was better than expected.

Unfavorable homeowner reserve reestimates in 2005 were primarily due to severity development that was greater than expected. In 2005, reestimates included $66 million related to 2004 hurricanes of which

$31 million was the FL Citizens assessment that was accruable in 2005. These were offset primarily by late reported loss development that was better than expected.

Homeowners reserve reestimates in 2004 were primarily due to late reported loss development that was better than expected.

Other lines reserve reestimates in 2006 were primarily due to favorable catastrophe reestimates and the result of claim severity development different than anticipated in previous estimates. Other lines reserve reestimates in 2005 and 2004 were primarily the result of claim severity development different than anticipated in previous estimates.

Pending, new and closed claims for Allstate Protection, for the years ended December 31, are summarized in the following table.

Number of Claims	2006	2005	2004
Auto			
Pending, beginning of year	569,334	551,211	569,549
New	5,256,600	5,615,440	5,367,891
Total closed	(5,303,390)	(5,597,317)	(5,386,229)
Pending, end of year	522,544	569,334	551,211
Homeowners			
Pending, beginning of year	197,326	84,910	62,080
New	835,900	1,329,164	995,569
Total closed	(960,238)	(1,216,748)	(972,739)
Pending, end of year	72,988	197,326	84,910
Other lines			
Pending, beginning of year	79,560	60,572	46,671
New	312,546	427,956	385,298
Total closed	(349,852)	(408,968)	(371,397)
Pending, end of year	42,254	79,560	60,572
Total Allstate Protection			
Pending, beginning of year	846,220	696,693	678,300
New	6,405,046	7,372,560	6,748,758
Total closed	(6,613,480)	(7,223,033)	(6,730,365)
Pending, end of year	637,786	846,220	696,693

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

The following tables reflect the accident years to which the reestimates shown above are applicable for Allstate brand, Encompass brand and Discontinued Lines and Coverages lines of business. Favorable reserve reestimates are shown in these tables in parentheses.

2006 Prior year reserve reestimates

(in millions)	1996 & Prior	1997	1998	1999	2000	2001	2002	2003	2004	2005	Total
Allstate brand	$ 18	$(8)	$(3)	$(5)	$(2)	$(22)	$(2)	$(48)	$(282)	$(731)	$(1,085)
Encompass brand	—	—	—	—	—	(6)	—	(10)	(22)	20	(18)
Total Allstate Protection	18	(8)	(3)	(5)	(2)	(28)	(2)	(58)	(304)	(711)	(1,103)
Discontinued Lines and Coverages	132	—	—	—	—	—	—	—	—	—	132
Total Property-Liability	$150	$(8)	$(3)	$(5)	$(2)	$(28)	$(2)	$(58)	$(304)	$(711)	$ (971)

2005 Prior year reserve reestimates

(in millions)	1995 & Prior	1996	1997	1998	1999	2000	2001	2002	2003	2004	Total
Allstate brand	$124	$(5)	$(1)	$(17)	$1	$(15)	$(10)	$(43)	$(256)	$(391)	$(613)
Encompass brand	—	—	—	—	—	(2)	(1)	(6)	(9)	(4)	(22)
Total Allstate Protection	124	(5)	(1)	(17)	1	(17)	(11)	(49)	(265)	(395)	(635)
Discontinued Lines and Coverages	167	—	—	—	—	—	—	—	—	—	167
Total Property-Liability	$291	$(5)	$(1)	$(17)	$1	$(17)	$(11)	$(49)	$(265)	$(395)	$(468)

2004 Prior year reserve reestimates

(in millions)	1994 & Prior	1995	1996	1997	1998	1999	2000	2001	2002	2003	Total
Allstate brand	$131	$28	$11	$(11)	$(26)	$(57)	$(102)	$(105)	$(192)	$(549)	$(872)
Encompass brand	(4)	—	—	—	—	8	10	2	9	(18)	7
Total Allstate Protection	127	28	11	(11)	(26)	(49)	(92)	(103)	(183)	(567)	(865)
Discontinued Lines and Coverages	635	—	—	—	—	—	—	—	—	—	635
Total Property-Liability	$762	$28	$11	$(11)	$(26)	$(49)	$ (92)	$(103)	$(183)	$(567)	$(230)

Allstate brand experienced $1,085 million and $613 million of favorable prior year reserve reestimates in 2006 and 2005, respectively. This was primarily due to auto injury severity development and late reported loss development that was better than expected and including favorable reserve reestimates of catastrophe losses in 2006 and unfavorable in 2005.

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

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

(in millions)	2006	2005	2004
Reserve reestimates	$1,085	$ 613	$ 872
Allstate brand underwriting income (loss)	4,451	(437)	2,340
Reserve reestimates as a % of underwriting income (loss)	24.4%	140.3%	37.3%

Encompass brand Reserve reestimates in 2006 and 2005 were related to lower than anticipated claim settlement costs. Reserve reestimates in 2004 were related to higher than anticipated claim settlement costs.

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

(in millions)	2006	2005	2004
Reserve reestimates	$ 18	$ 22	$ (7)
Encompass brand underwriting income (loss)	185	(24)	128
Reserve reestimates as a % of underwriting income (loss)	9.7%	91.7%	(5.5)%

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

Reserve reestimates for the Discontinued Lines and Coverages, as shown in the table below, were increased primarily for asbestos in 2006 and 2005 and for asbestos and other discontinued lines in 2004.

	2006		2005		2004	
(in millions)	Jan 1 Reserves	Reserve Reestimate	Jan 1 Reserves	Reserve Reestimate	Jan 1 Reserves	Reserve Reestimate
Asbestos Claims	$1,373	$ 86	$1,464	$ 139	$1,079	$ 463
Environmental Claims	205	10	232	2	257	—
Other Discontinued Lines	599	36	631	26	501	172
Total Discontinued Lines and Coverages	$2,177	$ 132	$2,327	$ 167	$1,837	$ 635
Underwriting (loss) income		(139)		(175)		(638)
Reserve reestimates as a % of underwriting (loss) income		(95.0)%		(95.4)%		(99.5)%

Reserve additions for asbestos in 2006, 2005 and 2004, totaling $86 million, $139 million and $463 million, respectively, were primarily for products-related coverage. They were essentially a result of a continuing level of increased claim activity being reported by excess insurance policyholders with existing active claims, excess policyholders with new claims, and reestimates of liabilities for increased assumed reinsurance cessions, as ceding companies (other insurance carriers) also experienced increased claim activity. Increased claim activity over prior estimates has also resulted in an increased estimate for future claims reported. These trends are consistent with the trends of other carriers in the industry, which we believe are related to increased publicity and awareness of coverage, ongoing litigation, potential Congressional activity, and bankruptcy actions.

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

	2006		2005		2004	
(in millions, except ratios)	**Gross**	**Net**	**Gross**	**Net**	**Gross**	**Net**
Asbestos claims						
Beginning reserves	$2,205	$1,373	$2,427	$1,464	$1,583	$1,079
Incurred claims and claims expense	143	86	200	139	971	463
Claims and claims expense paid	(150)	(84)	(422)	(230)	(127)	(78)
Ending reserves	$2,198	$1,375	$2,205	$1,373	$2,427	$1,464
Annual survival ratio	14.7	16.4	5.2	6.0	19.1	18.8
3-year survival ratio	9.4	10.5	9.9	10.7	16.1	13.9
Environmental claims						
Beginning reserves	$ 252	$ 205	$ 281	$ 232	$ 315	$ 257
Incurred claims and claims expense	22	10	3	2	1	—
Claims and claims expense paid	(25)	(21)	(32)	(29)	(35)	(25)
Ending reserves	$ 249	$ 194	$ 252	$ 205	$ 281	$ 232
Annual survival ratio	9.8	8.9	7.9	7.2	8.1	9.1
3-year survival ratio	8.1	7.7	5.2	6.0	4.3	5.0
Combined environmental and asbestos claims						
Annual survival ratio	14.0	14.8	5.4	6.1	16.7	16.4
3-year survival ratio	9.3	10.1	9.0	9.7	12.5	11.2
Percentage of IBNR in ending reserves		66.5%		68.0%		61.6%

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

In 2006, the asbestos survival ratios improved due to a reduced level of claim payments. In 2005, the asbestos survival ratio declined due to an increase in claims paid, primarily due to commutations, policy buy-backs, and settlement agreements that, in turn caused reduced reserve levels.

The total commutations, policy buy-backs, and settlement agreements and the survival ratios for asbestos and environmental claims for 2006, 2005 and 2004 excluding these commutations, policy buy-backs, and settlement agreements, are represented in the following table.

(in millions, except ratios)	2006		2005		2004	
	Gross	Net	Gross	Net	Gross	Net
Asbestos claims						
Commutations, policy buy-backs & settlement agreements	$ 61	$ 30	$ 322	$ 176	$ 32	$ 22
Annual survival ratio	24.0	24.8	21.1	24.9	25.2	25.5
3-year survival ratio	22.9	25.1	24.7	26.8	31.7	28.4
Environmental claims						
Commutations, policy buy-backs & settlement agreements	$ 7	$ 6	$ 13	$ 13	$ 22	$ 14
Annual survival ratio	13.5	12.7	13.7	13.1	21.7	20.7
3-year survival ratio	15.2	14.0	13.1	13.2	9.7	10.0
Combined environmental and asbestos claims						
Total commutations, policy buy-backs & settlement agreements	$ 68	$ 36	$ 335	$ 189	$ 54	$ 36
Annual survival ratio	22.2	22.2	20.0	22.2	24.8	24.7
3-year survival ratio	21.8	22.8	22.6	23.6	25.6	22.6

Our three-year net average survival ratio excluding commutations, policy buy-backs, and settlement agreements is viewed to be another measure of current reserve adequacy. It reflects a more normalized survival ratio by measuring the impact over three years and by excluding from payments amounts no longer carried in the reserves and not viewed in this ratio as a continuing payment level. Now at 25.1 years for asbestos as of December 31, 2006, we consider it to represent a strong reserve position. A one-year increase in the three-year average asbestos survival ratio at December 31, 2006 would require an after-tax increase in reserves of approximately $36 million.

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

(in millions)	December 31, 2006			December 31, 2005			December 31, 2004		
	Active Policy-holders	Net Reserves	% of Reserves	Active Policy-holders	Net Reserves	% of Reserves	Active Policy-holders	Net Reserves	% of Reserves
Direct policyholders:									
—Primary	47	$ 15	1%	46	$ 18	1%	52	$ 23	2%
—Excess	340	214	16	333	180	13	322	297	20
Total	387	229	17%	379	198	14%	374	320	22%
Assumed reinsurance		203	15		215	16		222	15
IBNR claims		943	68		960	70		922	63
Total net reserves		$1,375	100%		$1,373	100%		$1,464	100%
Total reserve additions		$ 86			$ 139			$ 463	

During the last three years, 132 direct primary and excess policyholders reported new claims, and 83 policyholders were closed, increasing the number of active policyholders by 49 during the period. The 49

increase comprised 8 from 2006, 5 from 2005 and 36 from 2004. The increase of 8 from 2006 included 31 new policyholders reporting new claims and the closing of 23 policyholders' claims. Reserve additions for asbestos for the year ended December 31, 2006, totaled $86 million and included the following factors:

- Direct primary insurance net reserves decreased by $3 million. We were not a significant direct primary insurer and did not insure any of the large asbestos manufacturers on a direct primary insurance basis.
- Direct excess insurance net reserves increased by $34 million as a result of revised estimates for two claims.
- Assumed reinsurance net reserves decreased by $12 million due to lower claim activity. The number of reported new claims is shown in the following table.

	Year ended December 31, 2006	Year ended December 31, 2005	Year ended December 31, 2004
New Claims[1]	245	256	361

(1) New claims are defined as the aggregate number of policyholders with claims reported by all ceding companies.

- IBNR net reserves decreased by $17 million. At December 31, 2006 IBNR represented 68% of total asbestos reserves, 2 points lower than at December 31, 2005. IBNR reserves are estimated to provide for probable future unfavorable reserve development of known claims and future reporting of additional unknown claims from current and new insurance policyholders and ceding companies.

Our non-products case reserves represent approximately 5% of total asbestos case reserves. We do not anticipate significant changes in this percentage as insureds' retentions associated with excess insurance programs and assumed reinsurance exposure are seldom exceeded. We did not write direct primary insurance on policyholders with the potential for significant non-products-related loss exposure.

For environmental exposures, a comprehensive "ground up" review, using processes similar to those used for the asbestos review, is also conducted in the third quarter of each year. The analysis performed produced a $10 million increase in 2006 and essentially no change in reserve estimates in 2005 or 2004.

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

Number of Claims	2006	2005	2004
Asbestos			
Pending, beginning of year	8,806	8,630	8,210
New	1,220	1,635	1,959
Total closed	(851)	(1,459)	(1,539)
Pending, end of year	9,175	8,806	8,630
Closed without payment	596	829	805
Environmental			
Pending, beginning of year	4,896	5,775	6,100
New	612	689	1,125
Total closed	(737)	(1,568)	(1,450)
Pending, end of year	4,771	4,896	5,775
Closed without payment	513	1,115	1,006

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

The impacts of reinsurance on our reserve for claims and claims expense at December 31 are summarized in the following table, net of allowances we have established for uncollectible amounts.

(in millions)	Reserve for Property-Liability insurance claims and claims expense		Reinsurance recoverables, net	
	2006	2005	2006	2005
Industry pools and facilities	$ 1,920	$ 2,811	$1,325	$2,241
Asbestos and environmental	2,447	2,457	930	1,003
Other including allowance for future uncollectible reinsurance recoverables	14,499	16,849	79	126
Total Property-Liability	$18,866	$22,117	$2,334	$3,370

MD&A

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

The allowance for uncollectible reinsurance relates to Discontinued Lines and Coverages reinsurance recoverables and was $235 million and $213 million at December 31, 2006 and 2005, respectively. These amounts represent 20.5% and 17.3%, respectively of the related reinsurance recoverable balances. The allowance is based upon our ongoing review of amounts outstanding, length of collection periods, changes in reinsurer credit standing, and other relevant factors. In addition, in the ordinary course of business, we may become involved in coverage disputes with certain of our reinsurers which may ultimately result in lawsuits and arbitrations brought by or against such reinsurers to determine the parties' rights and obligations under the various reinsurance agreements. We employ dedicated specialists to manage reinsurance collections and disputes. We also consider recent developments in commutation activity between reinsurers and cedants, and recent trends in arbitration and litigation outcomes in disputes between cedants and reinsurers in seeking to maximize our reinsurance recoveries.

Adverse developments in the insurance industry have led to a decline in the financial strength of some of our reinsurance carriers, causing amounts recoverable from them and future claims ceded to them to be considered a higher risk. There has also been consolidation activity in the industry, which causes reinsurance risk across the industry to be concentrated among fewer companies. In addition, over the last several years the industry has increasingly segregated asbestos, environmental, and other discontinued lines exposures into separate legal entities with dedicated capital. Regulatory bodies in certain cases have supported these actions. We are unable to determine the impact, if any, that these developments will have on the collectibility of reinsurance recoverables in the future.

The largest reinsurance recoverable balances are shown in the following table at December 31, net of allowances we have established for uncollectible amounts.

(in millions)	A.M. Best Financial Strength Rating	Reinsurance recoverable on paid and unpaid claims, net	
		2006	2005
Industry pools and facilities			
Michigan Catastrophic Claim Association ("MCCA")	N/A	$1,022	$1,043
New Jersey Unsatisfied Claim and Judgment Fund	N/A	127	157
FHCF	N/A	70	229
North Carolina Reinsurance Facility	N/A	67	69
National Flood Insurance Program ("NFIP")	N/A	33	743
Other		6	–
Total		1,325	2,241
Asbestos and environmental and Other			
Lloyd's of London ("Lloyd's")	A	271	247
Employers Reinsurance Corporation	A	85	91
Harper Insurance Limited	N/A	67	57
Clearwater Insurance Company	A	45	51
SCOR	A	41	29
Other, including allowance for future uncollectible reinsurance recoverables		500	654
Total		1,009	1,129
Total Property-Liability		$2,334	$3,370

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

(in millions)	2006	2005	2004
Ceded property-liability premiums earned	$1,113	$ 586	$ 399
Ceded property-liability claims and claims expense			
Industry pool and facilities			
FHCF	$ 146	$ 197	$ 703
NFIP	32	3,298	171
MCCA	36	267	325
Other	71	73	96
Subtotal industry pools and facilities	285	3,835	1,295
Asbestos and environmental and other	178	182	304
Ceded property-liability claims and claims expense	$ 463	$4,017	$1,599

For the years ended December 31, 2006 and 2005, ceded property-liability premiums earned increased $527 million and $187 million, respectively, when compared to prior years, as a result of amounts incurred for catastrophe reinsurance when compared to the prior year.

Ceded property-liability claims and claims expense decreased in 2006 primarily as a result of lower catastrophe loss experience, resulting in lower cessions to the FHCF and the NFIP and lower cessions to the MCCA. Ceded property-liability claims and claims expense increased in 2005 as a result of the 2005 and 2004 catastrophes, including cessions to the NFIP. Ceded property-liability claims and claims expense for asbestos and environmental and other claims were primarily the result of reserve reestimates. For further discussion see the Discontinued Lines and Coverages Segment and Property-Liability Claims and Claims Expense Reserves sections of our MD&A.

For a detailed description of the MCCA, FHCF and Lloyd's, see Note 9 of the consolidated financial statements. At December 31, 2006, other than the recoverable balances listed above, no other amount due or estimated to be due from any single Property-Liability reinsurer was in excess of $30 million.

Allstate sells and administers policies as a participant in the NFIP. Ceded premiums earned include $232 million, $199 million and $181 million, in 2006, 2005, and 2004, respectively, and ceded losses incurred include $32 million, $3.30 billion and $171 million, in 2006, 2005 and 2004, respectively, for this program. Under the arrangement, the Federal Government is obligated to pay all claims. The NFIP has no impact on our net income or financial position and is included net of ceded premiums and losses with our other personal lines business in our Consolidated Statements of Operations. We receive expense allowances from NFIP as reimbursement for underwriting administration, commission, claims management and adjuster fees. These policies are not included in any of our core business statistics such as PIF, new net premiums written, loss ratio, combined ratio or catastrophe losses.

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

An affiliate of the company, Allstate Texas Lloyd's ("ATL"), a syndicate insurance company, cedes 100% of its business net of reinsurance with external parties to AIC. At December 31, 2006 and 2005, ATL had $58 million and $250 million, respectively, of reinsurance recoverable primarily related to losses incurred from Hurricane Rita.

Catastrophe Reinsurance

Our personal lines catastrophe reinsurance program is designed, utilizing our risk management methodology, to address our exposure to catastrophes nationwide. Our program provides reinsurance protection to us for catastrophes including storms named or numbered by the National Weather Service, earthquakes and fires following earthquakes.

As discussed below, our reinsurance program is comprised of agreements that provide coverage for the occurrence of certain qualifying catastrophes in specific states including New York, New Jersey, Connecticut and Texas ("multi-year"); other states along the southern and eastern coasts ("South-East") principally for hurricanes; in California for fires following earthquakes ("California fires following"); in New Jersey for losses in excess of the multi year agreement ("New Jersey excess") and in Kentucky for earthquakes and fires following earthquakes ("Kentucky"). Another reinsurance agreement provides coverage nationwide, excluding Florida, for the aggregate or sum of catastrophe losses in excess of an annual retention associated with storms named or numbered by the National Weather Service, earthquakes and fires following earthquakes ("aggregate excess").

During January 2007, we completed the renewal of our aggregate excess, South-East and New Jersey excess reinsurance contracts, opted to expand coverage in the existing multi-year contracts for New Jersey and Texas and added a new agreement covering Kentucky earthquake and fires following

earthquakes. These contracts will be effective June 1, 2007 to May 31, 2008, with the exception of the aggregate excess contract which is effective June 1, 2007 to May 31, 2009. The aggregate excess contract has a 5% retention by Allstate in the first year and a 20% retention by Allstate in the second year. We also expect to place contracts for the state of Florida later this year, once the state's recent legislative actions have been assessed, and should become effective on June 1, 2007 for the beginning of the hurricane catastrophe season. The Florida component of the reinsurance program is designed separately from the other components of the program to address the distinct needs of our separately capitalized legal entities in that state.

The multi-year agreements have various retentions and limits designed commensurate with the amount of catastrophe risk, measured on an annual basis, in each covered state. A description of these retentions and limits appears in the following tables and charts. The multi-year, California fires following, New Jersey excess, South-East and Kentucky agreements cover qualifying losses related to a specific qualifying event in excess of the agreement's retention. Reinsurance recoveries under each agreement are equal to the qualifying losses in excess of the agreement's retention for a specific event multiplied by the percentage of reinsurance placed up to the agreement's occurrence limit.

We estimate that the total annualized cost of all reinsurance programs will be approximately $770 million per year or $193 million per quarter, including an estimate for reinsurance coverage in Florida. This is compared to annualized cost of approximately $800 million per year during the 2006 hurricane season, for an estimated decrease of $30 million on an annualized basis due to lower expected cost of coverage in Florida. On a calendar year basis, we estimate a cost of $193 million per quarter during 2007, for a total of $770 million, including an estimate for reinsurance coverage in Florida. This represents an estimated increase of $165 million over the 2006 calendar year due to the effective dates of the contracts. During 2006, our actual costs were $73 million in the first quarter, $114 million in the second quarter, $211 in the third quarter and $209 million in the fourth quarter of 2006 for a total of $607 million during the year. We currently expect that a similar level of coverage will be purchased or renewed for the comparable 2008 period. The actual placement of the Florida program, contractual redeterminations and risk transfers of certain catastrophe and other liability exposures during 2007 may cause our total annualized cost to differ from our current estimates.

We continue to aggressively seek to cover our reinsurance cost in premium rates. Through the end of 2006, we have submitted more than 350 rate filings in 29 states related to the cost of our reinsurance programs. Including rates approved in Florida and other states related to our reinsurance programs, rates currently effective reflect approximately 40% of the total cost of our reinsurance programs, and will be included in premiums written during 2007. We expect rates will be in effect which will reflect over 50% of the total cost of these reinsurance programs by the end of 2007, and be included in premiums written during 2008.

Since the financial condition of the reinsurer is a critical deciding factor when entering into an agreement, the majority of the limits of these programs are placed with reinsurers who currently have an A.M. Best insurance financial strength rating of A+ or better. The remaining limits are placed with reinsurers who currently have an A.M. Best insurance financial strength rating no lower than A-, with three exceptions. Two of the three exceptions have a Standard and Poors rating of AA- and we will have collateral for the entire contract limit exposure for the third reinsurer which is not rated by either rating agency. Because of these ratings, we do not expect that our ability to cede losses in the future will be impaired.

The terms, retentions and limits for Allstate's catastrophe management reinsurance agreements in place as of June 1, 2007 are listed in the following table.

(in millions)	Effective Date	% Placed	Reinstatement	Retention	Per Occurrence Limit
Coordinated coverage					
Aggregate excess[(1)]	6/1/2007	95 for year 1; 80 for year 2	None	$2,000	$2,000
California fire following[(2)]	2/1/2006	95	2 limits over 28 month term, prepaid	520	1,500
Multi-year[(3)]:	6/1/2005				
Connecticut		95	2 limits over remaining term, prepaid	129	200
New Jersey		95	1 reinstatement each contract year over 3-year term, premium required	140	300
New York[(4)]		90	2 limits over remaining term, prepaid	830	1,000
Texas[(5)]		95	2 limits over remaining term, prepaid	399	750
New Jersey excess[(6)]	6/1/2007	95	1 reinstatement, premium required	440	200
South-East[(7)]	6/1/2007	95	1 reinstatement premium required	500	500
Kentucky[(8)]	6/1/2007	95	1 reinstatement, premium required	10	40

Coordinated Coverage

(1) Aggregate Excess—This agreement has a one year term, effective 6/1/2007 to 5/31/2008, and a two year term, effective 6/1/2007 to 5/31/2009. It covers the aggregation of qualifying losses for storms named or numbered by the National Weather Service, earthquakes and fires following earthquakes for Allstate Protection personal lines auto and property business countrywide, except for Florida, in excess of $2 billion in aggregated losses per contract year. Losses recoverable if any, from our California fires following, multi-year, New Jersey excess, South-East and Kentucky agreements are excluded when determining the retention of this agreement. The one year contract is 15% placed or $.3 billion of the total $2 billion limit. The two year term contract is 80% placed or $1.6 billion of the total $2 billion limit leaving Allstate the option to place up to an additional 15% in year two. The aggregate excess agreement in effect for 6/1/2006 to 5/31/2007 was placed prior to the South-East agreement and accordingly did not provide for its consideration.

The preliminary reinsurance premium is subject to redetermination for exposure changes.

(2) California Fire Following Agreement—This agreement is effective 2/1/2006 and expires 5/31/2008. This agreement covers Allstate Protection personal property excess catastrophe losses in California for fires following earthquakes. This agreement provides $1.5 billion of coverage for all qualifying losses with one reinstatement except when a qualifying loss occurrence exceeds $2 billion, then for 21 days no additional recovery can occur for any losses within the same seismic geographically affected area. The retention on this agreement is subject to remeasurement.

(3) Multi-year Agreements—These agreements have been in effect since 6/1/2005 and cover the Allstate brand personal property excess catastrophe losses, expiring 5/31/2008. The retentions on these agreements are subject to annual remeasurements on their anniversary dates. The Company is planning to elect $100 million of additional coverage effective 6/1/2007 in the states of Texas and New Jersey.

(4) Two separate reinsurance agreements provide coverage for catastrophe risks in the state of New York: AIC has a $512 retention and a $550 limit, and Allstate Indemnity Company (''AI'') has a $318 retention and a $450 limit.

(5) The Texas agreement is with ATL, a syndicate insurance company. ATL also has a 100% reinsurance agreement with AIC covering losses in excess of and/or not reinsured by the Texas agreement.

(6) New Jersey Excess—This agreement is effective 6/1/2007 for 1 year and covers Allstate Protection personal property catastrophe losses in excess of the New Jersey multi-year agreement.

(7) South-East—This agreement is effective 6/1/2007 for 1 year and covers Allstate Protection personal property excess catastrophe losses for storms named or numbered by the National Weather Service. This agreement covers personal property business in the states of Louisiana, Mississippi, Alabama, Georgia, South Carolina, North Carolina, Virginia, Maryland, Delaware, Pennsylvania and Rhode Island and the District of Columbia. The South-East agreement in effect for 6/1/2006 to 5/31/2007 did not cover business in Rhode Island, provided one reinstatement of $180 million of the $400 million limit placed and was 80% placed.

The preliminary reinsurance premium is subject to redetermination for exposure changes.

(8) Kentucky—This agreement is effective 6/1/2007 for one-year and covers Allstate Protection's personal property excess catastrophe losses for earthquakes and fires following earthquakes.

Highlights of certain other contract terms and conditions for all of Allstate's catastrophe management reinsurance agreements effective June 1, 2007 are listed in the following table.

	South-East	Aggregate Excess	Multi-year, New Jersey excess, California fires following and Kentucky
Business Reinsured	Personal Lines Property business	Personal Lines Property and Auto business	Personal Lines Property business
Location(s)	11 states and Washington, DC	Nationwide except Florida	Each specific state
Covered Losses	1 specific peril—storms named or numbered by the National Weather Service	3 specific perils—storms named or numbered by the National Weather Service, earthquakes, and fires following earthquakes	Multi-year and New Jersey excess: multi-perils—includes hurricanes and earthquakes California fires following: 1 specific peril—fires following earthquakes Kentucky—earthquakes and fires following earthquakes.
Brands Reinsured	Allstate Brand Encompass Brand	Allstate Brand Encompass Brand	Multi-year: Allstate Brand New Jersey excess, California fires following, Kentucky: Allstate Brand and Encompass Brand

	South-East	Aggregate Excess	Multi-year, New Jersey excess, California fires following and Kentucky
Exclusions, other than typical market negotiated exclusions	Automobile Terrorism Commercial	Assessment exposure to CEA Terrorism Commercial	Automobile Terrorism Commercial
Loss Occurrence	Sum of all qualifying losses from named or numbered storms by the National Weather Service over 96 hours	Sum of all qualifying losses and sum of all qualifying occurrences (Aggregate) Losses over 96 hours from a named or numbered storm Losses over 168 hours for an earthquake Losses over 168 hours within a 336 hour period for fires following an earthquake	Sum of all qualifying losses for a specific occurrence over 168 hours Windstorm related occurrences over 96 hours Riot related occurrences over 72 hours California fires following occurrences over 168 hours. No additional recovery can occur for any losses within the same seismic geographically affected area for an additional 336 hours when a qualifying loss exceeds $2 billion. Kentucky earthquake and fires following earthquake occurrences over 336 hours.
Loss adjustment expenses included within ultimate net loss	10% of qualifying losses	10% of qualifying losses	Multi-year and California fires following: actual expenses New Jersey excess and Kentucky: 10% of qualifying losses

Currently, the Company has reinsurance programs in place that will be expiring May 31, 2007 including the aggregate excess, South-East and New Jersey excess which have similar retentions, limits and placement (South-East increased from 80% placed in 2006 to 95% placed in 2007) as described above. In addition, Allstate Floridian has in-force four separate reinsurance agreements effective June 1, 2006 for one year, and an excess of loss agreement effective June 1, 2005 expiring on May 31, 2007, all of which cover personal property excess catastrophe losses in Florida. These agreements, listed below, coordinate coverage with the FHCF. For both Royal Palm 1 and the Universal arrangement, we have agreed to share recoveries from the FHCF and certain of our reinsurance agreements, as these recoveries

pertain to policies included in these arrangements, in proportion to total losses and recoveries and limited to coverage available. We anticipate that we will have a similar agreement to share recoveries on the Royal Palm 2 agreement.

- FHCF Retention—provides coverage on $100 million of losses in excess of $50 million and is 70% placed.
- FHCF Sliver—provides coverage on 10% co-participation of the FHCF payout (estimated at $476 million), or $48 million, and is 100% placed.
- Excess of loss agreement—provides 90% reimbursement for $900 million of Allstate Floridian's property catastrophe losses in excess of the FHCF retention and reimbursement. While the limit is $900 million, $200 million of this limit was acquired by Royal Palm.
- Excess of loss sliver—provides coverage on half of Allstate's 10% retention on our existing excess of loss agreement, or $45 million (5% placed of $900 million limit), and is 100% placed.
- Additional excess of loss—provides coverage on $200 million of losses in excess of the FHCF and our existing additional excess of loss agreement once $100 million has been reimbursed by the FHCF for prior event(s) and after recovery under the excess of loss agreement. This agreement is 95% placed, and is adjusted to only exclude policies reinsured by Universal.

The FHCF provides 90% reimbursement on qualifying Allstate Floridian property losses up to an estimated combined maximum of $753 million in excess of a combined retention of $254 million for each of the two largest hurricanes and a retention of $85 million for all other hurricanes for the season beginning June 1, 2006 through May 31, 2007, as each of the four companies comprising Allstate Floridian has separate estimated reinsurance maximum reimbursements and limits. New property legislation enacted in 2007 added a temporary emergency additional coverage option ("TEACO") that is below the mandatory FHCF coverage retention and a temporary increase in coverage limits option ("TICL") that has optional layers of coverage with limits above the mandatory FHCF coverage limit. We are currently assessing the impacts of this legislation on our 2007 reinsurance program for the state.

As of December 31, 2006 we have not ceded any losses related to 2006 catastrophic events.

ALLSTATE FINANCIAL 2006 HIGHLIGHTS

- Net income increased 11.5% to $464 million in 2006 compared to $416 million in 2005.
- Allstate Financial gross margin increased 3.2% to $2.06 billion in 2006 compared to $2.00 billion in 2005. Gross margin, a measure that is not based on GAAP, is defined on page 69.
- Contractholder fund deposits totaled $10.48 billion for 2006 compared to $12.38 billion in 2005.
- Investments as of December 31, 2006 increased 1.0% from December 31, 2005 and net investment income increased 9.0% in 2006 compared to 2005.
- Deposits of Allstate® Treasury-Linked Annuity contracts in 2006 totaled $883 million, a $546 million increase compared to 2005.
- Dividends of $675 million in 2006 were paid by Allstate Life Insurance Company ("ALIC") to its parent, AIC.
- On June 1, 2006, Allstate Financial completed the disposition of substantially all of its variable annuity business through reinsurance. Additionally, Allstate Financial transferred the loan protection business to the Allstate Protection segment effective January 1, 2006. These events resulted in a net reduction to Allstate Financial's income from operations, before income taxes, of $107 million when comparing 2006 to 2005, primarily due to the loss on disposition of operations for the sale of the variable annuity business and DAC amortization deceleration recognized in 2005 for variable annuities. The following table presents the differences between the 2006 and 2005 results of operations attributable to the variable annuity business and the impact of the absence of the loan protection business in 2006.

(in millions)	2006	2005	Change
Favorable/(unfavorable)			
Life and annuity premiums and contract charges	$136	$416	$(280)
Net investment income	17	51	(34)
Periodic settlements and accruals on non-hedge derivative instruments[1]	1	4	(3)
Contract benefits	(13)	(148)	135
Interest credited to contractholder funds[2]	(21)	(57)	36
Gross margin[4]	120	266	(146)
Realized capital gains and losses	(9)	(11)	2
Amortization of DAC and DSI[3]	(47)	(53)	6
Operating costs and expenses	(43)	(163)	120
Loss on disposition of operations	(89)	—	(89)
Income from operations before income tax expense	$ (68)	$ 39	$(107)
Investment margin	$ (3)	$ (2)	$ (1)
Benefit margin	13	5	8
Contract charges and fees	110	263	(153)
Gross margin[4]	$120	$266	$(146)

(1) Periodic settlements and accruals on non-hedge derivative instruments are reflected as a component of realized capital gains and losses on the Consolidated Statements of Operations.

(2) For purposes of calculating gross margin, amortization of deferred sales inducements ("DSI") is excluded from interest credited to contractholder funds and aggregated with amortization of DAC due to the similarity in the substance of the two items. Amortization of DSI for variable annuities totaled $3 million and $6 million in 2006 and 2005, respectively.

(3) Amortization deceleration of $55 million was recognized in 2005 for variable annuities.

(4) Gross margin and its components are measures that are not based on GAAP. Gross margin, investment margin and benefit margin are defined on pages 69, 71 and 72, respectively.

ALLSTATE FINANCIAL SEGMENT

Overview and Strategy The Allstate Financial segment is a major provider of life insurance, retirement and investment products, and supplemental accident and health insurance to individual and institutional customers. Allstate Financial's mission is to assist financial services professionals in meeting their clients' financial protection, retirement and investment needs by providing consumer-focused products delivered with reliable and efficient service.

Our primary objectives are to improve Allstate Financial's return on equity and position it for profitable growth. In the near-term, this will require us to balance sales goals with new business return targets. Our actions to accomplish these objectives include improving returns on new business by increasing sales of Allstate Financial products through Allstate Agencies, increasing sales of life insurance products, and maintaining cost discipline through scale and efficiencies, while improving capital efficiency. The execution of our business strategies has and may continue to involve simplifying our business model, and focusing on those products and distribution relationships where we can secure strong leadership positions while generating acceptable returns and bringing to market a selection of innovative, consumer-focused products.

We plan to continue offering a suite of products that protects consumers financially and helps them better prepare for retirement. Our retail products include deferred and immediate fixed annuities; interest-sensitive, traditional and variable life insurance; supplemental accident and health insurance; and funding agreements backing retail medium-term notes. Banking products and services are also offered to customers through the Allstate Bank. Individual retail products are sold through a variety of distribution channels including Allstate exclusive agencies, independent agents (including master brokerage agencies and workplace enrolling agents), and financial service firms such as banks, broker/dealers and specialized structured settlement brokers. Allstate Bank products can also be obtained directly through the Internet and a toll-free number. Our institutional product line consists primarily of funding agreements sold to unaffiliated trusts that use them to back medium-term notes issued to institutional and individual investors.

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

(in millions)	2006	2005	2004
Revenues			
Life and annuity premiums and contract charges	$ 1,964	$ 2,049	$ 2,072
Net investment income	4,173	3,830	3,410
Realized capital gains and losses	(77)	19	1
Total revenues	6,060	5,898	5,483
Costs and expenses			
Life and annuity contract benefits	(1,570)	(1,615)	(1,618)
Interest credited to contractholder funds	(2,609)	(2,403)	(2,001)
Amortization of DAC	(626)	(629)	(591)
Operating costs and expenses	(468)	(632)	(634)
Restructuring and related charges	(24)	(2)	(5)
Total costs and expenses	(5,297)	(5,281)	(4,849)
Loss on disposition of operations	(92)	(13)	(24)
Income tax expense	(207)	(188)	(189)
Income before cumulative effect of change in accounting principle, after-tax	464	416	421
Cumulative effect of change in accounting principle, after-tax	—	—	(175)
Net income	$ 464	$ 416	$ 246
Investments	$75,951	$75,233	$72,530

Life and annuity premiums and contract charges Premiums represent revenues generated from traditional life, immediate annuities with life contingencies, accident and health and other insurance products that have significant mortality or morbidity risk. Contract charges are revenues generated from interest-sensitive life, variable annuities, fixed annuities and institutional products for which deposits are classified as contractholder funds or separate accounts liabilities. Contract charges are assessed against the contractholder account values for maintenance, administration, cost of insurance and surrender prior to contractually specified dates. As a result, changes in contractholder funds are considered in the evaluation of growth and as indicators of future levels of revenues. Subsequent to the close of our reinsurance transaction with Prudential Financial Inc. ("Prudential") on June 1, 2006, variable annuity contract charges on the business subject to the transaction are fully reinsured to Prudential and presented net of reinsurance on the Consolidated Statements of Operations (see Note 3 of the consolidated financial statements).

The following table summarizes life and annuity premiums and contract charges by product.

(in millions)	2006	2005	2004
Premiums			
Traditional life	$ 281	$ 282	$ 337
Immediate annuities with life contingencies	278	197	316
Accident and health and other	340	439	392
Total premiums	899	918	1,045
Contract charges			
Interest-sensitive life	853	786	729
Fixed annuities	73	65	52
Variable annuities	139	280	246
Total contract charges	1,065	1,131	1,027
Life and annuity premiums and contract charges	$1,964	$2,049	$2,072

Total premiums decreased 2.1% in 2006 compared to 2005. Excluding the impact of the transfer of the loan protection business to the Allstate Protection segment effective January 1, 2006, premiums increased 11.7% in 2006 compared to 2005. This increase in 2006 was attributable primarily to increased premiums on immediate annuities with life contingencies, due to certain pricing refinements and a more favorable pricing environment in 2006. Additionally, in 2006, excluding the impact of the transfer of the loan protection business, accident and health and other premiums increased $14 million due to increased sales of these products.

Total premiums decreased 12.2% in 2005 compared to 2004 as lower premiums on immediate annuities with life contingencies and traditional life products more than offset higher premiums on accident, health and other premiums. Premiums on immediate annuities with life contingencies declined primarily as a result of pricing actions taken to improve our returns on new business and reflect our current expectations of mortality. Pricing changes led to a shift in our sales mix from immediate annuities with life contingencies to immediate annuities without life contingencies, which are accounted for as deposits rather than as premiums. The decline in traditional life premiums was primarily due to the absence of certain premiums in 2005 resulting from the disposal of our direct response distribution business in 2004. The increase in accident, health and other premiums was primarily attributable to higher underwriting retention.

Contract charges declined 5.8% in 2006 compared to 2005. Excluding contract charges on variable annuities, substantially all of which are reinsured to Prudential effective June 1, 2006, contract charges increased 8.8% in 2006 compared to 2005. The increase was mostly due to higher contract charges on interest-sensitive life products resulting from growth of business in force. Contract charges on fixed annuities were slightly higher in 2006 due to increased surrender charges.

Contract charges increased 10.1% in 2005 compared to 2004. The increase was due to higher contract charges on interest-sensitive life, variable annuities and, to a lesser extent, fixed annuities. The increase in the interest-sensitive life contract charges was attributable to in-force business growth resulting from deposits and credited interest more than offsetting surrenders and benefits. Higher variable annuity contract charges were primarily the result of higher account values and participation fees. Fixed annuity contract charges in 2005 reflect higher surrender charges compared with the prior year.

Contractholder funds represent interest-bearing liabilities arising from the sale of individual and institutional products, such as interest-sensitive life, fixed annuities, bank deposits and funding agreements. The balance of contractholder funds is equal to the cumulative deposits received and interest credited to the contractholder less cumulative contract maturities, benefits, surrenders, withdrawals and contract charges for mortality or administrative expenses

The following table shows the changes in contractholder funds.

(in millions)	2006	2005[1]	2004[1]
Contractholder funds, beginning balance	$60,040	$55,709	$47,071
Impact of adoption of SOP 03-1[2]	—	—	421
Deposits			
Fixed annuities	6,007	5,926	7,322
Institutional products (funding agreements)	2,100	3,773	3,987
Interest-sensitive life	1,416	1,404	1,375
Variable annuity and life deposits allocated to fixed accounts	99	395	495
Bank and other deposits	856	883	701
Total deposits	10,478	12,381	13,880
Interest credited	2,666	2,404	1,991
Maturities, benefits, withdrawals and other adjustments			
Maturities of institutional products	(2,726)	(3,090)	(2,518)
Benefits	(1,517)	(1,348)	(1,062)
Surrenders and partial withdrawals	(5,945)	(4,734)	(3,105)
Contract charges	(749)	(698)	(655)
Net transfers to separate accounts	(145)	(339)	(412)
Fair value hedge adjustments	38	(289)	38
Other adjustments	(109)	44	60
Total maturities, benefits, withdrawals and other adjustments	(11,153)	(10,454)	(7,654)
Contractholder funds, ending balance	$62,031	$60,040	$55,709

(1) To conform to the current period presentation, certain prior period balances have been reclassified.

(2) The increase in contractholder funds due to the adoption of Statement of Position No. 03-1, ''Accounting and Reporting by Insurance Enterprises for Certain Nontraditional Long-Duration Contracts and for Separate Accounts'' (''SOP 03-1'') reflects the reclassification of certain products previously included as a component of separate accounts to contractholder funds, the reclassification of DSI from contractholder funds to other assets and the establishment of reserves for certain liabilities that are primarily related to income and other guarantees provided under fixed annuity, variable annuity and interest-sensitive life contracts.

Contractholder funds increased 3.3% and 7.8% in 2006 and 2005, respectively. Average contractholder funds increased 5.5% in 2006 compared to 2005 and 13.1% in 2005 compared to 2004. The reduction in the rate at which contractholder funds grew was due primarily to lower contractholder deposits and increased contractholder surrenders and withdrawals.

Contractholder deposits decreased 15.4% in 2006 compared to 2005 due to decreased deposits on funding agreements and, to a lesser extent, lower variable annuity and life deposits allocated to fixed accounts due to the disposition of substantially all of our variable annuity business through reinsurance effective June 1, 2006. These items were partially offset by higher fixed annuity deposits. Allstate Financial

prioritizes the allocation of fixed income investments to support sales of retail products having the best opportunity for sustainable growth and return while maintaining a retail market presence. Consequently, sales of institutional products may vary from period to period. In 2006, deposits on institutional products declined 44.3% compared to 2005. Higher fixed annuity deposits in 2006 were the result of a $546 million increase in deposits on Allstate® Treasury-Linked Annuity contracts. This increase was partially offset by modest declines in deposits on traditional deferred annuities and market value adjusted annuities. These declines were in part impacted by our actions to improve new business returns and reduced consumer demand. Consumer demand for fixed annuities is influenced by market interest rates on short-term deposit products and equity market conditions, which can increase the relative attractiveness of competing investment alternatives.

Contractholder deposits decreased 10.8% in 2005 compared to 2004 due to lower deposits on fixed annuities. Fixed annuity deposits declined 19.1% in 2005 as lower deposits on traditional deferred fixed annuities and market value adjusted annuities were partially offset by increased deposits on immediate annuities without life contingencies. The decline in fixed annuity deposits resulted from reduced consumer demand relative to other short-term deposit products due to increases in short-term interest rates without corresponding increases in longer term rates, and pricing actions to increase fixed annuity product returns. Institutional product deposits decreased 5.4% in 2005 compared to 2004.

Surrenders and partial withdrawals on deferred fixed annuities, interest-sensitive life products and Allstate Bank products increased 25.6% in 2006 compared to 2005, while the withdrawal rate, based on the beginning of the period contractholder funds balance, increased to 13.9% for 2006 from 11.7% and 9.1%, for 2005 and 2004, respectively. The increase in the surrender rate in 2006 was influenced by multiple factors, including the relatively low interest rate environment during the last several years, which reduced reinvestment opportunities and increased the number of policies with little or no surrender charge protection. Also influencing the increase was our crediting rate strategies related to renewal business implemented to improve investment spreads on selected contracts. The increase in surrenders and partial withdrawals in 2006 is consistent with management's expectation that in the current interest rate environment and with a larger number of contractholders with relatively low or no surrender charges, more contractholders may choose to move their funds to competing investment alternatives. The aging of our in-force business may cause this trend to continue.

Surrenders and partial withdrawals increased 52.5% in 2005 compared to 2004 driven mostly by higher surrenders of market value adjusted annuities due to a portion of these contracts entering a 30-45 day window in which there were no surrender charges or market value adjustments. The lack of surrender charges and market value adjustments combined with the interest rate environment, which included a relatively small difference between short-term and long-term interest rates, caused contractholders to choose competing short-term investment alternatives.

Net investment income increased 9.0% in 2006 compared to 2005 and 12.3% in 2005 compared to 2004. The 2006 increase was due to increased investment yields and higher average portfolio balances. The higher portfolio yields were primarily due to increased yields on floating rate instruments resulting from higher short-term market interest rates and improved yields on assets supporting deferred fixed annuities. In 2005, the increase compared to 2004 was primarily the result of increased portfolio balances and, to a lesser extent, increased yields on floating rate assets due to higher short-term interest rates and increased income on partnership interests, partially offset by lower yields on fixed income securities. Higher average portfolio balances in both years resulted from the investment of cash flows from operating and financing activities related primarily to deposits from fixed annuities, funding agreements and interest-sensitive life policies. Investment balances as of December 31, 2006, increased 1.0% from December 31, 2005 and increased 3.7% as of December 31, 2005 compared to December 31, 2004.

Net income analysis is presented in the following table.

(in millions)	2006	2005	2004
Life and annuity premiums and contract charges	$1,964	$2,049	$2,072
Net investment income	4,173	3,830	3,410
Periodic settlements and accruals on non-hedge derivative instruments[1]	56	63	49
Contract benefits	(1,570)	(1,615)	(1,618)
Interest credited to contractholder funds[2]	(2,561)	(2,329)	(1,956)
Gross margin	2,062	1,998	1,957
Amortization of DAC and DSI[2][3]	(729)	(545)	(498)
Operating costs and expenses	(468)	(632)	(634)
Restructuring and related charges	(24)	(2)	(5)
Income tax expense	(265)	(260)	(269)
Realized capital gains and losses, after-tax	(50)	12	(3)
DAC and DSI amortization relating to realized capital gains and losses, after-tax[3]	36	(103)	(89)
Reclassification of periodic settlements and accruals on non-hedge derivative instruments, after-tax	(36)	(40)	(32)
Loss on disposition of operations, after-tax	(62)	(12)	(6)
Cumulative effect of change in accounting principle, after-tax	—	—	(175)
Net income	$ 464	$ 416	$ 246

(1) Periodic settlements and accruals on non-hedge derivative instruments are reflected as a component of realized capital gains and losses on the Consolidated Statements of Operations.

(2) For purposes of calculating gross margin, amortization of DSI is excluded from interest credited to contractholder funds and aggregated with amortization of DAC due to the similarity in the substance of the two items. Amortization of DSI totaled $48 million, $74 million and $45 million in 2006, 2005 and 2004, respectively.

(3) Amortization of DAC and DSI relating to realized capital gains and losses is analyzed separately because realized capital gains and losses may vary significantly between periods and obscure trends in our business. Amortization of DAC and DSI relating to realized capital gains and losses was $55 million, $(158) million and $(138) million in 2006, 2005 and 2004, respectively.

Gross margin, a non-GAAP measure, is comprised of life and annuity premiums and contract charges, and net investment income, less contract benefits and interest credited to contractholder funds excluding amortization of DSI. Gross margin also includes periodic settlements and accruals on certain non-hedge derivative instruments (see additional discussion under "*investment margin*"). We use gross margin as a component of our evaluation of the profitability of Allstate Financial's life insurance and financial product portfolio. Additionally, for many of our products, including fixed annuities, variable life and annuities, and interest-sensitive life insurance, the amortization of DAC and DSI is determined based on actual and expected gross margin. Gross margin is comprised of three components that are utilized to further analyze the business: investment margin, benefit margin, and contract charges and fees. We believe gross margin and its components are useful to investors because they allow for the evaluation of income components separately and in the aggregate when reviewing performance. Gross margin, investment margin and benefit margin should not be considered as a substitute for net income and do not reflect the overall profitability of the business. Net income is the GAAP measure that is most directly comparable to these margins. Gross margin is reconciled to Allstate Financial's GAAP net income in the table above.

The components of gross margin are reconciled to the corresponding financial statement line items in the following table.

(in millions)	2006			
	Investment Margin	Benefit Margin	Contract Charges and Fees	Gross Margin
Life and annuity premiums	$ —	$ 899	$ —	$ 899
Contract charges	—	638	427	1,065
Net investment income	4,173	—	—	4,173
Periodic settlements and accruals on non-hedge derivative instruments(1)	56	—	—	56
Contract benefits	(539)	(1,031)	—	(1,570)
Interest credited to contractholder funds(2)	(2,561)	—	—	(2,561)
	$ 1,129	$ 506	$427	$ 2,062

(in millions)	2005			
	Investment Margin	Benefit Margin	Contract Charges and Fees	Gross Margin
Life and annuity premiums	$ —	$ 918	$ —	$ 918
Contract charges	—	631	500	1,131
Net investment income	3,830	—	—	3,830
Periodic settlements and accruals on non-hedge derivative instruments(1)	63	—	—	63
Contract benefits	(530)	(1,085)	—	(1,615)
Interest credited to contractholder funds(2)	(2,329)	—	—	(2,329)
	$ 1,034	$ 464	$500	$ 1,998

(in millions)	2004			
	Investment Margin	Benefit Margin	Contract Charges and Fees	Gross Margin
Life and annuity premiums	$ —	$ 1,045	$ —	$ 1,045
Contract charges	—	562	465	1,027
Net investment income	3,410	—	—	3,410
Periodic settlements and accruals on non-hedge derivative instruments(1)	49	—	—	49
Contract benefits	(533)	(1,085)	—	(1,618)
Interest credited to contractholder funds(2)	(1,956)	—	—	(1,956)
	$ 970	$ 522	$465	$ 1,957

(1) Periodic settlements and accruals on non-hedge derivative instruments are reflected as a component of realized capital gains and losses on the Consolidated Statements of Operations.

(2) For purposes of calculating gross margin, amortization of DSI is excluded from interest credited to contractholder funds and aggregated with amortization of DAC due to the similarity in the substance of the two items. Amortization of DSI totaled $48 million, $74 million and $45 million for the years ended December 31, 2006, 2005 and 2004, respectively.

Gross margin increased 3.2% in 2006 compared to 2005 due to increased investment and benefit margin, partially offset by lower contract charges and fees. The decline in contract charges and fees was driven by the absence of contract charges on variable annuities that were reinsured effective June 1,

2006 in conjunction with Allstate Financial's disposition of substantially all of its variable annuity business. Excluding the impact of the reinsurance of our variable annuity business and the transfer of the loan protection business to the Allstate Protection segment effective January 1, 2006, gross margin increased 12.1% in 2006 compared to 2005. Gross margin increased 2.1% in 2005 compared to 2004 due to higher investment margin and contract charges and fees, partially offset by lower benefit margin.

Investment margin is a component of gross margin, both of which are non-GAAP measures. Investment margin represents the excess of net investment income and periodic settlements and accruals on certain non-hedge derivative instruments over interest credited to contractholder funds and the implied interest on life-contingent immediate annuities included in the reserve for life-contingent contract benefits. We utilize derivative instruments as economic hedges of investments or contractholder funds or to replicate fixed income securities. These instruments either do not qualify for hedge accounting or are not designated as hedges for accounting purposes. Such derivatives are accounted for at fair value, and reported in realized capital gains and losses. Periodic settlements and accruals on these derivative instruments are included as a component of gross margin, consistent with their intended use to enhance or maintain investment income and margin, and together with the economically hedged investments or product attributes (e.g., net investment income or interest credited to contractholders funds) or replicated investments, to appropriately reflect trends in product performance. Amortization of DSI is excluded from interest credited to contractholder funds for purposes of calculating investment margin. We use investment margin to evaluate Allstate Financial's profitability related to the difference between investment returns on assets supporting certain products and amounts credited to customers ("spread") during a fiscal period.

Investment margin by product group is shown in the following table.

(in millions)	2006	2005	2004
Annuities	$ 771	$ 683	$623
Life insurance	223	219	212
Institutional products	126	122	121
Bank and other	9	10	14
Total investment margin	$1,129	$1,034	$970

Investment margin increased 9.2% in 2006 compared to 2005 primarily due to improved yields on assets supporting deferred fixed annuities, crediting rate actions relating to renewal business and growth in contractholder funds. Investment margin increased 6.6% in 2005 compared to 2004 primarily due to growth in our fixed annuity business, partially offset by lower weighted average investment spreads on interest-sensitive life and immediate annuities.

The following table summarizes the annualized weighted average investment yield, interest crediting rates and investment spreads during 2006, 2005 and 2004.

	Weighted Average Investment Yield			Weighted Average Interest Crediting Rate			Weighted Average Investment Spreads		
	2006	**2005**	**2004**	**2006**	**2005**	**2004**	**2006**	**2005**	**2004**
Interest-sensitive life	6.2%	6.3%	6.5%	4.7%	4.8%	4.7%	1.5%	1.5%	1.8%
Deferred fixed annuities	5.7	5.5	5.8	3.7	3.8	4.1	2.0	1.7	1.7
Immediate fixed annuities with and without life contingencies	7.2	7.4	7.6	6.6	6.7	6.8	0.6	0.7	0.8
Institutional	6.0	4.6	3.1	5.0	3.6	2.1	1.0	1.0	1.0
Investments supporting capital, traditional life and other products	5.7	6.2	6.3	N/A	N/A	N/A	N/A	N/A	N/A

The following table summarizes the liabilities as of December 31 for these contracts and policies.

(in millions)	2006	2005	2004
Immediate fixed annuities with life contingencies	$ 8,144	$ 7,894	$ 7,720
Other life contingent contracts and other	4,642	4,588	4,034
Reserve for life-contingent contracts benefits	$12,786	$12,482	$11,754
Interest-sensitive life	$ 9,050	$ 8,842	$ 8,280
Deferred fixed annuities	35,533	33,890	31,390
Immediate fixed annuities without life contingencies	3,783	3,603	3,247
Institutional	12,467	12,431	11,279
Allstate Bank	773	882	840
Market value adjustments related to derivative instruments and other	425	392	673
Contractholder funds	$62,031	$60,040	55,709

Benefit margin is a component of gross margin, both of which are non-GAAP measures. Benefit margin represents life and life-contingent immediate annuity premiums, cost of insurance contract charges and, prior to the disposal of substantially all of our variable annuity business through reinsurance, variable annuity contract charges for contract guarantees less contract benefits. Benefit margin excludes the implied interest on life-contingent immediate annuities, which is included in the calculation of investment margin. We use the benefit margin to evaluate Allstate Financial's underwriting performance, as it reflects the profitability of our products with respect to mortality or morbidity risk during a fiscal period.

Benefit margin by product group is shown in the following table.

(in millions)	2006	2005	2004
Life insurance	$549	$544	$572
Annuities	(43)	(80)	(50)
Total benefit margin	$506	$464	$522

Benefit margin increased 9.1% in 2006 compared to 2005. Benefit margin for 2005 includes $60 million of amounts that were classified as contract charges and fees beginning in 2006. Further, benefit margin for 2005 includes $29 million related to the loan protection business transferred to Allstate Protection beginning in 2006. Excluding these reclassifications, benefit margin increased 34.9% in 2006 compared to 2005 due primarily to improved life insurance mortality experience in 2006, and to a lesser extent, in force business growth.

Benefit margin declined 11.1% in 2005 compared to 2004. Our life insurance and annuity business contributed equally to the decline in 2005. The decline in our annuity benefit margin was primarily driven by unfavorable mortality experience on immediate annuities with life contingencies and an increase in variable annuity contract benefits. The decline in our life insurance benefit margin was primarily due to the absence of margin on certain products resulting from the disposal of our direct response distribution business in the prior year and modestly unfavorable mortality experience on our traditional life business, partially offset by growth in our life insurance in force.

Amortization of DAC and DSI, excluding amortization related to realized capital gains and losses, increased 33.8% in 2006 compared to 2005 primarily due to improved gross profits on investment contracts resulting from increased investment and benefit margin, and lower expenses. Additionally, DAC and DSI amortization for 2006 includes a write-off totaling $27 million for the present value of future profits related to a block of corporate owned life insurance policies that terminated due to the bankruptcy of the policyholder. Partially offsetting these increases was the significant reduction in amortization on the variable annuity contracts due to the disposition of this business effective June 1, 2006 through reinsurance. DAC and DSI amortization related to realized capital gains and losses, after-tax, changed by a favorable $139 million in 2006 compared to 2005. The impact of realized capital gains and losses on amortization of DAC and DSI is dependent upon the relationship between the assets that give rise to the gain or loss and the product liability supported by the assets. Fluctuations result from changes in the impact of realized capital gains and losses on actual and expected gross profits.

The DAC and DSI assets were reduced by $726 million and $70 million, respectively, in 2006 as a result of the disposition of substantially all of Allstate Financial's variable annuity business.

Amortization of DAC and DSI increased 9.4% in 2005 compared to 2004 as a result of higher gross margin. DAC and DSI amortization related to realized capital gains and losses, after-tax, increased $14 million in 2005 compared to 2004 primarily due to increased realized capital gains on investments supporting certain fixed annuities.

The changes in the DAC asset are summarized in the following tables.

(in millions)	Beginning balance December 31, 2005	Impact of Disposal of variable annuities	Acquisition costs deferred	Amortization charged to income (1)	Amortization (acceleration) deceleration charged to income (2)	Effect of unrealized capital gains and losses	Ending balance December 31, 2006
Traditional life	$ 598	$ —	$ 72	$ (59)	$ —	$ —	$ 611
Interest-sensitive life	1,696	—	272	(223)	(18)	47	1,774
Variable annuities	730	(726)	46	(46)	—	—	4
Investment contracts	1,085	—	362	(247)	16	13	1,229
Accident, health and other	209	—	70	(49)	—	—	230
Total	$4,318	$ (726)	$822	$(624)	$ (2)	$ 60	$3,848

(in millions)	Beginning balance December 31, 2004	Acquisition costs deferred	Amortization charged to income(1)	Amortization (acceleration) deceleration charged to income(2)	Effect of unrealized capital gains and losses	Ending balance December 31, 2005
Traditional life	$ 581	$ 67	$ (50)	$ —	$ —	$ 598
Interest-sensitive life	1,529	241	(143)	(2)	71	1,696
Variable annuities	628	110	(106)	55	43	730
Investment contracts	594	347	(282)	(51)	477	1,085
Accident, health and other	176	83	(50)	—	—	209
Total	$3,508	$848	$(631)	$ 2	$591	$4,318

(1) The amortization of DAC for interest-sensitive life, variable annuities and investment contracts is proportionate to the recognition of gross profits, which include realized capital gains and losses. Fluctuations in amortization for these products may result as actual realized capital gains and losses differ from the amounts utilized in the determination of estimated gross profits. Amortization related to realized capital gains and losses was $50 million and $(126) million in 2006 and 2005, respectively.

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

Operating costs and expenses decreased 25.9% in 2006 compared to 2005 and declined slightly in 2005 compared to 2004. The following table summarizes operating costs and expenses.

(in millions)	2006	2005	2004
Non-deferrable acquisition costs	$175	$245	$256
Other operating costs and expenses	293	387	378
Total operating costs and expenses	$468	$632	$634
Restructuring and related charges	$ 24	$ 2	$ 5

Non-deferrable acquisition costs declined 28.6% in 2006 compared to 2005 due primarily to the transfer of the loan protection business to Allstate Protection effective January 1, 2006 and a reduction in non-deferrable commissions, which was primarily due to the disposal of substantially all of Allstate Financial's variable annuity business effective June 1, 2006. Non-deferrable acquisition costs related to the loan protection business amounted to $39 million in 2005.

Other operating costs and expenses declined $94 million or 24.3% in 2006 compared to 2005. The disposition of substantially all of our variable annuity business through reinsurance and the transfer of the loan protection business resulted in $51 million of this reduction. The remaining decline relates to a $28 million charge in the prior year for an increase in a liability for future benefits of a previously

discontinued benefit plan, and expense savings initiatives, including the VTO. For more information on the VTO, see Note 12 to the Consolidated Financial Statements.

Non-deferrable acquisition costs declined 4.3% in 2005 compared to 2004 as the prior year included a $15 million charge related to loss experience on certain credit insurance policies. The impact of this charge was partially offset by higher premium taxes and non-deferrable commissions in 2005. Other operating costs and expenses increased 2.4% in 2005 compared to 2004 primarily due to a $28 million increase in a liability for future benefits of a previously discontinued benefit plan, partially offset by lower employee and technology expenses.

Restructuring and related charges for 2006 reflect costs related to the VTO.

Net income was favorably impacted in 2006 and 2005 by adjustments to prior years' tax liabilities totaling $10 million and $19 million, respectively. These amounts are presented as a component of income tax expense in the Consolidated Statements of Operations.

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

(in millions)	2006	2005	2004
Investment write-downs	$(21)	$ (24)	$ (82)
Dispositions	(87)	88	131
Valuation of derivative instruments	(17)	(105)	(55)
Settlement of derivative instruments	48	60	7
Realized capital gains and losses, pretax	(77)	19	1
Income tax (expense) benefit	27	(7)	(4)
Realized capital gains and losses, after-tax	$(50)	$ 12	$ (3)

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

Reinsurance Ceded We enter into reinsurance agreements with unaffiliated carriers to limit our risk of mortality losses. As of December 31, 2006 and 2005, 48% and 49%, respectively, of our face amount of life insurance in force was reinsured. As of December 31, 2006, for certain term life insurance policies, we ceded up to 90% of the mortality risk depending on the length of the term. Comparatively, as of December 31, 2005, for certain term life insurance, we ceded 25-90% of the mortality risk depending on the length of the term and policy premium guarantees. Additionally, we ceded substantially all of the risk associated with our variable annuity business and we cede 100% of the morbidity risk on substantially all of our long-term care contracts. Beginning in 2006, we increased our mortality risk retention to $5 million per individual life for certain insurance applications meeting certain criteria. Prior to 2006, but subsequent to October 1998, we ceded mortality risk on new life contracts that exceeded $2 million per individual life. For business sold prior to October 1998, we ceded mortality risk in excess of specific amounts up to $1 million per individual life. We retain primary liability as a direct insurer for all risks ceded to reinsurers.

The impacts of reinsurance on our reserve for life-contingent contract benefits and contractholder funds at December 31, are summarized in the following table.

(in millions)	Reinsurance recoverable on paid and unpaid claims	
	2006	2005
Annuities[1]	$1,654	$ 172
Life insurance	1,225	1,123
Long-term care	518	412
Other	96	103
Total Allstate Financial	$3,493	$1,810

(1) Reinsurance recoverables as of December 31, 2006 include $1.49 billion for general account reserves related to variable annuities. Substantially all of our variable annuity business was reinsured effective June 1, 2006.

The estimation of reinsurance recoverables is impacted by the uncertainties involved in the establishment of reserves.

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

(in millions)	S&P Financial Strength Rating	Reinsurance recoverable on paid and unpaid claims	
		2006	2005
Prudential Insurance Company of America	AA-	$1,490	$ —
Employers Reassurance Corporation	A+	439	336
RGA Reinsurance Company	AA-	295	262
Transamerica Life Group	AA	233	185
Swiss Re Life and Health America, Inc.	AA-	161	155
Paul Revere Life Insurance Company	BBB+	147	152
Scottish Re Group	BB	127	123
Munich American Reassurance	A+	92	82
Manulife Insurance Company	AAA	82	87
Mutual of Omaha Insurance	AA-	79	76
Security Life of Denver	AA	73	70
Triton Insurance Company	NR	65	62
Lincoln National Life Insurance	AA	59	55
American Health & Life Insurance Co.	NR	50	50
Other[1]		101	115
Total		$3,493	$1,810

(1) As of December 31, 2006 and 2005, the other category includes $74 million and $71 million, respectively, of recoverables due from reinsurers with an investment grade credit rating from S&P.

We continuously monitor the creditworthiness of reinsurers in order to determine our risk of recoverability on an individual and aggregate basis, and a provision for uncollectible reinsurance is recorded if needed. No amounts have been deemed unrecoverable in the three-years ended December 31, 2006.

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

Allstate Financial Outlook

- We plan to continue to balance targeted improvements in return on equity with growth in sales and profitability. Initially, our actions to improve returns may reduce the price competitiveness of certain products, such as our fixed annuities, and slow or reduce the growth in sales and income.
- We expect that the near-term improvements in our returns will be generated mostly by improved capital efficiency and will later be accompanied by improved profitability.
- We plan to continue to maintain discipline over expenses and improve our operating efficiency.
- We plan to increase sales of our financial products by Allstate exclusive agencies by further tailoring products for our customers and making it easier for our agents to distribute Allstate Financial products.
- We expect to continue to prioritize the allocation of fixed income investments to support sales of products with the best sustainable growth and margins and to maintain a market presence for fixed annuity and life products in our retail distribution channels. Sales of our institutional products may vary as a result.
- We plan to develop and bring to market new innovative life insurance products or features designed to increase sales of this product line.

INVESTMENTS

An important component of our financial results is the return on our investment portfolios. Investment portfolios are segmented between the Property-Liability, Allstate Financial and Corporate and Other operations. The investment portfolios are managed based upon the nature of each respective business and its corresponding liability structure.

Overview and Strategy The Property-Liability portfolio's investment strategy emphasizes safety of principal and consistent income generation, within a total return framework. This approach, which has produced competitive returns over time, is designed to ensure financial strength and stability for paying claims, while maximizing economic value and surplus growth. We employ a strategic asset allocation model, which takes into account the nature of the liabilities and risk tolerances, as well as the risk/return parameters of the various asset classes in which we invest. The model's recommended asset allocation, along with duration and liquidity considerations, guides our initial asset allocation. This is further adjusted based on our analysis of other potential market opportunities available. Portfolio performance is measured against outside benchmarks at target allocation weights.

The Allstate Financial portfolio's investment strategy focuses on the need for risk-adjusted spread on the underlying liabilities while maximizing return on capital. We believe investment spread is maximized by selecting assets that perform favorably on a long-term basis and by disposing of certain assets to minimize the effect of downgrades and defaults. We believe this strategy maintains the investment margin necessary to sustain income over time. The portfolio management approach employs a combination of recognized market, analytical and proprietary modeling, including a strategic asset allocation model, as the primary basis for the allocation of interest sensitive, illiquid and credit assets as well as for

determining overall below investment grade exposure and diversification requirements. Within the ranges set by the strategic asset allocation model, tactical investment decisions are made in consideration of prevailing market conditions.

The Corporate and Other portfolio's investment strategy balances the pursuit of competitive returns with the unique liquidity needs of the portfolio relative to the overall corporate capital structure. The portfolio is primarily invested in high quality, highly-liquid fixed income and short-term securities with additional investments in less liquid holdings in order to enhance overall returns.

As a result of tactical decisions in each of the portfolios, we may sell securities during the period in which fair value has declined below amortized cost for fixed income securities or cost for equity securities. Portfolio monitoring, which includes identifying securities that are other-than-temporarily impaired and recognizing impairment on securities in an unrealized loss position for which we do not have the intent and ability to hold until recovery, are conducted regularly. For more information, see the Portfolio Monitoring section of the MD&A.

Portfolio Composition The composition of the investment portfolios at December 31, 2006 is presented in the table below. Also see Notes 2 and 5 of the consolidated financial statements for investment accounting policies and additional information.

	Property-Liability		Allstate Financial[3]		Corporate and Other[3]		Total	
(in millions)		Percent to total		Percent to total		Percent to total		Percent to total
Fixed income securities[1]	$32,791	78.7%	$63,956	84.2%	$1,573	73.4%	$ 98,320	82.1%
Equity securities[2]	7,153	17.2	538	0.7	86	4.0	7,777	6.5
Mortgage loans	649	1.5	8,818	11.6	—	—	9,467	7.9
Short-term	1,067	2.6	879	1.2	484	22.6	2,430	2.0
Other	3	—	1,760	2.3	—	—	1,763	1.5
Total	$41,663	100.0%	$75,951	100.0%	$2,143	100.0%	$119,757	100.0%

(1) Fixed income securities are carried at fair value. Amortized cost basis for these securities was $31.96 billion, $62.37 billion and $1.45 billion for Property-Liability, Allstate Financial and Corporate and Other, respectively.

(2) Equity securities are carried at fair value. Cost basis for these securities was $5.41 billion, $527 million, and $86 million for Property-Liability, Allstate Financial and Corporate and Other, respectively.

(3) Balances reflect the elimination of related party investments between Allstate Financial and Corporate and Other.

Total investments increased to $119.76 billion at December 31, 2006 from $118.30 billion at December 31, 2005, primarily due to positive cash flows from operating activities, increased net unrealized gains on equity securities and increased funds associated with securities lending, partially offset by the transfer of funds to Prudential in conjunction with the disposition of Allstate Financial's variable annuity business through reinsurance and decreased net unrealized gains on fixed income securities.

The Property-Liability investment portfolio increased to $41.66 billion at December 31, 2006 from $39.57 billion at December 31, 2005, primarily due to positive cash flows from operating activities and increased net unrealized gains on equity securities, partially offset by dividends paid by AIC to The Allstate Corporation.

The Allstate Financial investment portfolio increased to $75.95 billion at December 31, 2006, from $75.23 billion at December 31, 2005, primarily due to positive cash flows from operating activities, partially offset by payments totaling approximately $826 million related to the disposition through reinsurance of

substantially all of our variable annuity business, decreased net unrealized capital gains on fixed income securities and dividends of $675 million paid by ALIC to its parent, AIC. ALIC paid these dividends as a result of excess capital resulting from the disposition of substantially all of Allstate Financial's variable annuity business through reinsurance.

The Corporate and Other investment portfolio decreased to $2.14 billion at December 31, 2006, from $3.49 billion at December 31, 2005, primarily due to cash flows used in financing activities, partially offset by proceeds from our debt issuance. For further information on our debt issuance, see the Capital Resources and Liquidity section of the MD&A.

Total investments at amortized cost related to collateral received in connection with securities lending business activities, funds received in connection with securities repurchase agreements, and collateral posted by counterparties related to derivative transactions, increased to $4.14 billion at December 31, 2006, from $4.10 billion at December 31, 2005.

We use different methodologies to estimate the fair value of publicly and non-publicly traded marketable investment securities and exchange traded and non-exchange traded derivative contracts. For a discussion of these methods, see the Application of Critical Accounting Estimates section of the MD&A.

The following table shows total investments, categorized by the method used to determine fair value at December 31, 2006.

	Investments		Derivative Contracts[1]
(in millions)	Carrying Value	Percent to total	Fair Value
Fair value based on independent market quotations	$ 92,833	77.5%	$ 129
Fair value based on models and other valuation methods	13,171	11.0	1,256
Mortgage loans, policy loans, bank loans and certain limited partnership and other investments, valued at cost, amortized cost and the equity method	13,753	11.5	
Total	$119,757	100.0%	$1,385

(1) Derivative fair value includes derivatives classified as assets and liabilities on the Consolidated Statements of Financial Position and excludes derivatives related to Allstate Financial products (see Note 6 of the consolidated financial statements).

Fixed Income Securities See Note 5 of the consolidated financial statements for a table showing the amortized cost, unrealized gains, unrealized losses and fair value for each type of fixed income security for the years ended December 31, 2006 and 2005.

Municipal bonds, including tax-exempt and taxable securities, totaled $25.61 billion and 96.7% were rated investment grade at December 31, 2006. Approximately 64.6% of the municipal bond portfolio was insured by eight bond insurers and accordingly have a Moody's equivalent rating of Aaa or Aa. The municipal bond portfolio at December 31, 2006 consisted of approximately 3,400 issues from approximately 2,300 issuers. The largest exposure to a single issuer was approximately 1% of the municipal bond portfolio. Corporate entities were the ultimate obligors of approximately 9.0% of the municipal bond portfolio.

Corporate bonds totaled $40.83 billion and 89.5% were rated investment grade at December 31, 2006. As of December 31, 2006, the portfolio contained $18.33 billion of privately placed corporate obligations or 44.9%, compared with $17.72 billion or 44.2% at December 31, 2005. Included within privately placed corporate obligations are bank loans, which are primarily senior secured corporate loans, and other non-publicly traded corporate obligations. Approximately $15.98 billion or 87.2% of the privately placed corporate obligations consisted of fixed rate privately placed securities. The primary benefits of fixed rate privately placed securities when compared to publicly issued securities may include generally higher yields, improved cash flow predictability through pro-rata sinking funds, and a combination of covenant and call protection features designed to better protect the holder against losses resulting from credit deterioration, reinvestment risk or fluctuations in interest rates. A disadvantage of fixed rate privately placed securities when compared to publicly issued securities is relatively reduced liquidity. At December 31, 2006, 88.0% of the privately placed securities were rated investment grade.

Foreign government securities totaled $2.82 billion and 96.4% were rated investment grade at December 31, 2006.

Mortgage-backed securities (''MBS'') totaled $7.92 billion and 99.8% were rated investment grade at December 31, 2006. The credit risk associated with MBS is mitigated due to the fact that 64.7% of the portfolio consists of securities that were issued by, or have underlying collateral that is guaranteed by U.S. government agencies or U.S. government sponsored entities. The MBS portfolio is subject to interest rate risk since price volatility and the ultimate realized yield are affected by the rate of prepayment of the underlying mortgages.

Commercial Mortgage Backed Securities (''CMBS'') totaled $7.84 billion and 99.9% were rated investment grade at December 31, 2006. CMBS investments primarily represent pools of commercial mortgages, broadly diversified across property types and geographical area. The CMBS portfolio is subject to credit risk, but unlike other structured products, is generally not subject to prepayment risk due to protections within the underlying commercial mortgages, whereby borrowers are effectively restricted from prepaying their mortgages due to changes in interest rates. Credit defaults can result in credit directed prepayments. Approximately 72.2% of the CMBS portfolio had a Moody's rating of Aaa or a Standard & Poor's or Fitch rating of AAA, the highest rating categories, at December 31, 2006.

Asset-backed securities (''ABS'') totaled $9.21 billion and 98.6% were rated investment grade at December 31, 2006. Our ABS portfolio is subject to credit and interest rate risk. Credit risk is managed by monitoring the performance of the collateral. In addition, many of the securities in the ABS portfolio are credit enhanced with features such as over-collateralization, subordinated structures, reserve funds, guarantees and/or insurance. Approximately 66.4% of the ABS portfolio had a Moody's rating of Aaa or a Standard & Poor's or Fitch rating of AAA, the highest rating categories. A portion of the ABS portfolio is also subject to interest rate risk since, for example, price volatility and ultimate realized yield are affected by the rate of prepayment of the underlying assets. As of December 31, 2006, 86.5% of the portfolio was less sensitive to interest rate risk due to the payment terms or underlying collateral of the securities. The ABS portfolio includes bonds that are secured by a variety of asset types, predominately home equity loans, credit card receivables and auto loans as well as collateralized debt obligations that are predominately secured by corporate bonds and loans.

We may utilize derivative financial instruments to help manage the exposure to interest rate risk from the fixed income securities portfolio. For a more detailed discussion of interest rate risk and our use of derivative financial instruments, see the Market Risk section of the MD&A and Note 6 of the consolidated financial statements.

At December 31, 2006, 94.6% of the consolidated fixed income securities portfolio was rated investment grade, which is defined as a security having a rating from The National Association of Insurance Commissioners ("NAIC") of 1 or 2; a rating of Aaa, Aa, A or Baa from Moody's or a rating of AAA, AA, A or BBB from Standard & Poor's, Fitch or Dominion or a rating of aaa, aa, a or bbb from A.M. Best; or a comparable internal rating if an externally provided rating is not available.

The following table summarizes the credit quality of the fixed income securities portfolio at December 31, 2006.

(in millions)		Property-Liability		Allstate Financial		Corporate and Other		Total	
NAIC Rating	Moody's Equivalent	Fair Value	Percent to total	Fair Value	Percent to total	Fair Value	Percent to total	Fair Value	Percent to total
1	Aaa/Aa/A	$28,449	86.8%	$44,276	69.2%	$1,483	94.3%	$74,208	75.5%
2	Baa	2,329	7.1	16,363	25.6	50	3.1	18,742	19.1
3	Ba	777	2.4	2,466	3.9	—	—	3,243	3.3
4	B	905	2.7	764	1.2	—	—	1,669	1.7
5	Caa or lower	266	0.8	70	0.1	20	1.3	356	0.3
6	In or near default	65	0.2	17	—	20	1.3	102	0.1
	Total	$32,791	100.0%	$63,956	100.0%	$1,573	100.0%	$98,320	100.0%

Equity Securities Equity securities include common stocks, limited partnership investments, real estate investment trust equity investments and non-redeemable preferred stocks. The equity securities portfolio was $7.78 billion at December 31, 2006 compared to $6.16 billion at December 31, 2005. The increase is primarily attributable to positive cash flows from operations. Gross unrealized gains totaled $1.77 billion at December 31, 2006 compared to $1.31 billion at December 31, 2005. Gross unrealized losses totaled $20 million at December 31, 2006 compared to $22 million at December 31, 2005.

Unrealized Gains and Losses See Note 5 of the consolidated financial statements for further disclosures regarding unrealized losses on fixed income and equity securities and factors considered in determining whether the securities are not other-than-temporarily impaired. The unrealized net capital gains on fixed income and equity securities at December 31, 2006 totaled $4.29 billion, a decrease of

$288 million since December 31, 2005. Gross unrealized gains and losses on fixed income securities by type and sector are provided in the table below.

At December 31, 2006	Amortized cost	Gross unrealized		Fair value
		Gains	Losses	
(in millions)				
Corporate:				
Consumer goods (cyclical and non-cyclical)	$ 6,378	$ 95	$ (71)	$ 6,402
Utilities	6,139	269	(59)	6,349
Banking	6,214	115	(55)	6,274
Financial services	5,635	69	(43)	5,661
Capital goods	3,948	68	(38)	3,978
Communications	2,903	70	(21)	2,952
Basic industry	2,293	40	(17)	2,316
Other	1,897	69	(16)	1,950
Energy	1,911	40	(24)	1,927
Transportation	1,870	69	(19)	1,920
Technology	1,075	19	(9)	1,085
Foreign Government	11	—	—	11
Total corporate fixed income portfolio	40,274	923	(372)	40,825
U.S. government and agencies	3,284	758	(9)	4,033
Municipal	24,665	1,003	(60)	25,608
Foreign government	2,489	333	(4)	2,818
Mortgage-backed securities	7,962	41	(87)	7,916
Commercial mortgage-backed securities	7,834	67	(64)	7,837
Asset-backed securities	9,202	40	(31)	9,211
Redeemable preferred stock	70	2	—	72
Total fixed income securities	$95,780	$3,167	$(627)	$98,320

The consumer goods, utilities, banking, financial services, and capital goods sectors had the highest concentration of gross unrealized losses in our corporate fixed income securities portfolio at December 31, 2006. The gross unrealized losses in these sectors were primarily interest rate related and company specific. As of December 31, 2006, $342 million or 91.9% of the gross unrealized losses in the corporate fixed income portfolio and $251 million or 98.4% of the gross unrealized losses in the remaining fixed income securities were rated investment grade. Unrealized losses on investment grade securities are principally related to rising interest rates or changes in credit spreads since the securities were acquired. All securities in an unrealized loss position at December 31, 2006 were included in our portfolio monitoring process for determining which declines in value were not other-than-temporary.

The following table shows the composition by credit quality of the fixed income securities with gross unrealized losses at December 31, 2006.

(in millions) NAIC Rating	Moody's Equivalent	Unrealized Loss	Percent to Total	Fair Value	Percent to Total
1	Aaa/Aa/A	$(422)	67.3%	$24,198	74.2%
2	Baa	(171)	27.3	7,204	22.1
3	Ba	(24)	3.8	826	2.5
4	B	(7)	1.1	253	0.8
5	Caa or lower	(3)	0.5	93	0.3
6	In or near default	—	—	25	0.1
	Total	$(627)	100.0%	$32,599	100.0%

The table above includes 37 securities that have not yet received an NAIC rating, for which we have assigned a comparable internal rating, with a fair value totaling $373 million and an unrealized loss of $8 million. Due to lags between the funding of an investment, execution of final legal documents, filing with the Securities Valuation Office ("SVO") of the NAIC, and rating by the SVO, we will always have a small number of securities that have a pending rating.

At December 31, 2006, $593 million, or 94.6%, of the gross unrealized losses were related to investment grade fixed income securities. Unrealized losses on investment grade securities principally relate to changes in interest rates or changes in sector-related credit spreads since the securities were acquired.

As of December 31, 2006, $34 million of the gross unrealized losses were related to below investment grade fixed income securities. Of this amount, there were no significant unrealized loss positions (greater than or equal to 20% of amortized cost) for six or more consecutive months prior to December 31, 2006. Included among the securities rated below investment grade are both public and privately placed high-yield bonds and securities that were investment grade when originally acquired. We mitigate the credit risk of investing in below investment grade fixed income securities by limiting the percentage of our fixed income portfolio invested in such securities, through diversification of the portfolio, and active credit monitoring and portfolio management.

The scheduled maturity dates for fixed income securities in an unrealized loss position at December 31, 2006 are shown below. Actual maturities may differ from those scheduled as a result of prepayments by the issuers.

(in millions)	Unrealized Loss	Percent to Total	Fair Value	Percent to Total
Due in one year or less	$ (5)	0.8%	$ 673	2.1%
Due after one year through five years	(96)	15.3	5,979	18.3
Due after five years through ten years	(200)	31.9	8,330	25.6
Due after ten years	(208)	33.2	9,358	28.7
Mortgage- and asset- backed securities[1]	(118)	18.8	8,259	25.3
Total	$(627)	100.0%	$32,599	100.0%

(1) Because of the potential for prepayment, mortgage- and asset-backed securities are not categorized based on their contractual maturities.

The equity portfolio is comprised of securities in the following sectors.

(in millions) At December 31, 2006	Cost	Gross unrealized Gains	Gross unrealized Losses	Fair Value
Consumer goods (cyclical and non-cyclical)	$1,003	$ 290	$ (7)	$1,286
Technology	413	169	(4)	578
Financial services	625	263	(1)	887
Real estate	241	251	—	492
Capital goods	358	143	(2)	499
Banking	298	78	—	376
Communications	295	111	(2)	404
Energy	301	198	(3)	496
Basic industry	153	76	(1)	228
Utilities	128	54	—	182
Transportation	75	21	—	96
Other[1]	2,136	117	—	2,253
Total equities	$6,026	$1,771	$(20)	$7,777

(1) Other consists primarily of limited partnership investments and index-based securities.

At December 31, 2006, the consumer goods, technology and energy sectors had the highest concentration of gross unrealized losses in our equity portfolio, which were company and sector specific. We expect eventual recovery of these securities and the related sectors. All securities in an unrealized loss position at December 31, 2006 were included in our portfolio monitoring process for determining which declines in value were not other-than-temporary.

Portfolio Monitoring We have a comprehensive portfolio monitoring process to identify and evaluate, on a case-by-case basis, fixed income and equity securities whose carrying value may be other-than-temporarily impaired. The process includes a quarterly review of all securities using a screening process to identify those securities whose fair value compared to amortized cost for fixed income securities or cost for equity securities is below established thresholds for certain time periods, or which are identified through other monitoring criteria such as ratings downgrades or payment defaults. The securities identified, in addition to other securities for which we may have a concern, are evaluated based on facts and circumstances for inclusion on our watch-list. As a result of approved programs involving the disposition of investments such as changes in duration and revisions to strategic asset allocations and liquidity actions, and certain dispositions anticipated by portfolio managers, we also conduct a portfolio review to recognize impairment on securities in an unrealized loss position for which we do not have the intent and ability to hold until recovery. All securities in an unrealized loss position at December 31, 2006 were included in our portfolio monitoring process for determining which declines in value were not other-than-temporary.

The following table summarizes fixed income and equity securities in a gross unrealized loss position according to significance, aging and investment grade classification.

(in millions except number of issues)	December 31, 2006				December 31, 2005			
	Fixed Income				Fixed Income			
	Investment Grade	Below Investment Grade	Equity	Total	Investment Grade	Below Investment Grade	Equity	Total
Category (i): Unrealized loss less than 20% of cost[1]								
Number of Issues	4,883	184	180	5,247	4,267	270	192	4,729
Fair Value	$31,402	$1,193	$179	$32,774	$30,703	$1,293	$311	$32,307
Unrealized	$ (593)	$ (33)	$ (14)	$ (640)	$ (540)	$ (52)	$ (17)	$ (609)
Category (ii): Unrealized loss greater than or equal to 20% of cost for a period of less than 6 consecutive months[1]								
Number of Issues	1	2	27	30	6	4	35	45
Fair Value	$ –	$ 4	$ 9	$ 13	$ 40	$ 7	$ 10	$ 57
Unrealized	$ –	$ (1)	$ (4)	$ (5)	$ (11)	$ (2)	$ (4)	$ (17)
Category (iii): Unrealized loss greater than or equal to 20% of cost for a period of 6 or more consecutive months, but less than 12 consecutive months[1]								
Number of Issues	–	–	17	17	–	1	15	16
Fair Value	$ –	$ –	$ 2	$ 2	$ –	$ 6	$ 2	$ 8
Unrealized	$ –	$ –	$ (1)	$ (1)	$ –	$ (2)	$ (1)	$ (3)
Category (iv): Unrealized loss greater than or equal to 20% of cost for twelve or more consecutive months[1]								
Number of Issues	–	–	4	4	–	2	–	2
Fair Value	$ –	$ –	$ 1	$ 1	$ –	$ 8	$ –	$ 8
Unrealized	$ –	$ –	$ (1)	$ (1)	$ –	$ (7)	$ –	$ (7)
Total Number of Issues	4,884	186	228	5,298	4,273	277	242	4,792
Total Fair Value	$31,402	$1,197	$191	$32,790	$30,743	$1,314	$323	$32,380
Total Unrealized Losses	$ (593)	$ (34)	$ (20)	$ (647)	$ (551)	$ (63)	$ (22)	$ (636)

(1) For fixed income securities, cost represents amortized cost.

The largest individual unrealized loss was $4 million for category (i) and $1 million for category (ii) as of December 31, 2006.

Categories (i) and (ii) have generally been adversely affected by overall economic conditions including interest rate increases and the market's evaluation of certain sectors. The degree to which and/or length of time that the securities have been in an unrealized loss position does not suggest that these securities pose a high risk of being other-than-temporarily impaired. Categories (iii) and (iv) have primarily been adversely affected by industry and issue specific conditions. All of the securities in these categories are monitored for impairment. We expect that the fair values of these securities will recover over time.

Whenever our initial analysis indicates that a fixed income security's unrealized loss of 20% or more for at least 36 months or any equity security's unrealized loss of 20% or more for at least 12 months is temporary, additional evaluations and management approvals are required to substantiate that a write-down is not appropriate. As of December 31, 2006, no securities met these criteria.

The following table contains the individual securities with the largest unrealized losses as of December 31, 2006. No other fixed income or equity security had an unrealized loss greater than $2 million or 0.3% of the total unrealized loss on fixed income and equity securities.

(in millions)	Unrealized Loss	Fair Value	NAIC Rating	Unrealized Loss Category
Food Processing Company[1]	$ (4)	$ 16	N/A	(i)
Financial Institution	(3)	47	1	(i)
Food Processing Company	(3)	32	2	(i)
Gaming/Lodging Company	(3)	31	3	(i)
Auto Supplier	(3)	17	3	(i)
Government Securities	(3)	141	1	(i)
Energy service provider	(3)	33	1	(i)
Total	$(22)	$317		

(1) This loss was related to an equity security that does not receive a credit quality related rating from the NAIC.

We monitor the quality of our fixed income portfolio by categorizing certain investments as "problem", "restructured" or "potential problem." Problem fixed income securities are securities in default with respect to principal or interest and/or securities issued by companies that have gone into bankruptcy subsequent to our acquisition of the security. Restructured fixed income securities have rates and terms that are not consistent with market rates or terms prevailing at the time of the restructuring. Potential problem fixed income securities are current with respect to contractual principal and/or interest, but because of other facts and circumstances, we have concerns regarding the borrower's ability to pay future principal and interest, which causes us to believe these securities may be classified as problem or restructured in the future.

The following table summarizes problem, restructured and potential problem fixed income securities at December 31.

	2006			2005		
(in millions)	Amortized cost	Fair value	Percent of total Fixed Income portfolio	Amortized cost	Fair value	Percent of total Fixed Income portfolio
Problem	$ 65	$ 84	0.1%	$172	$188	0.2%
Restructured	33	33	—	33	34	—
Potential problem	139	149	0.2	178	191	0.2
Total net carrying value	$237	$266	0.3%	$383	$413	0.4%
Cumulative write-downs recognized[1]	$298			$304		

(1) Cumulative write-downs recognized only reflects write-downs related to securities within the problem, potential problem and restructured categories.

MD&A

We have experienced a decrease in the amortized cost of fixed income securities categorized as problem and potential problem as of December 31, 2006 compared to December 31, 2005. The decrease was primarily due to dispositions and the removal of securities upon improving conditions.

We evaluated each of these securities through our portfolio monitoring process at December 31, 2006 and recorded write-downs when appropriate. We further concluded that any remaining unrealized losses on these securities were temporary in nature and that we have the intent and ability to hold the securities until recovery. While these balances may increase in the future, particularly if economic conditions are unfavorable, management expects that the total amount of securities in these categories will remain low relative to the total fixed income securities portfolio.

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

(in millions)	2006	2005	2004
Investment write-downs	$ (47)	$ (55)	$(129)
Dispositions	379	619	828
Valuation of derivative instruments	26	(95)	(46)
Settlement of derivative instruments	(72)	80	(62)
Realized capital gains and losses, pretax	286	549	591
Income tax expense	(100)	(189)	(199)
Realized capital gains and losses, after-tax	$ 186	$ 360	$ 392

Dispositions in the above table include sales, losses recognized in anticipation of dispositions and other transactions such as calls and prepayments. We may sell impaired fixed income, cost or equity securities that were in an unrealized loss position at the previous reporting date in situations where new factors such as negative developments, subsequent credit deterioration, changing liquidity needs, and newly identified market opportunities cause a change in our previous intent to hold a security to recovery or maturity. The loss for the year ended December 31, 2006 on the settlement of derivative instruments was primarily driven by $111 million of realized losses from commodity-based excess return swaps and futures contracts. For portfolio diversification, we enter into commodity-based investments through the use of excess return swaps and futures contracts whose returns are tied to a commodity-based index which declined in value.

A changing interest rate environment will drive changes in our portfolio duration targets at a tactical level. A duration target and range is established with an economic view of liabilities relative to a long-term portfolio view. Tactical duration adjustments within management's approved ranges are accomplished through both cash market transactions and derivative activities that generate realized gains and losses and through new purchases. As a component of our approach to managing portfolio duration, realized gains and losses on derivative instruments are most appropriately considered in conjunction with the unrealized gains and losses on the fixed income portfolio. This approach mitigates the impacts of general interest rate changes to the overall financial condition of the corporation.

Dispositions included net realized gains on sales and other transactions such as calls and prepayments of $491 million and losses recorded in connection with anticipated dispositions of $112 million. The net realized gains on sales and other transactions were comprised of gross gains of $958 million and gross losses of $467 million. The $467 million in gross losses primarily consisted of $317 million from sales of fixed income securities and $143 million from sales of equity securities.

During our comprehensive portfolio reviews, we ascertain whether there are any approved programs involving the disposition of investments such as changes in duration, revision to strategic asset allocation and liquidity actions; and any dispositions anticipated by the portfolio managers resulting from their on-going comprehensive reviews of the portfolios. Upon approval of such programs, we identify a population of suitable investments, typically larger than needed to execute the disposition, from which specific securities are selected to sell. Due to our change in intent to hold until recovery, we recognize impairments, which are included in losses from dispositions, on any of these securities in an unrealized loss position. When the objectives of the programs are accomplished, any remaining securities are redesignated as intent to hold until recovery.

For the year ended December 31, 2006, we recognized $112 million of losses related to a change in our intent to hold certain securities with unrealized losses until they recover in value. The change in our intent was driven by certain approved programs, including funding for the disposition through reinsurance of substantially all of Allstate Financial's variable annuity business, yield enhancement strategies for Allstate Financial, a liquidity strategy review for Corporate and Other segment, and changes to strategic asset allocations for Allstate Protection. These programs were completed during 2006. Additionally, ongoing comprehensive reviews of both the Allstate Protection and Allstate Financial portfolios resulted in the identification of anticipated dispositions by the portfolio managers. At December 31, 2006, the fair value of securities for which we did not have the intent to hold until recovery totaled $375 million.

At December 31, 2005, the fair value of the securities for which we did not have the intent to hold until recovery totaled $14.37 billion. Approved programs involving the disposition of securities included liquidity needs to pay catastrophe claims, revisions to strategic asset allocations for Allstate Protection, and dispositions anticipated by the portfolio managers resulting from their on-going comprehensive reviews of the portfolios on which we recognized $208 million of losses during 2005. These objectives were accomplished during 2006.

The ten largest losses from sales of individual securities for the year ended December 31, 2006 totaled $26 million with the largest loss being $4 million and the smallest loss being $2 million. One of the securities comprising the $26 million was in an unrealized loss position greater than or equal to 20% of amortized cost for fixed income securities or cost for equity securities for a period of less than six consecutive months.

Our largest aggregate loss on dispositions and writedowns are shown in the following table by issuer and its affiliates. No other issuer together with its affiliates had an aggregated loss on dispositions and

writedowns greater than 0.6% of the total gross loss on dispositions and writedowns on fixed income and equity securities.

(in millions)	Fair Value at Disposition ("Proceeds")	Loss on Dispositions[1]	Write-downs	December 31, 2006 Holdings[2]	Net Unrealized Gain (Loss)
Limited Partnership Investment Fund	$ —	$ —	$ (6)	$ 32	$—
Household Product Retailer	43	(4)	—	30	—
Aircraft Securitized Trust	—	—	(4)	2	—
Automobile Manufacturer	71	(4)	—	56	(1)
Gaming/Lodging Company	49	(4)	—	64	(2)
Pharmaceutical Company	17	(4)	—	83	5
Healthcare Provider	37	(4)	—	44	(2)
Total	$217	$(20)	$(10)	$311	$—

(1) Dispositions include losses recognized in anticipation of dispositions.

(2) Holdings include fixed income securities at amortized cost or equity securities at cost.

The circumstances of the above losses are considered to be company specific and are not expected to have an effect on other holdings in our portfolios.

Mortgage Loans Our mortgage loan portfolio which is primarily held in the Allstate Financial portfolio was $9.47 billion at December 31, 2006 and $8.75 billion at December 31, 2005, and comprised primarily of loans secured by first mortgages on developed commercial real estate. Geographical and property type diversification are key considerations used to manage our mortgage loan risk.

We closely monitor our commercial mortgage loan portfolio on a loan-by-loan basis. Loans with an estimated collateral value less than the loan balance, as well as loans with other characteristics indicative of higher than normal credit risk, are reviewed by financial and investment management at least quarterly for purposes of establishing valuation allowances and placing loans on non-accrual status. The underlying collateral values are based upon either discounted property cash flow projections or a commonly used valuation method that utilizes a one-year projection of expected annual income divided by an expected rate of return. We had no net realized capital losses related to write-downs on mortgage loans for the years ended December 31, 2006 and 2005 and had $1 million for the year ended December 31, 2004.

Short-Term Investments Our short-term investment portfolio was $2.43 billion and $3.47 billion at December 31, 2006 and 2005, respectively. We invest available cash balances primarily in taxable short-term securities having a final maturity date or redemption date of less than one year.

As one of our business activities, we conduct securities lending, primarily as an investment yield enhancement, with third parties such as brokerage firms. We obtain collateral in an amount generally equal to 102% and 105% of the fair value of domestic and foreign securities, respectively, and monitor the market value of the securities loaned on a daily basis with additional collateral obtained as necessary. The cash we receive is invested in short-term and fixed income investments, and an offsetting liability is recorded in other liabilities and accrued expense. At December 31, 2006, the amount of securities lending collateral reinvested in short-term investments had a carrying value of $987 million. This compares to $650 million at December 31, 2005.

MARKET RISK

Market risk is the risk that we will incur losses due to adverse changes in equity, interest, commodity, or currency exchange rates and prices. Our primary market risk exposures are to changes in interest rates and equity prices, although we also have a smaller exposure to changes in foreign currency exchange rates and commodity prices.

The active management of market risk is integral to our results of operations. We may use the following approaches to manage exposure to market risk within defined tolerance ranges: 1) rebalancing existing asset or liability portfolios, 2) changing the character of investments purchased in the future and 3) using derivative instruments to modify the market risk characteristics of existing assets and liabilities or assets expected to be purchased. For a more detailed discussion of our use of derivative financial instruments, see Note 6 of the consolidated financial statements.

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

Investment policies define the overall framework for managing market and other investment risks, including accountability and control over risk management activities. Subsidiaries that conduct investment activities follow policies that have been approved by their respective boards of directors. These investment policies specify the investment limits and strategies that are appropriate given the liquidity, surplus, product profile and regulatory requirements of the subsidiary. Executive oversight and investment activities are conducted primarily through subsidiaries' boards of directors and investment committees. For Allstate Financial, its asset-liability management ("ALM") policies further define the overall framework for managing market and investment risks. ALM focuses on strategies to enhance yields, mitigate market risks and optimize capital to improve profitability and returns for Allstate Financial. Allstate Financial ALM activities follow asset-liability policies that have been approved by their respective boards of directors. These ALM policies specify limits, ranges and/or targets for investments that best meet Allstate Financial's business objectives in light of its product liabilities.

We manage our exposure to market risk through the use of asset allocation, duration and value-at-risk limits, through the use of simulation and, as appropriate, through the use of stress tests. We have asset allocation limits that place restrictions on the total funds that may be invested within an asset class. We have duration limits on the Property-Liability and Allstate Financial investment portfolios and, as appropriate, on individual components of these portfolios. These duration limits place restrictions on the amount of interest rate risk that may be taken. Our value-at-risk limits are intended to restrict the potential loss in fair value that could arise from adverse movements in the fixed income, equity, and currency markets based on historical volatilities and correlations among market risk factors. Comprehensive day-to-day management of market risk within defined tolerance ranges occurs as portfolio managers buy and sell within their respective markets based upon the acceptable boundaries established by investment policies. For Allstate Financial, this day-to-day management is integrated with and informed by the activities of the ALM organization. This integration results in a prudent, methodical and effective adjudication of market risk and return, conditioned by the unique demands and dynamics of Allstate Financial's product liabilities and supported by the application of advanced risk technology and analytics.

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

Interest rate risk is the risk that we will incur a loss due to adverse changes in interest rates. This risk arises from many of our primary activities, as we invest substantial funds in interest rate-sensitive assets and issue interest rate-sensitive liabilities.

We manage the interest rate risk in our assets relative to the interest rate risk in our liabilities. One of the measures used to quantify this exposure is duration. Duration measures the price sensitivity of the assets and liabilities to changes in interest rates. For example, if interest rates increase 100 basis points, the fair value of an asset exhibiting a duration of 5 is expected to decrease in value by approximately 5%. At December 31, 2006, the difference between our asset and liability duration was approximately 0.23, compared to a 0.50 gap at December 31, 2005. A positive duration gap indicates that the fair value of our assets is more sensitive to interest rate movements than the fair value of our liabilities.

Most of our duration gap originates from the Property-Liability operations, with the primary liabilities being auto and homeowners claims. In the management of investments supporting the Property-Liability business, we adhere to an objective of emphasizing safety of principal and consistency of income within a total return framework. This approach is designed to ensure our financial strength and stability for paying claims, while maximizing economic value and surplus growth. This objective generally results in a positive duration mismatch between the Property-Liability assets and liabilities.

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

We pledge and receive collateral on certain types of derivative contracts. For futures and option contracts traded on exchanges, we have pledged securities as margin deposits totaling $61 million as of December 31, 2006. For over-the-counter derivative transactions including interest rate swaps, foreign currency swaps, interest rate caps, interest rate floor agreements, and credit default swaps, master netting agreements are used. These agreements allow us to net payments due for transactions covered by the agreements, and when applicable, we are required to post collateral. As of December 31, 2006, we held $361 million of cash pledged by counterparties as collateral for over-the-counter instruments and pledged $10 million in securities as collateral to counterparties.

To calculate the duration gap between assets and liabilities, we project asset and liability cash flows and calculate their net present value using a risk-free market interest rate adjusted for credit quality, sector attributes, liquidity and other specific risks. Duration is calculated by revaluing these cash flows at alternative interest rates and determining the percentage change in aggregate fair value. The cash flows used in this calculation include the expected maturity and repricing characteristics of our derivative financial instruments, all other financial instruments (as described in Note 6 of the consolidated financial statements), and certain other items including unearned premiums, property-liability claims and claims expense reserves, interest-sensitive liabilities and annuity liabilities. The projections include assumptions (based upon historical market experience and our experience) that reflect the effect of changing interest rates on the prepayment, lapse, leverage and/or option features of instruments, where applicable. Such

assumptions relate primarily to mortgage-backed securities, collateralized mortgage obligations, municipal housing bonds, callable municipal and corporate obligations, and fixed rate single and flexible premium deferred annuities. Additionally, the calculations include assumptions regarding the renewal of property-liability policies.

Based upon the information and assumptions we use in this duration calculation, and interest rates in effect at December 31, 2006, we estimate that a 100 basis point immediate, parallel increase in interest rates ("rate shock") would decrease the net fair value of the assets and liabilities by approximately $1.76 billion, compared to $1.45 billion at December 31, 2005. Reflected in the duration calculation are the effects of a program that uses short futures to manage the Property-Liability interest rate risk exposures relative to duration targets. Based on contracts in place at December 31, 2006, we would recognize realized capital gains totaling $40 million in the event of a 100 basis point immediate, parallel interest rate increase and $40 million in realized capital losses in the event of a 100 basis point immediate, parallel interest rate decrease. The selection of a 100 basis point immediate parallel change in interest rates should not be construed as our prediction of future market events, but only as an illustration of the potential effect of such an event. There are $7.08 billion of assets supporting life insurance products such as traditional and interest-sensitive life that are not financial instruments. These assets and the associated liabilities have not been included in the above estimate. The $7.08 billion of assets excluded from the calculation has increased from the $7.04 billion reported at December 31, 2005 due to an increase in the in-force account value of interest-sensitive life products. Based on assumptions described above, in the event of a 100 basis point immediate increase in interest rates, the assets supporting life insurance products would decrease in value by $457 million, compared to a decrease of $456 million at December 31, 2005.

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

Equity price risk is the risk that we will incur losses due to adverse changes in the general levels of the equity markets. At December 31, 2006, we held approximately $5.87 billion in common stocks and $2.99 billion in other securities with equity risk (including primarily convertible securities, limited partnership funds, non-redeemable preferred securities and equity-linked notes), compared to approximately $4.97 billion in common stocks and $2.30 billion in other equity investments at December 31, 2005. Approximately 100.0% and 53.5% of these totals, respectively, represented assets of the Property-Liability operations at December 31, 2006, compared to approximately 100.0% and 58.4%, respectively, at December 31, 2005. Additionally, we had $750 million in short Standard & Poor's 500 Composite Price Index ("S&P 500") futures at December 31, 2006 with a fair value of $3 million.

At December 31, 2006, our portfolio of common stocks and other securities with equity risk had a beta of approximately 1.02, compared to a beta of approximately 0.96 at December 31, 2005. Beta represents a widely used methodology to describe, quantitatively, an investment's market risk characteristics relative to an index such as the S&P 500. Based on the beta analysis, we estimate that if the S&P 500 decreases by 10%, the fair value of our equity investments will decrease by approximately 10.2%. Likewise, we estimate that if the S&P 500 increases by 10%, the fair value of our equity investments will increase by approximately 10.2%. Based upon the information and assumptions we used to calculate beta at December 31, 2006, we estimate that an immediate decrease in the S&P 500 of 10% would decrease the net fair value of our equity investments identified above by approximately $824 million, compared to $695 million at December 31, 2005. Reflected in the equity calculation are the

effects of a program that uses short futures to manage Property-Liability equity risk exposures relative to equity targets. Based on contracts in place at December 31, 2006, we would recognize realized capital gains totaling $75 million in the event of a 10% immediate decrease in the S&P 500 and capital losses totaling $75 million in the event of a 10% immediate increase in the S&P 500. The selection of a 10% immediate decrease in the S&P 500 should not be construed as our prediction of future market events, but only as an illustration of the potential effect of such an event.

The beta of our common stocks and other securities with equity risk was determined by comparing the monthly total returns of these investments to monthly total returns of the S&P 500 over a three-year historical period. Since beta is historically based, projecting future price volatility using this method involves an inherent assumption that historical volatility and correlation relationships between stocks and the composition of our portfolio will not change in the future. Therefore, the illustrations noted above may not reflect our actual experience if future volatility and correlation relationships differ from the historical relationships.

At December 31, 2006 and 2005, we had separate accounts assets related to variable annuity and variable life contracts with account values totaling $16.17 billion and $15.24 billion, respectively. Equity risk exists for contract charges based on separate account balances and guarantees for death and/or income benefits provided by our variable products. In 2006, we disposed of substantially all of the variable annuity business through a reinsurance agreement with Prudential as described in Note 3 of the consolidated financial statements, and therefore mitigated this aspect of our risk. Equity risk for our variable life business relates to contract charges and policyholder benefits. Total variable life contract charges for 2006 and 2005 were $86 million and $79 million, respectively. Separate account liabilities related to variable life contracts were $826 million and $721 million in December 31, 2006 and 2005, respectively.

At December 31, 2006 and 2005 we had approximately $3.47 billion and $2.72 billion, respectively, in equity-indexed annuity liabilities that provide customers with interest crediting rates based on the performance of the S&P 500. We hedge the risk associated with these liabilities through the purchase and sale of equity-indexed options and futures, interest rate swaps, and eurodollar futures, maintaining risk within specified value-at-risk limits.

Foreign currency exchange rate risk is the risk that we will incur economic losses due to adverse changes in foreign currency exchange rates. This risk primarily arises from our foreign equity investments, including real estate funds and our Canadian operations. We also have funding agreement programs and a small amount of fixed income securities that are denominated in foreign currencies, but we use derivatives to effectively hedge the foreign currency risk of these funding agreements and securities. At December 31, 2006 and 2005, we had approximately $1.02 billion and $1.17 billion, respectively, in funding agreements denominated in foreign currencies.

At December 31, 2006, we had approximately $637 million in foreign currency denominated equity securities and an additional $559 million net investment in our foreign subsidiaries. These amounts were $538 million and $601 million, respectively, at December 31, 2005. The foreign currency exposure is almost entirely in the Property-Liability business.

Based upon the information and assumptions we used at December 31, 2006, we estimate that a 10% immediate unfavorable change in each of the foreign currency exchange rates that we are exposed to would decrease the value of our foreign currency denominated instruments by approximately $120 million, compared with an estimated $114 million decrease at December 31, 2005. The selection of a 10% immediate decrease in all currency exchange rates should not be construed as our prediction of future market events, but only as an illustration of the potential effect of such an event. Our currency

exposure is diversified across 21 currencies, compared to 23 currencies at December 31, 2005. Our largest individual currency exchange exposures at December 31, 2006 were to the Canadian dollar (44.8%) and the Euro (20.9%). The largest individual currency exchange exposures at December 31, 2005 were to the Canadian dollar (50.7%) and the Euro (17.5%). Our primary regional exposure is to Western Europe, approximately 33.4% at December 31, 2006, compared to 29.5% at December 31, 2005.

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

Commodity price risk is the risk that we will incur economic losses due to adverse changes in the prices of commodities. This risk arises from our commodity linked investments, such as the Goldman Sachs Commodity Index—a broad based, oil dominated index. At December 31, 2006 and 2005, we had approximately $572 million and $221 million exposure to the index, respectively. This exposure is almost entirely within Property-Liability.

Based upon the information and assumptions available at December 31, 2006, we estimate that a 10% immediate unfavorable change to the commodity index would decrease the value of our commodity investments by $57 million, compared with an estimated $21 million decrease at December 31, 2005. The selection of a 10% immediate decrease in commodity prices should not be construed as our prediction of future market events, but only as an illustration of the potential effect of such an event.

PENSION PLANS

We have defined benefit pension plans, which cover most full-time and certain part-time employees and employee-agents. In September 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard ("SFAS") No. 158. For further information on SFAS No. 158, see Note 2 of the consolidated financial statements. See Note 16 of the consolidated financial statements for a complete discussion of these plans and their effect on the consolidated financial statements.

Also during 2006, the federal government enacted the Pension Protection Act of 2006 (the "Act") which changes the manner in which pension funding is determined. The new rules are effective for funding beginning in 2008. We are currently reviewing the implications of the Act, but do not expect it to have a material impact on funding.

Our obligations have not changed as a result of these developments. The pension and other postretirement plans may be amended or terminated at any time. Any revisions could result in significant changes to our obligations and our obligation to fund the plans.

As provided for in SFAS No. 87 "Employers' Accounting for Pensions," the market-related value component of expected returns recognizes plan equity losses and gains over a five-year period, which we believe is consistent with the long-term nature of pension obligations. As a result, the effect of changes in fair value on our net periodic pension cost may be experienced in periods subsequent to those in which the fluctuations actually occur.

Net periodic pension cost in 2007 is estimated to be $262 million based on current assumptions. Net periodic pension cost increased in 2006 and 2005 principally due to decreases in the weighted average discount rate assumption which is based on long-term interest rates, the impact of unfavorable investment returns from prior periods on the market-related value of assets, and the amortization of

actuarial losses. In each of the years 2006, 2005 and 2004, net pension cost included non-cash settlement charges primarily resulting from lump sum distributions made to agents and in 2006 due to higher lump sum payments made to Allstate employees. Settlement charges are expected to continue in the future as we settle our remaining agent pension obligations by making lump sum distributions to agents.

Amounts recorded for pension cost and accumulated other comprehensive income are significantly affected by fluctuations in the returns on plan assets and the amortization of unrecognized actuarial gains and losses. Plan assets sustained net losses in prior periods primarily due to declines in equity markets. These asset losses, combined with all other unrecognized actuarial gains and losses, resulted in amortization of net actuarial loss (and additional net periodic pension cost) of $143 million in 2006 and $135 million in 2005. We anticipate that the unrealized loss for our pension plans will exceed 10% of the greater of the projected benefit obligations or the market-related value of assets during the foreseeable future, resulting in additional amortization and net periodic pension cost. In conjunction with the recognition of the net actuarial loss in accumulated other comprehensive income, upon adoption of SFAS No. 158, we recorded a deferred tax asset of $574 million. The deferred tax asset will be amortized in conjunction with the net actuarial losses over the remaining service period of active employees expected to receive benefits. Although realization is not assured, we believe it is more likely than not that the deferred tax assets will be realized based on the assumption that certain levels of income will be achieved. See Note 14 of the consolidated financial statements for further information on deferred tax assets.

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

Holding other assumptions constant, a hypothetical decrease of 100 basis points in the weighted average discount rate would result in an increase of $55 million in net periodic pension cost and a $423 million increase in the underfunded liability of our pension plans recorded as accumulated other comprehensive income after-tax as of October 31, 2006, our most recent measurement date, versus an increase of $58 million in net periodic pension cost and a $1.08 billion increase in the minimum pension liability after-tax as of October 31, 2005. A hypothetical increase of 100 basis points in the weighted average discount rate would decrease net periodic pension cost by $48 million and would decrease the underfunded liability of our pension plans recorded as accumulated other comprehensive income after-tax by $353 million as of October 31, 2006, versus a decrease in net periodic pension cost of $45 million and a $6 million decrease in the minimum pension liability after-tax as of October 31, 2005. This non-symmetrical range results from the non-linear relationship between discount rates and pension obligations, and changes in the amortization of unrealized net actuarial gains and losses.

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

the assumed long-term rate of return on plan assets that may result in variability of pension cost. Differences between the actual return on plan assets and the expected long-term rate of return on plan assets are a component of unrecognized gains or losses, which may be amortized as a component of net actuarial gains and losses and recorded in accumulated other comprehensive income. As a result, the effect of changes in fair value on our pension cost may be experienced in results of operation in periods subsequent to those in which the fluctuations actually occur.

Holding other assumptions constant, a hypothetical decrease of 100 basis points in the expected long-term rate of return on plan assets would result in an increase of $42 million in pension cost at October 31, 2006, compared to an increase in pension cost of $38 million at October 31, 2005. A hypothetical increase of 100 basis points in the expected long-term rate of return on plan assets would result in a decrease in net periodic pension cost of $42 million at October 31, 2006, compared to a decrease in pension cost of $38 million at October 31, 2005.

CAPITAL RESOURCES AND LIQUIDITY

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

(in millions)	2006	2005	2004
Common stock, retained earnings and other shareholders' equity items	$20,855	$18,104	$19,208
Accumulated other comprehensive income	991	2,082	2,615
Total shareholders' equity	21,846	20,186	21,823
Debt	4,662	5,300	5,334
Total capital resources	$26,508	$25,486	$27,157
Ratio of debt to shareholders' equity	21.3%	26.3%	24.4%
Ratio of debt to capital resources	17.6%	20.8%	19.6%

Shareholders' equity increased in 2006, due to net income which was partly offset by share repurchases, dividends paid to shareholders, decreases in unrealized net capital gains on investments, and the recognition of the net funded status of pension and other post retirement benefit obligations recognized with the adoption of SFAS No. 158. Shareholders' equity declined in 2005 when compared to 2004, due to net income being offset by share repurchases, decreases in unrealized net capital gains on investments and dividends paid to shareholders.

SFAS No. 158 requires that all previously unrecognized actuarial gains and losses and prior service cost be recognized as a component of accumulated other comprehensive income, net of tax. The net funded status of pension and other post retirement benefit obligations as of December 31, 2006 decreased shareholders' equity by $1.11 billion, and increased the ratio of debt to shareholders' equity and the ratio of debt to capital resources by 1.0 points and 0.7 points, respectively. As shown in the table below, our financial ratings were not impacted by this adoption. For further information on SFAS No. 158, see Notes 2 and 16 of the consolidated financial statements and the Pension Plans section of the MD&A.

Share repurchases We completed our $4.00 billion share repurchase program that commenced in January 2005 during November 2006, and commenced a $3.00 billion share repurchase program that is expected to be completed by March 31, 2008. As of December 31, 2006, this program had $2.79 billion remaining.

Since 1995, we have acquired 368 million shares of our common stock at a cost of $14.16 billion, primarily as part of various stock repurchase programs. We have reissued 91 million shares since 1995, primarily associated with our equity incentive plans, the 1999 acquisition of American Heritage Life Investment Corporation (''AHL'') and the 2001 redemption of certain mandatorily redeemable preferred securities.

The impact of our repurchase programs on total shares outstanding since 1995 has been a net reduction of 274 million shares or 30.6%.

Debt decreased in 2006, primarily due to net decreases in long-term debt and short-term debt consisting of commercial paper borrowings. Long-term debt decreased due to the December 1, 2006 repayment of $550 million of 5.375% Senior Notes in accordance with their scheduled maturity. We also elected to redeem our $200 million of 7.83% junior subordinated debentures due in 2045, thereby triggering the redemption of 200,000 shares of the 7.83% mandatorily redeemable preferred securities of subsidiary trust (''trust preferred securities'') originally issued by Allstate Financing II, an unconsolidated variable interest entity (''VIE''). The debentures and trust preferred securities were redeemed at a price of 103.915% plus accrued and unpaid interest. In 2006, we also purchased a headquarters office building previously owned by a consolidated synthetic lease VIE for $78 million, further reducing long-term debt.

These redemptions were made from available sources of liquidity including the issuance in March 2006 of $650 million of 5.95% Senior Notes due 2036, utilizing the registration statement filed with the Securities and Exchange Commission (''SEC'') in August 2003.

Debt decreased in 2005, primarily due to decreases in long-term debt partially offset by increased commercial paper borrowings. In May 2005, we issued $800 million of 5.55% Senior Notes due 2035, utilizing the registration statement filed with the SEC in August 2003. The proceeds of this issuance were used for general corporate purposes including to fund the repayment of a portion of the $900 million of 7⅞% Senior Notes due 2005, which were repaid at their scheduled maturity, May 1, 2005. In July 2005, we liquidated our consolidated investment management VIE. As a result of the liquidation, long-term debt decreased by $279 million.

At December 31, 2006, there were no outstanding commercial paper borrowings.

Financial Ratings and Strength The following table summarizes our debt, commercial paper and insurance financial strength ratings at December 31, 2006.

	Moody's	Standard & Poor's	A.M. Best
The Allstate Corporation (senior long-term debt)	A1	A+	a
The Allstate Corporation (commercial paper)	P-1	A-1	AMB-1
Allstate Insurance Company (insurance financial strength)	Aa2	AA	A+
Allstate Life Insurance Company (''ALIC'') (insurance financial strength)	Aa2	AA	A+

Our ratings are influenced by many factors including our operating and financial performance, asset quality, liquidity, asset/liability management, overall portfolio mix, financial leverage (i.e., debt), exposure to risks such as catastrophes and the current level of operating leverage.

Allstate's domestic property-liability and life insurance subsidiaries prepare their statutory basis financial statements in conformity with accounting practices prescribed or permitted by the insurance department of the applicable state of domicile. Statutory surplus is a measure that is often used as a basis for determining dividend paying capacity, operating leverage and premium growth capacity, and it is also reviewed by rating agencies in determining their ratings. As of December 31, 2006, AIC's statutory surplus is approximately $19.1 billion compared to $14.8 billion at December 31, 2005.

The ratio of net premiums written to statutory surplus is a common measure of operating leverage used in the property-casualty insurance industry and serves as an indicator of a company's premium growth capacity. Ratios in excess of 3 to 1 are typically considered outside the usual range by insurance regulators and rating agencies. AIC's premium to surplus ratio was 1.4x on December 31, 2006 compared to 1.8x in the prior year.

We have distinct groups of subsidiaries licensed to sell property and casualty insurance in New Jersey and Florida that maintain separate group ratings. The ratings of these groups are influenced by the risks that relate specifically to each group. Many mortgage companies require property owners to have insurance from an insurance carrier with a secure financial strength rating from an accredited rating agency. Allstate New Jersey Insurance Company and Encompass Insurance Company of New Jersey, which write auto and homeowners insurance, are rated A- by A.M. Best. Allstate New Jersey Insurance Company also has a Demotech rating of A''. Allstate Floridian, which writes primarily property insurance, has an A.M. Best rating of B+ with a negative outlook. AFIC and its subsidiary, Allstate Floridian Indemnity Company, also have Demotech financial stability ratings of A'. Encompass Floridian Insurance Company and Encompass Floridian Indemnity Company, both subsidiaries of AFIC, have Demotech financial stability ratings of A.

State laws specify regulatory actions if an insurer's risk-based capital ("RBC"), a measure of an insurer's solvency, falls below certain levels. The NAIC has a standard formula for annually assessing RBC. The formula for calculating RBC for property-liability companies takes into account asset and credit risks but places more emphasis on underwriting factors for reserving and pricing. The formula for calculating RBC for life insurance companies takes into account factors relating to insurance, business, asset and interest rate risks. At December 31, 2006, the RBC for each of our domestic insurance companies was above levels that would require regulatory actions.

The NAIC has also developed a set of financial relationships or tests known as the Insurance Regulatory Information System to assist state regulators in monitoring the financial condition of insurance companies and identifying companies that require special attention or actions by insurance regulatory authorities. The NAIC analyzes financial data provided by insurance companies using prescribed ratios, each with defined "usual ranges". Generally, regulators will begin to monitor an insurance company if its ratios fall outside the usual ranges for four or more of the ratios. If an insurance company has insufficient capital, regulators may act to reduce the amount of insurance it can issue. The ratios of our domestic insurance companies are within these ranges.

Liquidity Sources and Uses Our potential sources of funds principally include activities shown in the following table.

	Property-Liability	Allstate Financial	Corporate and Other
Receipt of insurance premiums	X	X	
Allstate Financial contractholder fund deposits		X	
Reinsurance recoveries	X	X	
Receipts of principal, interest and dividends on investments	X	X	X
Sales of investments	X	X	X
Funds from investment repurchase agreements, securities lending, dollar roll, commercial paper and lines of credit agreements	X	X	X
Inter-company loans	X	X	X
Capital contributions from parent	X	X	
Dividends from subsidiaries	X		X
Tax refunds/settlements			X
Funds from periodic issuance of additional securities			X
Funds from the settlement of our benefit plans			X

Our potential uses of funds principally include activities shown in the following table.

	Property-Liability	Allstate Financial	Corporate and Other
Payment of claims and related expenses	X		
Payment of contract benefits, maturities, surrenders and withdrawals		X	
Reinsurance cessions and payments	X	X	
Operating costs and expenses	X	X	X
Purchase of investments	X	X	X
Repayment of investment repurchase agreements, securities lending, dollar roll, commercial paper and lines of credit agreements	X	X	X
Payment or repayment of inter-company loans	X	X	X
Capital contributions to subsidiaries	X		X
Dividends to shareholders/parent company	X	X	X
Tax payments/settlements	X	X	
Share repurchases			X
Debt service expenses and repayment	X		X
Settlement payments of employee and agent benefit plans	X		X

The following table summarizes consolidated cash flow activities by business segment.

	Property-Liability			Allstate Financial			Corporate and Other			Consolidated		
(in millions)	**2006**	**2005**	**2004**	**2006**	**2005**	**2004**	**2006**	**2005**	**2004**	**2006**	**2005**	**2004**
Net cash provided by (used in):												
Operating activities	$2,454	$ 2,872	$ 4,092	$ 2,589	$ 2,502	$ 1,916	$ 12	$ 231	$ (540)	$ 5,055	$ 5,605	$ 5,468
Investing activities	(1,257)	421	(1,903)	(2,074)	(4,854)	(8,039)	1,412	(718)	(781)	(1,919)	(5,151)	(10,723)
Financing activities	(344)	370	49	(152)	2,498	6,506	(2,510)	(3,423)	(1,252)	(3,006)	(555)	5,303
Net increase (decrease) in consolidated cash										$ 130	$ (101)	$ 48

MD&A

Property-Liability Lower cash provided by operating activities for Property-Liability in 2006, compared to 2005, was primarily due to higher claim payments related to the prior year hurricanes, partially offset by increased premiums. Lower operating cash flows of the Property-Liability business in 2005, compared to 2004, were primarily due to increased claim payments, partially offset by increased premiums and collections of reinsurance and other recoverables related to catastrophes. Claim payments increased as a result of Hurricanes Katrina, Rita and Wilma in 2005.

Cash flows used in investing activities increased in 2006 compared to 2005, primarily due to higher investment purchases, partially offset by proceeds from sales of securities. Cash provided by investing activities increased in 2005 primarily as a result of increased proceeds from sales of securities, partially offset by lower operating cash flows and higher dividends paid by AIC to its parent.

Cash flows used in financing activities increased in 2006 compared to 2005, primarily due to the repayment of short-term debt. Cash provided by financing activities in 2005 was the result of borrowing under our commercial paper program.

Cash flows were impacted by dividends paid by AIC to its parent, The Allstate Corporation, totaling $1.01 billion, $3.86 billion and $2.49 billion in 2006, 2005 and 2004, respectively. During 2007, AIC will be able to pay a total of $4.92 billion in dividends. For a description of limitations on the payment of these dividends, see Note 15 of the consolidated financial statements.

Allstate Financial Higher operating cash flows for Allstate Financial in 2006, compared to 2005, primarily related to higher investment income. Higher operating cash flows for Allstate Financial in 2005, compared to 2004, primarily related to higher investment income, partially offset by lower life and annuity premiums.

Cash flows used in investing activities decreased in 2006 primarily due to decreased net cash provided by financing activities, partially offset by the investment of higher operating cash flows. Cash flows used in investing activities in 2006 also include the settlements related to the disposition through reinsurance of substantially all our variable annuity business. Cash flows used in investing activities decreased in 2005 due to lower cash provided by financing in 2005, compared to 2004, increased proceeds from sales of securities and higher investment collections, partially offset by the investment of higher operating cash flows.

Cash used in financing activities increased in 2006 as a result of lower contractholder fund deposits and higher surrenders and partial withdrawals. Lower cash flows provided by financing activities in 2005, compared to 2004, were primarily due to higher surrenders of market value adjusted annuities, lower deposits on fixed annuities and institutional products, and increased maturities of institutional products. For quantification of the changes in contractholder funds, see the Allstate Financial Segment section of the MD&A.

A portion of the Allstate Financial product portfolio, primarily fixed annuity and interest-sensitive life insurance products, is subject to surrender and withdrawal at the discretion of contractholders. The

following table summarizes Allstate Financial's liabilities for these products by their contractual withdrawal provisions at December 31, 2006.

(in millions)	2006
Not subject to discretionary withdrawal	$16,850
Subject to discretionary withdrawal with adjustments:	
Specified surrender charges[1]	26,173
Market value[2]	10,001
Subject to discretionary withdrawal without adjustments	9,007
Total Contractholder funds[3]	$62,031

(1) Includes $9.23 billion of liabilities with a contractual surrender charge of less than 5% of the account balance.

(2) Approximately $8.99 billion of the contracts with market value adjusted surrenders have a 30-45 day period during which there is no surrender charge or market value adjustment including approximately $1.87 billion with a period commencing during 2007.

(3) Includes approximately $1.37 billion of contractholder funds on variable annuities reinsured to Prudential effective June 1, 2006.

To ensure we have the appropriate level of liquidity in this segment, we perform actuarial tests on the impact to cash flows of policy surrenders and other actions under various scenarios. Depending upon the years in which certain policy types were sold with specific surrender provisions, the Allstate Financial cash flow could vary due to higher surrender of policies exiting their surrender charge periods.

Corporate and Other Fluctuations in the Corporate and Other operating cash flows, were primarily due to the timing of intercompany settlements. Investing activities primarily relate to activity in the portfolio of Kennett Capital, Inc. ("Kennett Capital"). Financing cash flows of the Corporate and Other segment reflect actions such as fluctuations in short-term debt, repayment of debt, proceeds from the issuance of debt, dividends to shareholders of The Allstate Corporation and share repurchases; therefore, financing cash flows are affected when we increase or decrease the level of these activities.

We have established external sources of short-term liquidity that include a commercial paper program, lines-of-credit, dollar rolls and repurchase agreements. In the aggregate, at December 31, 2006, these sources could provide over $3.89 billion of additional liquidity. For additional liquidity, we can also issue new insurance contracts, incur additional debt and sell assets from our investment portfolio. The liquidity of our investment portfolio varies by type of investment. For example, $18.33 billion of privately placed corporate obligations that represent 15.3% of the consolidated investment portfolio, and $9.47 billion of mortgage loans that represent 7.9% of the consolidated investment portfolio, generally are considered to be less liquid than many of our other types of investments, such as our U.S. government and agencies, municipal and public corporate fixed income security portfolios. The sources of liquidity for The Allstate Corporation include but are not limited to dividends from AIC and $1.75 billion of investments at Kennett Capital.

We have access to additional borrowing to support liquidity as follows:

- A commercial paper program with a borrowing limit of $1.00 billion to cover short-term cash needs. As of December 31, 2006, there were no balances outstanding and therefore the remaining borrowing capacity was $1.00 billion; however, the outstanding balance fluctuates daily.
- A five-year revolving credit facility expiring in 2009 totaling $1.00 billion to cover short-term liquidity requirements. This facility contains an increase provision that would make up to an additional $500 million available for borrowing provided the increased portion could be fully syndicated at a later date among existing or new lenders. Although the right to borrow under the

facility is not subject to a minimum rating requirement, the costs of maintaining the facility and borrowing under it are based on the ratings of our senior, unsecured, nonguaranteed long-term debt. There were no borrowings under this line of credit during 2006. The total amount outstanding at any point in time under the combination of the commercial paper program and the credit facility cannot exceed the amount that can be borrowed under the credit facility.

- A universal shelf registration statement filed with the SEC in May 2006. We can use it to issue an unspecified amount of debt securities, common stock (including 278 million shares of treasury stock as of December 31, 2006), preferred stock, depositary shares, warrants, stock purchase contracts, stock purchase units and securities of subsidiaries. The specific terms of any securities we issue under this registration statement will be provided in the applicable prospectus supplements. We have not yet issued any securities under this registration statement.

Our only financial covenant exists with respect to our credit facility and our synthetic lease VIE obligations. The covenant requires that we not exceed a 37.5% debt to capital resources ratio as defined in the agreements. This ratio at December 31, 2006 was 18.4%. For quantification of the synthetic lease VIE obligations, see Note 11 of the consolidated financial statements.

We closely monitor and manage our liquidity through long- and short-term planning that is integrated throughout the corporation, the business segments and investments. Allstate Financial manages the duration of assets and related liabilities through its ALM organization, using a dynamic process that addresses liquidity utilizing the investment portfolio, and components of the portfolio as appropriate, which is routinely subjected to stress testing. Allstate Protection's underwriting cash transactions comprise millions of small transactions that make it possible to statistically determine reasonable expectations of patterns of liquidity, which are subject to volatility from unpredictable catastrophe losses. Property-Liability monitors the duration of its assets and liabilities and maintains a portfolio of highly liquid fixed income and equity securities, including short-term investments, exchange-traded common stock, municipal bonds, corporate bonds, and U.S. government and government agency securities in order to address the variability of its cash flows. Discontinued Lines and Coverages' liabilities are expected to be paid over many years and do not present a significant liquidity risk. Allstate Financial and Property-Liability also have access to funds from our commercial paper program.

During 2006, ALIC issued an intercompany note in the amount of $500 million payable to its parent, AIC, on demand and, in any event, by March 30, 2007. ALIC used the funds to accelerate purchases of investments based on its outlook of the availability of acceptable investments in the beginning of 2007. ALIC will repay the loan with funds generated in the normal course of business, primarily by sales, investment income and cash collected from investment calls and maturities. The impacts of this loan are eliminated in consolidation.

Certain remote events and circumstances could constrain our liquidity. Those events and circumstances include, for example, a catastrophe resulting in extraordinary losses, a downgrade in our long-term debt rating of A1, A+ and a (from Moody's, Standard & Poor's and A.M. Best, respectively) to non-investment grade status of below Baa3/BBB-/bb, a downgrade in AIC's financial strength rating from Aa2, AA and A+ (from Moody's, Standard & Poor's and A.M. Best, respectively) to below Baa/BBB/A-, or a downgrade in ALIC's financial strength ratings from Aa2, AA and A+ (from Moody's, Standard & Poor's and A.M. Best, respectively) to below Aa3/AA-/A-. The rating agencies also consider the interdependence of our individually rated entities, therefore, a rating change in one entity could potentially affect the ratings of other related entities.

Contractual Obligations and Commitments Our contractual obligations as of December 31, 2006 and the payments due by period are shown in the following table.

(in millions)	Total	Less than 1 year	1-3 years	4-5 years	Over 5 years
Liabilities for collateral and repurchase agreements[1]	$ 4,144	$ 4,144	$ —	$ —	$ —
Commercial paper	—	—	—	—	—
Contractholder funds[2]	80,375	9,850	24,174	13,530	32,821
Reserve for life-contingent contract benefits[3]	32,309	1,191	3,465	2,320	25,333
Long-term debt[4]	9,423	281	1,313	495	7,334
Capital lease obligations[4]	85	12	24	17	32
Operating leases[4]	824	208	289	164	163
Unconditional purchase obligations[4]	612	246	255	88	23
Defined benefit pension plans and other postretirement benefit plans[4][5]	6,328	199	279	291	5,559
Reserve for property-liability insurance claims and claims expense[6]	18,866	8,171	5,831	2,178	2,686
Other liabilities and accrued expenses[7][8]	4,751	4,578	108	25	40
Total Contractual Cash Obligations	$157,717	$28,880	$35,738	$19,108	$73,991

(1) Liabilities for collateral and repurchase agreements are typically fully secured with cash. We manage our short-term liquidity position to ensure the availability of a sufficient amount of liquid assets to extinguish short-term liabilities as they come due in the normal course of business.

(2) Contractholder funds represent interest-bearing liabilities arising from the sale of products such as interest-sensitive life, fixed annuities, including immediate annuities without life contingencies, bank deposits and institutional products. These amounts reflect estimated cash payments to be made to policyholders and contractholders. Certain of these contracts, such as immediate annuities without life contingencies and institutional products, involve payment obligations where the amount and timing of the payment is essentially fixed and determinable. These amounts relate to (i) policies or contracts where we are currently making payments and will continue to do so and (ii) contracts where the timing of payments has been determined by the contract. Other contracts, such as interest-sensitive life and fixed deferred annuities, involve payment obligations where the amount and timing of future payments is uncertain. For these contracts and bank deposits, the Company is not currently making payments and will not make payments until (i) the occurrence of an insurable event, such as death, or (ii) the occurrence of a payment triggering event, such as the surrender of or partial withdrawal on a policy or deposit contract, which is outside of the control of the Company. We have estimated the timing of payments related to these contracts based on historical experience and our expectation of future payment patterns. Uncertainties relating to these liabilities include mortality, customer lapse and withdrawal activity, and estimated additional deposits for interest-sensitive life contracts, which may significantly impact both the timing and amount of future payments. Such cash outflows reflect adjustments for the estimated timing of mortality, retirement, and other appropriate factors, but are undiscounted with respect to interest. As a result, the sum of the cash outflows shown for all years in the table exceeds the corresponding liability amount of $62.03 billion included in the Consolidated Statements of Financial Position as of December 31, 2006 for contractholder funds. The liability amount in the Consolidated Statements of Financial Position reflects the discounting for interest as well as adjustments for the timing of other factors as described above.

(3) The reserve for life-contingent contract benefits relates primarily to traditional life and immediate annuities with life contingencies and reflects the present value of estimated cash payments to be made to policyholders and contractholders. Immediate annuities with life contingencies include (i) contracts where we are currently making payments and will continue to do so until the occurrence of a specific event such as death and (ii) contracts where the timing of a portion of the payments has been determined by the contract. Other contracts, such as traditional life and supplemental accident and health insurance, involve payment obligations where the amount and timing of future payments is uncertain. For these contracts, the Company is not currently making payments and will not make payments until (i) the occurrence of an insurable event, such as death or illness, or (ii) the occurrence of a payment triggering event, such as a surrender of a policy or contract, which is outside of the control of the Company. We have estimated the timing of cash outflows related to these contracts based on historical experience and our expectation of future payment patterns. Uncertainties relating to these liabilities include mortality, morbidity, expenses, customer lapse and withdrawal activity, and renewal premium for life policies, which may significantly impact both the timing and amount of future payments. Such cash outflows reflect adjustments for the estimated timing of mortality,

retirement, and other appropriate factors, but are undiscounted with respect to interest. As a result, the sum of the cash outflows shown for all years in the table exceeds the corresponding liability amount of $12.79 billion included in the Consolidated Statements of Financial Position as of December 31, 2006 for reserve for life-contingent contract benefits. The liability amount in the Consolidated Statements of Financial Position reflects the discounting for interest as well as adjustments for the timing of other factors as described above.

(4) Our payment obligations relating to long-term debt, capital lease obligations, operating leases, unconditional purchase obligations and pension contributions are managed within the structure of our intermediate to long-term liquidity management program. Amount differs from the balance presented on the Consolidated Statements of Financial Position as of December 31, 2006 because the long-term debt amount above includes interest.

(5) The pension plans' obligations in the next 12 months represent our planned contributions, and the remaining years' contributions are projected based on the average remaining service period using the current underfunded status of the plans. The OPEB plans' obligations are estimated based on the expected benefits to be paid. These liabilities are discounted with respect to interest, and as a result the sum of the cash outflows shown for all years in the table of $6.33 billion exceeds the corresponding liability amount of $1.88 billion included in other liabilities and accrued expenses on the Consolidated Statements of Financial Position.

(6) Reserve for property-liability insurance claims and claims expense are an estimate of amounts necessary to settle all outstanding claims, including claims that have been incurred but not reported as of the balance sheet date. We have estimated the timing of these payments based on our historical experience and our expectation of future payment patterns. However, the timing of these payments may vary significantly from the amounts shown above, especially for those claims that have been incurred but not reported. The reserve for property-liability insurance claims and claims expense includes loss reserves related to asbestos and environmental claims as of December 31, 2006, of $2.20 billion and $249 million, respectively.

(7) Other liabilities primarily include accrued expenses and certain benefit obligations and claim payments and other checks outstanding. Certain of these long-term liabilities are discounted with respect to interest, as a result the sum of the cash outflows shown for all years in the table exceeds the corresponding liability amount of $4.73 billion.

(8) Balance sheet liabilities not included in the table above include unearned and advance premiums of $11.05 billion and deferred tax liabilities netted in the net deferred tax asset of $224 million. These items were excluded as they do not meet the definition of a contractual liability as we are not contractually obligated to pay these amounts to third parties. Rather, they represent an accounting mechanism that allows us to present our financial statements on an accrual basis. In addition, other liabilities of $289 million were not included in the table above because they did not represent a contractual obligation or the amount and timing of their eventual payment was sufficiently uncertain.

Our contractual commitments as of December 31, 2006 and the payments due by period are shown in the following table.

(in millions)	Total	Less than 1 year	1-3 years	4-5 years	Over 5 years
Other Commitments—Conditional[1]	$ 708	$671	$ 37	$ —	$ —
Other Commitments—Unconditional[1]	1,463	90	851	465	57
Total Commitments	$2,171	$761	$888	$465	$57

(1) Represents investment commitments such as private placements and mortgage loans.

We have agreements in place for services we conduct, generally at cost, between subsidiaries relating to insurance, reinsurance, loans and capitalization. All material inter-company transactions have appropriately been eliminated in consolidation. Inter-company transactions among insurance subsidiaries and affiliates have been approved by the appropriate departments of insurance as required.

For a more detailed discussion of our off-balance sheet arrangements, see Note 6 of the consolidated financial statements.

ENTERPRISE RISK MANAGEMENT

Allstate has been working on enterprise risk management ("ERM") for five years, establishing processes and infrastructure to effectively manage risk within our tolerances while optimizing returns. We have a senior management advisory committee called the Enterprise Risk & Return Council ("ERRC") which is responsible for overseeing risks on an integrated basis across subsidiaries and various areas of responsibility within Allstate. In the vision of the ERRC, enterprise risk management is a disciplined, holistic, and interactive approach to risk that is conducted under an overall framework which:

- Provides additional insight when setting strategy across the Allstate enterprise
- Identifies potential events that could have a significant impact on Allstate
- Manages risk and optimizes our overall profile consistent with Allstate's risk appetite
- Provides greater assurance of achieving Allstate's objectives
- Allows Allstate to achieve a return commensurate with the risks taken

Risk management is primarily executed within the business unit where the risk is undertaken. Effective risk management requires an infrastructure that includes appropriate governance policies, stochastic modeling software, tolerances and limits; consistent risk management practices, which include risk identification, evaluation, prioritization, treatment and monitoring; and effective communication and reporting. Managers in the various business units are responsible for managing, measuring, evaluating, and reporting risks as appropriate in their respective areas and that are within the risk appetite of the overall enterprise. This would include items such as establishing risk oversight committees that develop and monitor appropriate tolerances and the measurement of exposure to any catastrophe; managing the impacts to invested assets and liabilities related to changes in interest rates and equity markets through value at risk, duration and convexity metrics; and evaluating risks related to credit exposures through a credit value at risk measurement. As appropriate, consistent enterprise-wide measurement standards and limits are applied to these key risks and are integrated into such processes as strategic and financial planning, capital management, and enterprise risk reporting. Business unit measures and practices are aligned with the overall enterprise standards.

For the enterprise, we are utilizing an internally developed enterprise stochastic model as a significant component in our determination of an appropriate level of economic capital needed, given a defined tolerance for risk. Economic capital modeling capabilities enable us to more fully understand and optimize risk/reward tradeoffs across the portfolio of businesses and various risks. The economic capital model accounts for the unique and specific nature and interaction of the risks inherent in our various businesses. Future plans include further refinements to our modeling capabilities to provide more insight to optimizing enterprise return with an acceptable risk profile by proactively exploiting risk reduction and risk enhancing opportunities. Over time, this effort should provide additional insight into the marginal risk return choices in such areas as capital management; strategic asset allocation in our investment portfolio; product mix and choices of risk transfer options for state, regional, or countrywide catastrophe exposure management.

REGULATION AND LEGAL PROCEEDINGS

We are subject to extensive regulation and we are involved in various legal and regulatory actions, all of which have an effect on specific aspects of our business. For a detailed discussion of the legal and regulatory actions in which we are involved, see Note 13 of the consolidated financial statements.

PENDING ACCOUNTING STANDARDS

As of December 31, 2006, there are several pending accounting standards that we have not implemented either because the standard has not been finalized or the implementation date has not yet occurred. For a discussion of these pending standards, see Note 2 of the consolidated financial statements.

The effect of implementing certain accounting standards on our financial results and financial condition is often based in part on market conditions at the time of implementation of the standard and other factors we are unable to determine prior to implementation. For this reason, we are sometimes unable to estimate the effect of certain pending accounting standards until the relevant authoritative body finalizes these standards or until we implement them.

THE ALLSTATE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

(in millions, except per share data)	Year Ended December 31, 2006	2005	2004
Revenues			
Property-liability insurance premiums (net of reinsurance ceded of $1,113, $586 and $399)	$27,369	$27,039	$25,989
Life and annuity premiums and contract charges (net of reinsurance ceded of $815, $696 and $608)	1,964	2,049	2,072
Net investment income	6,177	5,746	5,284
Realized capital gains and losses	286	549	591
	35,796	35,383	33,936
Costs and expenses			
Property-liability insurance claims and claims expense (net of reinsurance recoveries of $463, $4,017 and $1,599)	16,017	21,175	17,843
Life and annuity contract benefits (net of reinsurance recoveries of $573, $585 and $483)	1,570	1,615	1,618
Interest credited to contractholder funds	2,609	2,403	2,001
Amortization of deferred policy acquisition costs	4,757	4,721	4,465
Operating costs and expenses	3,033	2,997	3,040
Restructuring and related charges	182	41	51
Interest expense	357	330	308
	28,525	33,282	29,326
Loss on disposition of operations	(93)	(13)	(24)
Income from operations before income tax expense and cumulative effect of change in accounting principle, after-tax	7,178	2,088	4,586
Income tax expense	2,185	323	1,230
Income before cumulative effect of change in accounting principle, after-tax	4,993	1,765	3,356
Cumulative effect of change in accounting principle, after-tax	—	—	(175)
Net income	$ 4,993	$ 1,765	$ 3,181
Earnings per share:			
Net income per share—Basic	$ 7.89	$ 2.67	$ 4.57
Net income per share—Diluted	$ 7.84	$ 2.64	$ 4.54
Weighted average shares—Basic	632.5	661.7	695.6
Weighted average shares—Diluted	637.2	667.3	700.3
Cash dividends declared per share	$ 1.40	$ 1.28	$ 1.12

See notes to consolidated financial statements.

THE ALLSTATE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in millions)	Year Ended December 31, 2006	2005	2004
Net income	$4,993	$1,765	$3,181
Other comprehensive loss, after-tax			
Changes in:			
Unrealized net capital gains and losses	(16)	(898)	(137)
Unrealized foreign currency translation adjustments	4	6	26
Minimum pension liability adjustment	(14)	359	(30)
Other comprehensive loss, after-tax	(26)	(533)	(141)
Comprehensive income	$4,967	$1,232	$3,040

See notes to consolidated financial statements.

THE ALLSTATE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(in millions, except par value data)	December 31, 2006	2005
Assets		
Investments		
Fixed income securities, at fair value (amortized cost $95,780 and $94,777)	$ 98,320	$ 98,065
Equity securities, at fair value (cost $6,026 and $4,873)	7,777	6,164
Mortgage loans	9,467	8,748
Short-term	2,430	3,470
Other	1,763	1,850
Total investments	119,757	118,297
Cash	443	313
Premium installment receivables, net	4,789	4,739
Deferred policy acquisition costs	5,332	5,802
Reinsurance recoverables, net	5,827	5,180
Accrued investment income	1,062	1,074
Deferred income taxes	224	—
Property and equipment, net	1,010	1,040
Goodwill	825	825
Other assets	2,111	3,567
Separate Accounts	16,174	15,235
Total assets	$157,554	$156,072
Liabilities		
Reserve for property-liability insurance claims and claims expense	$ 18,866	$ 22,117
Reserve for life-contingent contract benefits	12,786	12,482
Contractholder funds	62,031	60,040
Unearned premiums	10,427	10,294
Claim payments outstanding	717	1,263
Other liabilities and accrued expenses	10,045	8,804
Deferred income taxes	—	351
Short-term debt	12	413
Long-term debt	4,650	4,887
Separate Accounts	16,174	15,235
Total liabilities	135,708	135,886
Commitments and Contingent Liabilities (Notes 6, 7 and 13)		
Shareholders' 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, 622 million and 646 million shares outstanding	9	9
Additional capital paid-in	2,939	2,798
Retained income	29,070	24,962
Deferred ESOP expense	(72)	(90)
Treasury stock, at cost (278 million and 254 million shares)	(11,091)	(9,575)
Accumulated other comprehensive income:		
Unrealized net capital gains and losses	2,074	2,090
Unrealized foreign currency translation adjustments	26	22
Minimum pension liability adjustment	—	(30)
Net funded status of pension and other postretirement benefit obligation	(1,109)	—
Total accumulated other comprehensive income	991	2,082
Total shareholders' equity	21,846	20,186
Total liabilities and shareholders' equity	$157,554	$156,072

See notes to consolidated financial statements.

THE ALLSTATE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(in millions, except per share data)	December 31, 2006	2005	2004
Common stock	$ 9	$ 9	$ 9
Additional capital paid-in			
Balance, beginning of year	2,798	2,635	2,549
Equity incentive plans activity	141	163	86
Balance, end of year	2,939	2,798	2,635
Retained income			
Balance, beginning of year	24,962	24,043	21,641
Net income	4,993	1,765	3,181
Dividends ($1.40, $1.28 and $1.12 per share, respectively)	(885)	(846)	(779)
Balance, end of year	29,070	24,962	24,043
Deferred ESOP expense			
Balance, beginning of year	(90)	(107)	(129)
Payments	18	17	22
Balance, end of year	(72)	(90)	(107)
Treasury stock			
Balance, beginning of year	(9,575)	(7,372)	(6,261)
Shares acquired	(1,770)	(2,484)	(1,373)
Shares reissued under equity incentive plans, net	254	281	262
Balance, end of year	(11,091)	(9,575)	(7,372)
Accumulated other comprehensive income			
Balance, beginning of year	2,082	2,615	2,756
Change in unrealized net capital gains and losses	(16)	(898)	(137)
Change in unrealized foreign currency translation adjustments	4	6	26
Change in minimum pension liability adjustment	(14)	359	(30)
Adjustment to initially apply SFAS No. 158	(1,065)	—	—
Balance, end of year	991	2,082	2,615
Total shareholders' equity	$ 21,846	$20,186	$21,823

See notes to consolidated financial statements.

THE ALLSTATE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions)	Year Ended December 31, 2006	2005	2004
Cash flows from operating activities			
Net income	$ 4,993	$ 1,765	$ 3,181
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation, amortization and other non-cash items	(188)	(67)	(4)
Realized capital gains and losses	(286)	(549)	(591)
Loss on disposition of operations	93	13	24
Cumulative effect of change in accounting principle	—	—	175
Interest credited to contractholder funds	2,609	2,403	2,001
Changes in:			
Policy benefit and other insurance reserves	(3,236)	2,868	1,680
Unearned premiums	132	354	614
Deferred policy acquisition costs	(196)	(243)	(443)
Premium installment receivables, net	(49)	(15)	(345)
Reinsurance recoverables, net	828	(858)	(1,052)
Income taxes payable	486	(744)	11
Other operating assets and liabilities	(131)	678	217
Net cash provided by operating activities	5,055	5,605	5,468
Cash flows from investing activities			
Proceeds from sales			
Fixed income securities	23,925	21,926	19,839
Equity securities	4,074	4,829	4,580
Investment collections			
Fixed income securities	5,054	6,038	5,904
Mortgage loans	1,649	1,267	772
Investment purchases			
Fixed income securities	(30,035)	(31,144)	(33,720)
Equity securities	(4,764)	(4,895)	(4,659)
Mortgage loans	(2,331)	(2,171)	(2,106)
Change in short-term investments, net	1,332	(621)	(1,098)
Change in other investments, net	164	(122)	(75)
Acquisitions, net of cash received	—	(60)	—
Disposition of operations	(826)	(2)	40
Purchases of property and equipment, net	(161)	(196)	(200)
Net cash used in investing activities	(1,919)	(5,151)	(10,723)
Cash flows from financing activities			
Change in short-term debt, net	(401)	370	40
Proceeds from issuance of long-term debt	644	789	647
Repayment of long-term debt	(851)	(1,205)	(19)
Contractholder fund deposits	10,066	12,004	13,616
Contractholder fund withdrawals	(10,208)	(9,444)	(7,088)
Dividends paid	(873)	(830)	(756)
Treasury stock purchases	(1,770)	(2,484)	(1,373)
Shares reissued under equity incentive plans, net	239	281	236
Excess tax benefits from share-based payment arrangements	52	—	—
Other	96	(36)	—
Net cash (used in) provided by financing activities	(3,006)	(555)	5,303
Net increase (decrease) in cash	130	(101)	48
Cash at beginning of year	313	414	366
Cash at end of year	$ 443	$ 313	$ 414

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. General

Basis of presentation

The accompanying 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"). These consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP"). All significant intercompany accounts and transactions have been eliminated.

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

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Nature of operations

Allstate is engaged, principally in the United States, in the property-liability insurance, life insurance, retirement and investment product business. Allstate's primary business is the sale of private passenger auto and homeowner's insurance. The Company also sells several other personal property and casualty insurance products, life insurance, annuities, funding agreements, and select commercial property and casualty coverages. Allstate primarily distributes its products through exclusive agencies, financial specialists and independent agencies.

The Allstate Protection segment principally sells private passenger auto and homeowner's insurance, with earned premiums accounting for approximately 76% of Allstate's 2006 consolidated revenues. Allstate was the country's second largest insurer for both private passenger auto and homeowners insurance as of December 31, 2005. Allstate Protection, through several companies, is authorized to sell certain property-liability products in all 50 states, the District of Columbia and Puerto Rico. The Company is also authorized to sell certain insurance products in Canada. For 2006, the top geographic locations for premiums earned by the Allstate Protection segment were California, New York, Texas, Florida and Pennsylvania. No other jurisdiction accounted for more than 5% of premiums earned for Allstate Protection.

Allstate has exposure to catastrophes, an inherent risk of the property-liability insurance business, which have contributed, and will continue to contribute, to material year-to-year fluctuations in the Company's results of operations and financial position (see Note 7). The level of catastrophic loss and weather-related losses (wind, hail, lightning and freeze losses) experienced in any year cannot be predicted and could be material to results of operations and financial position. The Company considers the greatest areas of potential catastrophe losses due to hurricanes to generally be major metropolitan centers in counties along the eastern and gulf coasts of the United States. The Company considers the greatest areas of potential catastrophe losses due to earthquakes and fires following earthquakes to be major metropolitan areas near fault lines in the states of California, Oregon, Washington, South Carolina, Missouri, Kentucky and Tennessee. The Company also has exposure to environmental and asbestos claims and other discontinued lines exposures (see Note 13).

The Allstate Financial segment sells life insurance, retirement and investment products and supplemental accident and health insurance products to individual and institutional customers. The principal individual products are deferred and immediate fixed annuities, interest-sensitive, traditional and variable life insurance, and supplemental accident and health insurance. The principal institutional product is funding agreements backing medium-term notes issued to institutional and individual investors. Banking products and services are also offered to customers through the Allstate Bank.

Allstate Financial, through several companies, is authorized to sell life insurance and retirement products in all 50 states, the District of Columbia, Puerto Rico, the U.S. Virgin Islands and Guam. For 2006, the top geographic locations for statutory premiums and annuity considerations for the Allstate Financial segment were Delaware, California, New York, Florida and Texas. No other jurisdiction accounted for more than 5% of statutory premiums and annuity considerations for Allstate Financial. Allstate Financial distributes its products to individuals through several distribution channels, including Allstate exclusive agencies, independent agents (including master brokerage agencies and workplace enrolling agents), and financial services firms, such as broker/dealers and specialized structured settlement brokers. Allstate Bank products can also be obtained directly through the Internet and a toll-free number. Although the Company currently benefits from agreements with financial services entities that market and distribute its products, change in control of these non-affiliated entities could negatively impact Allstate Financial's sales.

The Company monitors economic and regulatory developments that have the potential to impact its business. The ability of banks to affiliate with insurers may have a material adverse effect on all of the Company's product lines by substantially increasing the number, size and financial strength of potential competitors. Furthermore, federal and state laws and regulations affect the taxation of insurance companies and life insurance and annuity products. Congress and various state legislatures have considered proposals that, if enacted, could impose a greater tax burden on the Company or could have an adverse impact on the tax treatment of some insurance products offered by the Company, including favorable policyholder tax treatment currently applicable to life insurance and annuities. Legislation that reduced the federal income tax rates applicable to certain dividends and capital gains realized by individuals, or other proposals, if adopted, that reduce the taxation, or permit the establishment, of certain products or investments that may compete with life insurance or annuities could have an adverse effect on the Company's financial position or ability to sell such products and could result in the surrender of some existing contracts and policies. In addition, changes in the federal estate tax laws could negatively affect the demand for the types of life insurance used in estate planning.

2. Summary of Significant Accounting Policies

Investments

Fixed income securities include bonds and bank loans, which are primarily senior secured corporate loans, and redeemable preferred stocks. Fixed income securities may be sold prior to their contractual maturity (''available for sale'') and are carried at fair value, with the exception of bank loans that are carried at amortized cost. The fair value of publicly traded fixed income securities is based upon independent market quotations. The fair value of non-publicly traded securities is based on either widely accepted pricing valuation models which use internally developed ratings and independent third party data (e.g., term structures of interest rates and current publicly traded bond prices) as inputs or independent third party pricing sources. The valuation models use security specific information such as ratings, industry, coupon and maturity along with third party data and publicly traded bond prices to determine security specific spreads. These spreads are then adjusted for illiquidity based on historical analysis and broker surveys. The difference between amortized cost and fair value, net of deferred income taxes, certain life and annuity deferred policy acquisition costs, certain deferred sales inducement costs,

and certain reserves for life-contingent contract benefits, are reflected as a component of accumulated other comprehensive income. Cash received from calls, principal payments and make-whole payments is reflected as a component of proceeds from sales. Cash received from maturities and pay-downs is reflected as a component of investment collections.

Equity securities include common and non-redeemable preferred stocks, limited partnership interests and real estate investment trust equity investments. Common and non-redeemable preferred stocks and real estate investment trust equity investments are classified as available for sale and are carried at fair value. The difference between cost and fair value, net of deferred income taxes, is reflected as a component of accumulated other comprehensive income. Investments in limited partnership interests are accounted for in accordance with the equity method of accounting except for instances in which the Company's interest is so minor that it exercises virtually no influence over operating and financial policies, in which case, the Company applies the cost method of accounting.

Mortgage loans are carried at outstanding principal balances, net of unamortized premium or discount and valuation allowances. Valuation allowances are established for impaired loans when it is probable that contractual principal and interest will not be collected. Valuation allowances for impaired loans reduce the carrying value to the fair value of the collateral or the present value of the loan's expected future repayment cash flows discounted at the loan's original effective interest rate.

Short-term investments are carried at cost or amortized cost that approximates fair value, and include the investment of collateral received in connection with securities lending business activities, funds received in connection with securities repurchase agreements and collateral received from counterparties related to derivative transactions. For these transactions, the Company records an offsetting liability in other liabilities and accrued expenses for the Company's obligation to return the collateral or funds received. We also purchase securities under agreements to resell. Other investments, which consist primarily of policy loans, are carried at the unpaid principal balances.

Investment income consists primarily of interest and dividends, net investment income from partnership interests and income from certain derivative transactions. Interest is recognized on an accrual basis and dividends are recorded at the ex-dividend date. Interest income is determined using the effective yield method, considering estimated principal repayments when applicable. Interest income on certain beneficial interests in securitized financial assets is determined using the prospective yield method, based upon projections of expected future cash flows. Income from investments in partnership interests accounted for on the cost basis is recognized upon receipt of amounts distributed by the partnerships as income. Income from investments in partnership interests accounted for utilizing the equity method of accounting is recognized based on the financial results of the entity and the Company's investment interest. Accrual of income is suspended for fixed income securities and mortgage loans that are in default or when the receipt of interest payments is in doubt.

Realized capital gains and losses include gains and losses on investment dispositions, write-downs in value due to other than temporary declines in fair value and changes in the fair value of certain derivatives. Dispositions include sales, losses recognized in anticipation of dispositions and other transactions such as calls and prepayments. Realized capital gains and losses on investment dispositions are determined on a specific identification basis.

The Company recognizes other-than-temporary impairment losses on fixed income securities, equity securities and short-term investments when the decline in fair value is deemed other than temporary (see Note 5).

Derivative and embedded derivative financial instruments

Derivative financial instruments include swaps, futures (interest rate and commodity), options (including swaptions), interest rate caps and floors, warrants, certain forward contracts for purchases of to-be-announced (''TBA'') mortgage securities, certain investment risk transfer reinsurance agreements, forward sale commitments and certain bond forward purchase commitments, mortgage funding commitments and mortgage forward sale commitments. Derivatives that are required to be separated from the host instrument and accounted for as derivative financial instruments (''subject to bifurcation'') are embedded in convertible and equity indexed fixed income securities, equity-indexed annuity contracts, variable annuity contracts which are reinsured, and certain funding agreements (see Note 6).

All derivatives are accounted for on a fair value basis and reported as other investments, other assets, other liabilities and accrued expenses or contractholder funds. Embedded derivative instruments subject to bifurcation are also accounted for on a fair value basis and are reported together with the host contracts. The change in the fair value of derivatives embedded in certain fixed income securities and subject to bifurcation is reported in realized capital gains and losses. The change in the fair value of derivatives embedded in liabilities and subject to bifurcation is reported in life and annuity contract benefits, interest credited to contractholder funds or realized capital gains and losses.

When derivatives meet specific criteria, they may be designated as accounting hedges and accounted for as fair value, cash flow, foreign currency fair value or foreign currency cash flow hedges. The hedged item may be either all or a specific portion of a recognized asset, liability or an unrecognized firm commitment attributable to a particular risk. At the inception of the hedge, the Company formally documents the hedging relationship and risk management objective and strategy. The documentation identifies the hedging instrument, the hedged item, the nature of the risk being hedged and the methodology used to assess the effectiveness of the hedging instrument in offsetting the exposure to changes in the hedged item's fair value attributable to the hedged risk, or in the case of a cash flow hedge, the exposure to changes in the hedged item's or transaction's variability in cash flows attributable to the hedged risk. The Company does not exclude any component of the change in fair value of the hedging instrument from the effectiveness assessment. At each reporting date, the Company confirms that the hedging instrument continues to be highly effective in offsetting the hedged risk. Ineffectiveness in fair value hedges and cash flow hedges is reported in realized capital gains and losses. The hedge ineffectiveness reported as realized capital gains and losses amounted to losses of $7 million, $7 million and $1 million in 2006, 2005 and 2004, respectively.

Fair value hedges The Company designates certain of its interest rate and foreign currency swap contracts and certain investment risk transfer reinsurance agreements as fair value hedges when the hedging instrument is highly effective in offsetting the risk of changes in the fair value of the hedged item.

For hedging instruments used in fair value hedges, when the hedged items are investment assets or a portion thereof, the change in the fair value of the derivatives is reported in net investment income, together with the change in the fair value of the hedged items. The change in the fair value of hedging instruments used in fair value hedges of contractholder funds liabilities or a portion thereof is reported in interest credited to contractholder funds, together with the change in the fair value of the hedged item. Accrued periodic settlements on swaps are reported together with the changes in fair value of the swaps in net investment income, interest credited to contractholder funds or interest expense. The book value of the hedged asset or liability is adjusted for the change in the fair value of the hedged risk.

Cash flow hedges The Company designates certain of its foreign currency swap contracts and bond forward commitments 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. The

Company's cash flow exposure may be associated with an existing asset, liability or a forecasted transaction including the issuance of corporate debt. Anticipated transactions must be probable of occurrence and their significant terms and specific characteristics must be identified.

For hedging instruments used in cash flow hedges, the changes in fair value of the derivatives are reported in accumulated other comprehensive income. Amounts are reclassified to net investment income, realized capital gains and losses or interest expense as the hedged transaction affects net income or when the forecasted transaction affects net income. Accrued periodic settlements on derivatives used in cash flow hedges are reported in net investment income. The amount reported in accumulated other comprehensive income for a hedged transaction is limited to the lesser of the cumulative gain or loss on the derivative less the amount reclassified to net income; or the cumulative gain or loss on the derivative needed to offset the cumulative change in the expected future cash flows on the hedged transaction from inception of the hedge less the derivative gain or loss previously reclassified from accumulated other comprehensive income to net income. If the Company expects at any time that the loss reported in accumulated other comprehensive income would lead to a net loss on the combination of the hedging instrument and the hedged transaction which may not be recoverable, a loss is recognized immediately in realized capital gains and losses. If an impairment loss is recognized on an asset or an additional obligation is incurred on a liability involved in a hedge transaction, any offsetting gain in accumulated other comprehensive income is reclassified and reported together with the impairment loss or recognition of the obligation.

Termination of hedge accounting If, subsequent to entering into a hedge transaction, the derivative becomes ineffective (including if the hedged item is sold or otherwise extinguished, the occurrence of a hedged forecasted transaction is no longer probable, or the hedged asset becomes other than temporarily impaired), the Company may terminate the derivative position. The Company may also terminate derivative instruments or redesignate them as non-hedge as a result of other events or circumstances. If the derivative financial instrument is not terminated when a fair value hedge is no longer effective, the future gains and losses recognized on the derivative are reported in realized capital gains and losses. When a fair value hedge is no longer effective, is redesignated as non-hedge, or when the derivative has been terminated, the fair value gain or loss on the hedged asset, liability or portion thereof used to adjust the book value of the asset, liability or portion thereof, which has already been recognized in income while the hedge was in place, is amortized over the remaining life of the hedged asset liability or portion thereof to net investment income, interest credited to contractholder funds or interest expense beginning in the period that hedge accounting is no longer applied. If the hedged item of a fair value hedge is an asset which has become other than temporarily impaired, the adjustment made to the book value of the asset is subject to the accounting policies applied to other than temporarily impaired assets. When a derivative financial instrument used in a cash flow hedge of an existing asset or liability is no longer effective or is terminated, the gain or loss recognized on the derivative is reclassified from accumulated other comprehensive income to net income as the hedged risk impacts net income, beginning in the period hedge accounting is no longer applied or the derivative instrument is terminated. If the derivative financial instrument is not terminated when a cash flow hedge is no longer effective, the future gains and losses recognized on the derivative are reported in realized capital gains and losses. When a derivative financial instrument used in a cash flow hedge of a forecasted transaction is terminated because the forecasted transaction is no longer probable, the gain or loss recognized on the derivative is immediately reclassified from accumulated other comprehensive income to realized capital gains and losses in the period that hedge accounting is no longer applied. If a cash flow hedge is no longer effective, the gain or loss recognized on the derivative during the period the hedge was effective is reclassified from accumulated other comprehensive income to net income as the remaining hedged item affects net income.

Non-hedge derivative financial instruments The Company also has certain derivatives that are used in interest rate, equity price, commodity price and credit risk management strategies for which hedge accounting is not applied. These derivatives primarily consist of certain interest rate swap agreements, equity, commodity and financial futures contracts, interest rate cap and floor agreements, swaptions, foreign currency forward and option contracts, certain forward contracts for TBA mortgage securities and credit default swaps.

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. Fixed income securities are replicated when they are either unavailable in the cash market or more economical to acquire in synthetic form.

The Company enters into commodity-based investments through the use of excess return swaps whose return is tied to a commodity-based index. The Company also uses certain commodity futures to periodically rebalance its exposure under commodity-indexed excess return swaps as they are very liquid and highly correlated with the commodity-based index.

Based upon the type of derivative instrument and strategy, the income statement effects of these derivatives are reported in a single line item, with the results of the associated risk. Therefore, the derivatives' fair value gains and losses and accrued periodic settlements are recognized together in one of the following during the reporting period: net investment income, realized capital gains and losses, operating costs and expenses, life and annuity contract benefits or interest credited to contractholder funds. Cash flows from embedded derivatives requiring bifurcation and derivatives receiving hedge accounting are reported consistently with the host contracts and hedged risks respectively within the Consolidated Statement of Cash Flows. Cash flows on other derivatives are reported in cash flows from investing activities within the Consolidated Statement of Cash Flows.

Securities loaned and security repurchase and resale

The Company's business activities, which include securities lending transactions, securities sold under agreements to repurchase that primarily include a mortgage dollar roll program (''repurchase agreements''), and securities purchased under agreements to resell (''resale agreements''), are used primarily to generate net investment income. The proceeds received from repurchase agreements also provide a source of liquidity. For repurchase agreements and securities lending transactions used to generate net investment income, the proceeds received are reinvested in short-term investments or fixed income securities. These transactions are short-term in nature (usually 30 days or less).

The Company receives collateral for securities loaned in an amount generally equal to 102% and 105% of the fair value of domestic and foreign securities, respectively, and records the related obligations to return the collateral in other liabilities and accrued expenses. The carrying value of these obligations approximates fair value because of their relatively short-term nature. The Company monitors the market value of securities loaned on a daily basis and obtains additional collateral as necessary under the terms of the agreements to mitigate counterparty credit risk. The Company maintains the right and ability to redeem the securities loaned on short notice. Substantially all of the Company's securities loaned are placed with large brokerage firms.

The Company's policy is to take possession or control of securities under resale agreements. Securities to be repurchased under repurchase agreements are the same, or substantially the same, as the securities transferred. The Company's obligations to return the funds received under repurchase agreements are carried at the amount at which the securities will subsequently be reacquired, including accrued interest, as specified in the respective agreements and are classified as other liabilities and accrued expenses. The carrying value of these obligations approximates fair value because of their relatively short-term nature.

Recognition of premium revenues and contract charges, and related benefits and interest credited

Property-liability premiums are deferred and earned on a pro-rata basis over the terms of the policies. The portion of premiums written applicable to the unexpired terms of the policies is recorded as unearned premiums. Premium installment receivables, net, represent premiums written and not yet collected, net of an allowance for uncollectible premiums. The Company regularly evaluates premium installment receivables and adjusts valuation allowances as appropriate. The valuation allowance for uncollectible premium installment receivables was $56 million and $50 million at December 31, 2006 and 2005, respectively.

Traditional life insurance products consist principally of products with fixed and guaranteed premiums and benefits, primarily term and whole life insurance products. Premiums from these products are recognized as revenue when due from policyholders. Benefits are recognized in relation to such revenue so as to result in the recognition of profits over the life of the policy and are reflected in life and annuity contract benefits.

Immediate annuities with life contingencies, including certain structured settlement annuities, provide insurance protection over a period that extends beyond the period during which premiums are collected. Premiums from these products are recognized as revenue when received at the inception of the contract. Benefits and expenses are recognized in relation to such revenue such that profits are recognized over the lives of the contracts.

Interest-sensitive life contracts, such as universal life and single premium life, are insurance contracts whose terms are not fixed and guaranteed. The terms that may be changed include premiums paid by the contractholder, interest credited to the contractholder account balance and any amounts assessed against the contractholder account balance. Premiums from these contracts are reported as contractholder fund deposits. Contract charges consist of fees assessed against the contractholder account balance for cost of insurance (mortality risk), contract administration and early surrender. These revenues are recognized when assessed against the contractholder account balance. Life and annuity contract benefits include life-contingent benefit payments in excess of the contractholder account balance.

Contracts that do not subject the Company to significant risk arising from mortality or morbidity are referred to as investment contracts. Fixed annuities, including market value adjusted annuities, equity-indexed annuities and immediate annuities without life contingencies, funding agreements (primarily backing medium-term notes) are considered investment contracts. Consideration received for such contracts is reported as contractholder fund deposits. Contract charges for investment contracts consist of fees assessed against the contractholder account balance for maintenance, administration and surrender of the contract prior to contractually specified dates, and are recognized when assessed against the contractholder account balance.

Interest credited to contractholder funds represents interest accrued or paid on interest-sensitive life contracts and investment contracts. Crediting rates for certain fixed annuities and interest-sensitive life contracts are adjusted periodically by the Company to reflect current market conditions subject to contractually guaranteed minimum rates. Crediting rates for indexed annuities and indexed funding agreements are based on a specified interest-rate index, such as LIBOR, or an equity index, such as the S&P 500. Pursuant to the adoption of Statement of Position No. 03-1, ''Accounting and Reporting by Insurance Enterprises for Certain Nontraditional Long-Duration Contracts and for Separate Accounts'' (''SOP 03-1'') in 2004, interest credited also includes amortization of deferred sales inducement (''DSI'') expenses. DSI is amortized into interest credited using the same method used to amortize deferred policy acquisition costs (''DAC'').

Contract charges for variable life and variable annuity products consist of fees assessed against the contractholder account values for contract maintenance, administration, mortality, expense and early surrender. Contract benefits incurred include guaranteed minimum death, income, withdrawal and accumulation benefits. Subsequent to the Allstate Financial segment's disposal of substantially all of its variable annuity business through reinsurance agreements with Prudential in 2006 (see Note 3), the contract charges and contract benefits related thereto are reported net of reinsurance ceded.

Deferred policy acquisition and sales inducement costs

Costs that vary with and are primarily related to acquiring property-liability insurance, life insurance and investment contracts are deferred and recorded as DAC. These costs are principally agents' and brokers' remuneration, premium taxes, inspection costs, and certain underwriting and direct mail solicitation expenses. DSI costs, which are deferred and recorded as other assets, relate to sales inducements offered on sales to new customers, principally on annuities and primarily in the form of additional credits to the customer's account value or enhancements to interest credited for a specified period, which are beyond amounts currently being credited to existing contracts. All other acquisition costs are expensed as incurred and included in operating costs and expenses on the Consolidated Statements of Operations. DAC associated with property-liability insurance is amortized to income as premiums are earned, typically over periods of six or twelve months, and is included in amortization of deferred policy acquisition costs on the Consolidated Statements of Operations. Future investment income is considered in determining the recoverability of DAC. DAC associated with life insurance and investment contracts is amortized to income and included in amortization of deferred policy acquisition costs on the Consolidated Statements of Operations. DSI is reported in other assets and amortized to income using the same methodology and assumptions as DAC and is included in interest credited to contractholder funds on the Consolidated Statements of Operations. DAC and DSI are periodically reviewed for recoverability and written down if necessary.

For traditional life insurance and other premium paying contracts, DAC is amortized in proportion to the estimated revenues on such business. Assumptions used in amortization of DAC and reserve calculations are determined based upon conditions as of the date of policy issuance and are generally not revised during the life of the policy. Any deviations from projected business in force resulting from actual policy terminations differing from expected levels and any estimated premium deficiencies change the rate of amortization in the period such events occur. Generally, the amortization period for these contracts approximates the estimated lives of the policies.

For internal exchanges of traditional life insurance, the unamortized balance of acquisition costs previously deferred under the original contracts are charged to income. The new acquisition costs associated with the exchange are deferred and amortized to income.

For interest-sensitive life, annuities and other investment contracts, DAC and DSI are amortized in proportion to the incidence of the total present value of gross profits, which includes both actual

historical gross profits (“AGP”) and estimated future gross profits (“EGP”) expected to be earned over the estimated lives of the contracts. Actual amortization periods range from 15-30 years; however, incorporating estimates of customer surrender rates, partial withdrawals and deaths generally result in the majority of deferred costs being amortized over the surrender charge period. The rate of amortization during this term is matched to the pattern of total gross profits. AGP and EGP consists of the following components: benefit margins, primarily from mortality; investment margin including realized capital gains and losses; and contract administration, surrender and other contract charges, less maintenance expenses.

Changes in the amount or timing of EGP result in adjustments to the cumulative amortization of DAC and DSI. All such adjustments are reflected in the current results of operations.

The Company performs quarterly reviews of DAC and DSI recoverability for interest-sensitive life, annuities and other investment contracts in the aggregate using current assumptions. If a change in the amount of EGP is significant, it could result in the unamortized DAC and DSI not being recoverable, resulting in a charge which is included as a component of amortization of deferred policy acquisition costs or interest credited to contractholder funds, respectively, on the Consolidated Statements of Operations.

Any amortization of DAC or DSI that would result from changes in unrealized gains or losses had those gains or losses actually been realized during the reporting period is recorded net of tax in other comprehensive income.

The costs assigned to the right to receive future cash flows from certain business purchased from other insurers are also classified as deferred policy acquisition costs in the Consolidated Statements of Financial Position. The costs capitalized represent the present value of future profits expected to be earned over the life of the contracts acquired. These costs are amortized as profits emerge over the life of the acquired business and are periodically evaluated for recoverability. The present value of future profits was $112 million and $159 million at December 31, 2006 and 2005, respectively. Amortization expense on the present value of future profits was $41 million, $16 million and $19 million for the years ended December 31, 2006, 2005 and 2004, respectively.

Reinsurance

In the normal course of business, the Company seeks to limit aggregate and single exposure to losses on large risks by purchasing reinsurance from reinsurers (see Note 9). The Company has also used reinsurance to effect the acquisition or disposition of certain blocks of business. The amounts reported in the Consolidated Statements of Financial Position as reinsurance recoverables include amounts billed to reinsurers on losses paid as well as estimates of amounts expected to be recovered from reinsurers on insurance liabilities and contractholder funds that have not yet been paid. Reinsurance recoverables on unpaid losses are estimated based upon assumptions consistent with those used in establishing the liabilities related to the underlying reinsured contract. Insurance liabilities are reported gross of reinsurance recoverables. Reinsurance premiums are generally reflected in income in a manner consistent with the recognition of premiums on the reinsured contracts or are earned ratably over the contract period to the extent coverage remains available. Reinsurance does not extinguish the Company’s primary liability under the policies written. Therefore, the Company regularly evaluates the financial condition of the reinsurers including their activities with respect to claim settlement practices and commutations, and establishes allowances for uncollectible reinsurance recoverables as appropriate.

Goodwill

Goodwill represents the excess of amounts paid for acquiring businesses over the fair value of the net assets acquired. The Company annually evaluates goodwill for impairment using a trading multiple analysis, which is a widely accepted valuation technique to estimate the fair value of its reporting units. The Company also reviews its goodwill for impairment whenever events or changes in circumstances indicate that it is more likely than not that the carrying amount of goodwill may be less than its fair value. Goodwill impairment evaluations indicated no impairment at December 31, 2006.

Property and equipment

Property and equipment is carried at cost less accumulated depreciation. Included in property and equipment are capitalized costs related to computer software licenses and software developed for internal use. These costs generally consist of certain external payroll and payroll related costs. Certain facilities and equipment held under capital leases are also classified as property and equipment with the related lease obligations recorded as liabilities. Property and equipment depreciation is calculated using the straight-line method over the estimated useful lives of the assets, generally 3 to 10 years for equipment and 40 years for real property. Depreciation expense is reported in operating costs and expenses. Accumulated depreciation on property and equipment was $1.79 billion and $1.64 billion at December 31, 2006 and 2005, respectively. Depreciation expense on property and equipment was $235 million, $229 million and $219 million for the years ended December 31, 2006, 2005 and 2004, respectively. The Company reviews its property and equipment for impairment at least annually and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Income taxes

The income tax provision is calculated under the liability method. Deferred tax assets and liabilities are recorded based on the difference between the financial statement and tax bases of assets and liabilities at the enacted tax rates. The principal assets and liabilities giving rise to such differences are unrealized capital gains and losses on certain investments, insurance reserves, unearned premiums, DAC and employee benefits. A deferred tax asset valuation allowance is established when there is uncertainty that such assets would be realized.

Reserves for property liability insurance claims and claims expense and life-contingent contract benefits

The reserve for property-liability claims and claims expense is the estimated amount necessary to settle both reported and unreported claims for the ultimate cost of insured property-liability losses, based upon the facts in each case and the Company's experience with similar cases. Estimated amounts of salvage and subrogation are deducted from the reserve for claims and claims expense. The establishment of appropriate reserves, including reserves for catastrophes, is an inherently uncertain and complex process. Reserve estimates are regularly reviewed and updated, using the most current information available. Any resulting reestimates are reflected in current operations (see Note 7).

The reserve for life-contingent contract benefits, which relates to traditional life and supplemental accident and health insurance and immediate annuities with life contingencies, is computed on the basis of long-term actuarial assumptions as to future investment yields, mortality, morbidity, policy terminations and expenses (see Note 8). These assumptions, which for traditional life insurance are applied using the net level premium method, include provisions for adverse deviation and generally vary by such characteristics as type of coverage, year of issue and policy duration. To the extent that unrealized gains on fixed income securities would result in a premium deficiency had those gains actually been realized, the related increase in reserves for certain immediate annuities with life contingencies is recorded net of

tax as a reduction of the unrealized net capital gains included in accumulated other comprehensive income.

Contractholder funds

Contractholder funds represent interest-bearing liabilities arising from the sale of products, such as interest-sensitive life, fixed annuities, bank deposits and funding agreements. Contractholder funds are comprised primarily of deposits received and interest credited to the benefit of the contractholder less surrenders and withdrawals, mortality charges and administrative expenses (see Note 8). Contractholder funds also include reserves for secondary guarantees on interest-sensitive life insurance and certain fixed annuity contracts.

Separate accounts

Separate accounts assets and liabilities are carried at fair value. The assets of the separate accounts are legally segregated and available only to settle separate account contract obligations. Separate accounts liabilities represent the contractholders' claims to the related assets. Investment income and realized capital gains and losses of the separate accounts accrue directly to the contractholders and therefore, are not included in the Company's Consolidated Statements of Operations. Deposits to and surrenders and withdrawals from the separate accounts are reflected in separate accounts liabilities and are not included in consolidated cash flows.

Absent any contract provision wherein the Company provides a guarantee, which for variable annuities was reinsured to Prudential in 2006, variable annuity and variable life insurance contractholders bear the investment risk that the separate accounts' funds may not meet their stated investment objectives.

Deferred Employee Stock Ownership Plan ("ESOP") expense

Deferred ESOP expense represents the remaining unrecognized cost of shares acquired by the Allstate ESOP to pre-fund a portion of the Company's contribution to The Savings and Profit Sharing Plan of Allstate Employees (see Note 16).

Equity incentive plans

The Company currently has equity incentive plans that permit the Company to grant nonqualified stock options, incentive stock options, restricted or unrestricted shares of the Company's stock and restricted stock units ("equity awards") to certain employees and directors of the Company (see Note 17). The Company recognizes the fair value of equity awards computed at the award date over the period in which the requisite service is rendered. In 2005, the Company began using a binomial lattice model in place of the Black-Scholes pricing model to determine the fair value of employee stock options.

Off-balance-sheet financial instruments

Commitments to invest, commitments to purchase private placement securities, financial guarantees and credit guarantees have off-balance-sheet risk because their contractual amounts are not recorded in the Company's Consolidated Statements of Financial Position (see Note 6 and Note 13).

Consolidation of variable interest entities ("VIEs")

The Company consolidates VIEs when it is the primary beneficiary of a VIE. A primary beneficiary has a variable interest that will absorb a majority of the expected losses or receive a majority of the entity's expected returns, or both (see Note 11).

Foreign currency translation

The local currency of the Company's foreign subsidiaries is deemed to be the functional currency in which these subsidiaries operate. The financial statements of the Company's foreign subsidiaries are translated into U.S. dollars at the exchange rate in effect at the end of a reporting period for assets and liabilities and at average exchange rates during the period for results of operations. The unrealized gains and losses from the translation of the net assets are recorded as unrealized foreign currency translation adjustments and included in accumulated other comprehensive income in the Consolidated Statements of Financial Position. Changes in unrealized foreign currency translation adjustments are included in other comprehensive income. Gains and losses from foreign currency transactions are reported in operating costs and expenses and have not been significant.

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 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 for the years ended December 31, is presented in the following table.

(in millions, except per share data)	2006	2005	2004
Numerator:			
Income before cumulative effect of change in accounting principle, after-tax	$4,993	$1,765	$3,356
Cumulative effect of change in accounting principle, after-tax	–	–	(175)
Net income	$4,993	$1,765	$3,181
Denominator:			
Weighted average common shares outstanding	632.5	661.7	695.6
Effect of potential dilutive securities:			
Stock options	3.4	5.1	4.7
Restricted stock units	1.3	0.5	–
Weighted average common and dilutive potential common shares outstanding	637.2	667.3	700.3
Earnings per share–Basic:			
Income before cumulative effect of change in accounting principle, after-tax	$ 7.89	$ 2.67	$ 4.82
Cumulative effect of change in accounting principle, after-tax	–	–	(0.25)
Net income	$ 7.89	$ 2.67	$ 4.57
Earnings per share–Diluted:			
Income before cumulative effect of change in accounting principle, after-tax	$ 7.84	$ 2.64	$ 4.79
Cumulative effect of change in accounting principle, after-tax	–	–	(0.25)
Net income	$ 7.84	$ 2.64	$ 4.54

Options to purchase 0.4 million, 0.5 million and 0.1 million Allstate common shares, with exercise prices ranging from $52.23 to $62.42, $56.25 to $61.90 and $46.99 to $50.79, were outstanding at December 31, 2006, 2005, and 2004, respectively, but were not included in the computation of diluted earnings per share in those years since inclusion of those options would have an anti-dilutive effect as the options' exercise prices exceeded the average market price of Allstate common shares or because the unrecognized compensation cost on the options would have an anti-dilutive effect.

Adopted accounting standards

Financial Accounting Standards Board Staff Position No. FAS 115-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments (''FSP FAS 115-1'')

The Company adopted Financial Accounting Standards Board (''FASB'') FSP FAS 115-1 as of January 1, 2006. FSP FAS 115-1 nullifies the guidance in paragraphs 10-18 of EITF Issue 03-1, ''The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments'' and references existing other-than-temporary impairment guidance. FSP FAS 115-1 clarifies that an investor should recognize an impairment loss no later than when the impairment is deemed other-than-temporary, even if a decision to sell the security has not been made, and also provides guidance on the subsequent accounting for income recognition on an impaired debt security. The adoption of FSP FAS 115-1 was required on a prospective basis and did not have a material effect on the results of operations or financial position of the Company.

Statement of Financial Accounting Standards No. 154, Accounting Changes and Error Corrections (''SFAS No. 154'')

The Company adopted SFAS No. 154 on January 1, 2006. SFAS No. 154 replaces Accounting Principles Board (''APB'') Opinion No. 20, ''Accounting Changes'', and SFAS No. 3, ''Reporting Accounting Changes in Interim Financial Statements''. SFAS No. 154 requires retrospective application to prior periods' financial statements for changes in accounting principle, unless determination of either the period specific effects or the cumulative effect of the change is impracticable or otherwise promulgated. The Company had no accounting changes or error corrections affected by the new standard.

SFAS No. 123 (revised 2004), Share-Based Payment (''SFAS No. 123R'')

On January 1, 2006, the Company adopted SFAS No. 123R, which revises SFAS No. 123 ''Accounting for Stock-based Compensation'' and supersedes APB Opinion No. 25 ''Accounting for Stock Issued to Employees''. SFAS No. 123R requires all share-based payment transactions to be accounted for using a fair value based method to recognize the cost of awards over the period in which the requisite service is rendered. The Company used the modified prospective application method for adoption, and therefore the prior year results have not been restated. As a result, 2006 compensation expense includes amounts related to options granted in 2002, since the Company utilizes a four year vesting schedule and previously adopted the expense provisions of SFAS No. 123 for awards granted or modified subsequent to January 1, 2003. The effect of adoption was not material. See Note 17 for further information.

Financial Accounting Standards Board Staff Position No. FAS 123R-3, Transition Election Related to Accounting for the Tax Effects of Share-Based Payment Awards (''FSP FAS 123R-3'')

In conjunction with its adoption of SFAS No. 123R, the Company elected the transition method described in FSP FAS 123R-3. FSP FAS 123R-3 provided companies an option to elect an alternative calculation method for determining the pool of excess tax benefits available to absorb tax deficiencies recognized subsequent to the adoption of SFAS No. 123R. SFAS No. 123R requires companies to

calculate the pool of excess tax benefits as the net excess tax benefits that would have qualified as such had the Company adopted SFAS No. 123 for recognition purposes when first effective in 1995. FSP FAS 123R-3 provided an alternative calculation based on actual increases to additional capital paid-in related to tax benefits from share-based compensation subsequent to the effective date of SFAS No. 123, less the tax on the cumulative incremental compensation costs the Company included in its pro forma net income disclosures as if the Company had applied the fair-value method to all awards, less the share-based compensation costs included in net income as reported.

SFAS No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106 and 132(R)("SFAS No. 158")

SFAS No. 158 requires recognition in the Statements of Financial Position of the over or underfunded status of defined pension and other postretirement plans, measured as the difference between the fair value of plan assets and the projected benefit obligation ("PBO") for the pension plans and the accumulated postretirement benefit obligation ("APBO") for other postretirement benefit plans. This effectively requires the recognition of all previously unrecognized actuarial gains and losses and prior service cost as a component of accumulated other comprehensive income, net of tax. In addition, SFAS No. 158 requires: on a prospective basis the actuarial gains and losses and the prior service costs and credits that arise during any reporting period but are not recognized net of tax as components of net periodic benefit cost be recognized as a component of other comprehensive income; that the measurement date of the plans be the same as the Consolidated Statements of Financial Position; and that disclosure in the notes to the financial statements include the anticipated impact on the net periodic benefit cost of actuarial gains and losses and the prior service costs and credits previously deferred and recognized net of tax as a component of other comprehensive income. Guidance relating to the recognition of the over or under funded status of the plan and additional disclosure requirements is effective for periods ending after December 15, 2006. Guidance relating to the measurement date of the plans is effective for the years ending after December 15, 2008. There is no impact on results of operations or cash flows. Retrospective application of this standard is not permitted. The impact of adoption, including the inter-related impact on the minimum pension liability, resulted in a decrease in shareholders' equity of $1.11 billion. See Note 16 for additional information including the incremental effect of applying this guidance on the individual line items in the December 31, 2006 Consolidated Statement of Financial Position.

Securities and Exchange Commission ("SEC") Staff Accounting Bulletin No. 108, Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements ("SAB 108")

In September 2006, the SEC issued SAB 108 in order to eliminate the diversity of practice in the process by which misstatements are quantified for purposes of assessing materiality on the financial statements. SAB 108 is intended to eliminate the potential for the build up of improper amounts on the balance sheet due to the limitations of certain methods of materiality assessment utilized in current practice. SAB 108 establishes a single quantification framework wherein the significance measurement is based on the effects of the misstatements on each of the financial statements as well as the related financial statement disclosures. If a company's existing methods for assessing the materiality of misstatements are not in compliance with the provisions of SAB 108, the initial application of the provisions may be adopted by restating prior period financial statements under certain circumstances or otherwise by recording the cumulative effect of initially applying the provisions of SAB 108 as adjustments to the carrying values of assets and liabilities as of January 1, 2006 with an offsetting adjustment recorded to the opening balance of retained earnings. The provisions of SAB 108 must be applied no later than the annual financial statements issued for the first fiscal year ending after November 15, 2006.

The Company's adoption of SAB 108 in the fourth quarter of 2006 for the fiscal year then ended did not have any effect on its results of operations or financial position.

FASB Staff Position Nos. FAS 106-1 and FAS 106-2, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003" ("FSP FAS 106-1" and "FSP FAS 106-2")

In May 2004, the FASB issued FSP FAS 106-2, which supersedes FSP FAS 106-1, to provide guidance on accounting for the effects of the Medicare Prescription Drug, Improvement and Modernization Act of 2003 ("Act"). FSP FAS 106-2, which the Company adopted in the third quarter of 2004, required reporting entities that elected deferral under FSP FAS 106-1 and were able to determine if their plans are actuarially equivalent to recognize the impact of the Act no later than the first interim or annual reporting period beginning after June 15, 2004. In January 2005, the Center for Medicare and Medicaid Services issued the final regulations for the Act including the determination of actuarial equivalence. In the first quarter of 2005, the Company determined that its plans were actuarially equivalent and recognized the subsidy provided by the Act, which reduced the Company's APBO by $115 million for benefits attributable to past service. In addition, the estimated annual net periodic postretirement benefit cost for 2005 was reduced by $17 million, of which $8 million was amortization of the actuarial experience gain attributable to past service, $4 million was a reduction of current period service cost and $5 million was the reduction in interest cost on the APBO (see Note 16).

SOP 03-1, "Accounting and Reporting by Insurance Enterprises for Certain Nontraditional Long-Duration Contracts and for Separate Accounts"

On January 1, 2004, the Company adopted SOP 03-1. The major provisions of the SOP that affected the Company at the time of adoption are listed below. These provisions were primarily applicable to the business that was subsequently substantially reinsured on June 1, 2006 (see Note 3).

- Establishment of reserves primarily related to death benefit and income benefit guarantees provided under variable annuity contracts;
- Deferral of sales inducements that meet certain criteria, and amortization using the same method used for DAC; and
- Reporting and measuring assets and liabilities of certain separate accounts products as investments and contractholder funds rather than as separate accounts assets and liabilities when specified criteria are present.

The cumulative effect of the change in accounting principle from implementing SOP 03-1 was a loss of $175 million, after-tax ($269 million, pre-tax). It was comprised of an increase in benefit reserves (primarily for variable annuity contracts) of $145 million, pre-tax, and a reduction in DAC and DSI of $124 million, pre-tax.

The SOP required consideration of a range of potential results to estimate the cost of variable annuity death benefits and income benefits, which generally necessitated the use of stochastic modeling techniques. To maintain consistency with the assumptions used in the establishment of reserves for variable annuity guarantees, the Company utilized the results of this stochastic modeling to estimate expected gross profits, which form the basis for determining the amortization of DAC and DSI. This new modeling approach resulted in a lower estimate of expected gross profits, and therefore resulted in a write-down of DAC and DSI.

DSI and related amortization is classified within the Consolidated Statements of Financial Position and Operations as other assets and interest credited to contractholder funds, respectively (see Note 10). Pursuant to adopting this guidance, the Company also reclassified $204 million of separate accounts assets and liabilities to investments and contractholder funds, respectively.

American Institute of Certified Public Accountants ("AICPA") Technical Practice Aid ("TPA") re. SOP 03-1

In September 2004, the staff of the AICPA, aided by industry experts, issued a set of technical questions and answers on financial accounting and reporting issues related to SOP 03-1. The TPAs address a number of issues related to SOP 03-1 including when it was necessary to establish a liability in addition to the account balance for certain contracts such as single premium and universal life that meet the definition of an insurance contract and have amounts assessed against the contractholder in a manner that is expected to result in profits in earlier years and losses in subsequent years from the insurance benefit function. The impact of adopting the provisions of the TPAs did not have a material effect on the results of operations or financial position of the Company.

Pending accounting standards

Statement of Position 05-1, Accounting by Insurance Enterprises for Deferred Acquisition Costs in Connection with Modifications or Exchanges of Insurance Contracts ("SOP 05-1")

In October 2005, the AICPA issued SOP 05-1. SOP 05-1 provides accounting guidance for deferred policy acquisition costs associated with internal replacements of insurance and investment contracts other than those already described in SFAS No. 97, "Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses from the Sale of Investments". SOP 05-1 defines an internal replacement as a modification in product benefits, features, rights or coverages that occurs by the exchange of a contract for a new contract, or by amendment, endorsement or rider to a contract, or by the election of a feature or coverage within a contract. In February 2007, the AICPA issued a set of eleven TPAs that provide interpretive guidance to be utilized, if applicable, at the date of adoption. The provisions of SOP 05-1 are effective for internal replacements occurring in fiscal years beginning after December 15, 2006. Based on the issued standard and the TPAs released in February 2007, the Company's estimated impacts of adoption will not have a material effect on its results of operations or financial position.

SFAS No. 155, Accounting for Certain Hybrid Financial Instruments—an amendment of FASB Statements No. 133 and 140 ("SFAS No. 155")

In February 2006, the FASB issued SFAS No. 155, which permits the fair value remeasurement at the date of adoption of any hybrid financial instrument containing an embedded derivative that otherwise would require bifurcation under paragraph 12 or 13 of SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*; clarifies which interest-only strips and principal-only strips are not subject to the requirements of SFAS No. 133; establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or hybrid financial instruments that contain embedded derivatives requiring bifurcation; and clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives. The provisions of SFAS No. 155 are effective for all financial instruments acquired, issued or subject to a remeasurement event occurring after the beginning of the first fiscal year that begins after September 15, 2006. The Company elected not to remeasure its existing hybrid financial instruments at the date of adoption that contained embedded derivatives requiring bifurcation pursuant to paragraph 12 or 13 of SFAS No. 133. The adoption of SFAS No. 155 is not expected to have a material effect on the results of operations or financial position of the Company.

Financial Accounting Standards Board Interpretation No. 48, Accounting for Uncertainty in Income Taxes, (“FIN 48”)

In July 2006, the FASB issued FIN 48, which clarifies the accounting for uncertainty in income taxes recognized in an entity’s financial statements in accordance with FASB Statement No. 109, “Accounting for Income Taxes”. FIN 48 requires an entity to recognize the tax benefit of uncertain tax positions only when it is more likely than not, based on the position’s technical merits, that the position would be sustained upon examination by the respective taxing authorities. The tax benefit is measured as the largest benefit that is more than fifty-percent likely of being realized upon final settlement with the respective taxing authorities. FIN 48 is effective for fiscal years beginning after December 15, 2006. The adoption of FIN 48 will not have a material effect on the results of operations or financial position of the Company.

SFAS No. 157, Fair Value Measurements (“SFAS No. 157”)

In September 2006, the FASB issued SFAS No. 157 which redefines fair value, establishes a framework for measuring fair value in generally accepted accounting principles (“GAAP”), and expands disclosures about fair value measurements. SFAS No. 157 applies where other accounting pronouncements require or permit fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. The effects of adoption will be determined by the types of instruments carried at fair value in the Company’s financial statements at the time of adoption as well as the method utilized to determine their fair values prior to adoption. Based on the Company’s current use of fair value measurements, SFAS No. 157 is not expected to have a material effect on the results of operations or financial position of the Company.

SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (“SFAS No. 159”)

In February 2007, the FASB issued SFAS No. 159 which provides reporting entities an option to report selected financial assets, including investment securities designated as available for sale, and liabilities, including most insurance contracts, at fair value. SFAS No. 159 establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. The standard also requires additional information to aid financial statement users’ understanding of a reporting entity’s choice to use fair value on its earnings and also requires entities to display on the face of the balance sheet the fair value of those assets and liabilities for which the reporting entity has chosen to measure at fair value. SFAS No. 159 is effective as of the beginning of a reporting entity’s first fiscal year beginning after November 15, 2007. Early adoption is permitted as of the beginning of the previous fiscal year provided the entity makes that choice in the first 120 days of that fiscal year and also elects to apply the provisions of SFAS No. 157. Because application of the standard is optional, any impacts are limited to those financial assets and liabilities to which SFAS No. 159 would be applied, which has yet to be determined, as is any decision concerning the early adoption of the standard.

3. Dispositions

Variable Annuity Business

On June 1, 2006, the Company and its subsidiaries, ALIC and Allstate Life Insurance Company of New York (''ALNY''), completed the disposal of substantially all of Allstate Financial's variable annuity business pursuant to a definitive agreement (the ''Agreement'') with Prudential Financial, Inc. and its subsidiary, The Prudential Insurance Company of America (collectively ''Prudential''). The disposal was effected through a combination of coinsurance and modified coinsurance reinsurance agreements (the ''Reinsurance Agreements'').

As a result of the modified coinsurance reinsurance, the separate account assets remain on the Company's Consolidated Statements of Financial Position, but the related results of operations are fully reinsured to Prudential beginning on June 1, 2006 and presented net of reinsurance on the Consolidated Statements of Operations. In contrast, $1.37 billion of assets supporting general account liabilities have been transferred to Prudential, net of consideration, under the coinsurance reinsurance provisions. The general account liabilities of $1.49 billion as of December 31, 2006, however, remain on the Consolidated Statements of Financial Position with a corresponding reinsurance recoverable. For purposes of presentation in the Consolidated Statements of Cash Flows, the Company treated the reinsurance of substantially all the variable annuity business of ALIC and ALNY to Prudential as a disposition of operations, consistent with the substance of the transaction which was the disposition of a block of business accomplished through reinsurance. Accordingly, the net consideration transferred to Prudential of $744 million (computed as $1.37 billion of general account insurance liabilities transferred to Prudential on the closing date less consideration of $628 million), the cost of hedging the ceding commission received from Prudential of $69 million, pretax, and the costs of executing the transaction of $13 million, pretax, were classified as a disposition of operations in the cash flows from investing activities section of the Consolidated Statements of Cash Flows. The Reinsurance Agreements do not extinguish the Company's primary liability under the variable annuity contracts.

Under the Agreement, the Company, ALIC and ALNY have indemnified 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 terms of the Agreement give Prudential the right to be the exclusive provider of its variable annuity products through the Allstate proprietary agency force for three years and a non-exclusive preferred provider for the following two years. During a transition period, ALIC and ALNY will continue to issue new variable annuity contracts, accept additional deposits on existing business from existing contractholders on behalf of Prudential and, for a period of twenty-four months or less, service the reinsured business while Prudential prepares for the migration of the business onto its servicing platform.

Pursuant to the Agreement, the final market-adjusted consideration was $628 million. The disposal resulted in a gain of $77 million pretax for ALIC, which was deferred as a result of the disposition being executed through reinsurance. The deferred gain is included as a component of other liabilities and accrued expenses on the Consolidated Statements of Financial Position, and is amortized to loss on dispositions of operations on the Consolidated Statements of Operations over the life of the reinsured business which is estimated to be approximately 18 years. For ALNY, the transaction resulted in a loss of $9 million pretax. ALNY's reinsurance loss and other amounts related to the disposal of the business, including the initial costs and final market value settlements of the derivatives acquired by ALIC to economically hedge substantially all of the exposure related to market adjustments between the effective

date of the Agreement and the closing of the transaction, transactional expenses incurred and amortization of ALIC's deferred reinsurance gain, were included as a component of loss on disposition of operations on the Consolidated Statements of Operations and amounted to $61 million, after-tax during 2006. During 2006, loss on disposition of operations on the Consolidated Statements of Operations included $1 million, after-tax, of amortization of ALIC's deferred gain. DAC and DSI were reduced by $726 million and $70 million, respectively, as of the effective date of the transaction for balances related to the variable annuity business subject to the Reinsurance Agreements.

The separate account balances related to the modified coinsurance reinsurance were $15.07 billion as of December 31, 2006. Separate account balances totaling approximately $1.10 billion at December 31, 2006 relate primarily to the variable life business that is being retained by ALIC and ALNY, and some minimal variable annuity business in three affiliated companies that the Company plans to sell.

In the five-months of 2006, prior to the disposition of substantially all of the variable annuity business, ALIC's and ALNY's variable annuity business generated approximately $127 million in contract charges. In 2005 and 2004, ALIC's and ALNY's variable annuity business generated approximately $278 million and $244 million in contract charges, respectively. The separate account balances were $14.23 billion and general account balances were $1.81 billion as of December 31, 2005.

Columbia Universal Life Insurance Company ("CUL")

In 2004, the Company disposed of CUL, a wholly owned life insurance subsidiary reported in the Allstate Financial segment, pursuant to a stock purchase agreement with Verde Financial Corporation. As a result, the Company recognized a nominal gain on the disposition and a net tax benefit of approximately $11 million. The tax benefit was reported as a reduction of the Company's income tax expense on the Consolidated Statements of Operations. All contracts in force, primarily fixed annuity and interest-sensitive life policies written by CUL, had been ceded to ALIC or third party reinsurers prior to the disposition.

4. Supplemental Cash Flow Information

Non-cash investment exchanges and modifications, which primarily reflect refinancings of fixed income securities and mergers completed with equity securities, totaled $105 million, $95 million and $149 million for the years ended December 31, 2006, 2005 and 2004, respectively.

Liabilities for collateral received in conjunction with the Company's securities lending and other business activities and for funds received from the Company's security repurchase business activities were $4.14 billion, $4.10 billion and $4.85 billion at December 31, 2006, 2005 and 2004, respectively, and are reported in other liabilities and accrued expenses in the Consolidated Statements of Financial Position. The accompanying cash flows are included in cash flows from operating activities in the

Consolidated Statements of Cash Flows along with the activities resulting from management of the proceeds, which for the years ended December 31 are as follows:

($ in millions)	2006	2005	2004
Net change in proceeds managed			
Net change in fixed income securities	$ 48	$ (692)	$ 107
Net change in short-term investments	(88)	1,444	(1,213)
Operating cash flow (used) provided	(40)	752	(1,106)
Net change in cash	(2)	—	—
Net change in proceeds managed	$ (42)	$ 752	$(1,106)
Net change in liabilities			
Liabilities for collateral and security repurchase, beginning of year	$(4,102)	$(4,854)	$(3,748)
Liabilities for collateral and security repurchase, end of year	(4,144)	(4,102)	(4,854)
Operating cash flow provided (used)	$ 42	$ (752)	$ 1,106

Notes

5. 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 December 31, 2006				
U.S. government and agencies	$ 3,284	$ 758	$ (9)	$ 4,033
Municipal	24,665	1,003	(60)	25,608
Corporate[1]	40,274	923	(372)	40,825
Foreign government	2,489	333	(4)	2,818
Mortgaged-backed securities	7,962	41	(87)	7,916
Commercial mortgage-backed securities	7,834	67	(64)	7,837
Asset-backed securities	9,202	40	(31)	9,211
Redeemable preferred stock	70	2	—	72
Total fixed income securities	$95,780	$3,167	$(627)	$98,320
At December 31, 2005				
U.S. government and agencies	$ 3,151	$ 880	$ (4)	$ 4,027
Municipal	25,621	1,152	(33)	26,740
Corporate[1]	39,140	1,334	(340)	40,134
Foreign government	2,558	400	(4)	2,954
Mortgaged-backed securities	9,123	38	(122)	9,039
Commercial mortgage-backed securities	7,004	52	(67)	6,989
Asset-backed securities	8,087	40	(44)	8,083
Redeemable preferred stock	93	6	—	99
Total fixed income securities	$94,777	$3,902	$(614)	$98,065

(1) Amortized cost and fair value of Corporate fixed income securities include bank loans which are reflected at amortized cost of $1.03 billion and $966 million at December 31, 2006 and 2005, respectively.

Scheduled maturities

The scheduled maturities for fixed income securities are as follows at December 31, 2006:

($ in millions)	Amortized cost	Fair value
Due in one year or less	$ 2,055	$ 2,062
Due after one year through five years	16,647	16,823
Due after five years through ten years	22,260	22,696
Due after ten years	37,654	39,612
	78,616	81,193
Mortgage- and asset-backed securities	17,164	17,127
Total	$95,780	$98,320

Actual maturities may differ from those scheduled as a result of prepayments by the issuers. Because of the potential for prepayment on 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.

Net investment income

Net investment income for the years ended December 31 is as follows:

($ in millions)	2006	2005	2004
Fixed income securities	$5,404	$5,180	$4,907
Equity securities	304	249	213
Mortgage loans	545	503	456
Other	329	125	(77)
Investment income, before expense	6,582	6,057	5,499
Investment expense	(405)	(311)	(215)
Net investment income	$6,177	$5,746	$5,284

Net investment income from equity securities includes income from partnership interests of $195 million, $138 million and $97 million for the years ended December 31, 2006, 2005 and 2004, respectively.

Realized capital gains and losses, after-tax

Realized capital gains and losses by security type for the years ended December 31 are as follows:

($ in millions)	2006	2005	2004
Fixed income securities	$ 21	$ 90	$ 167
Equity securities	371	331	416
Derivatives	(150)	134	—
Other investments	44	(6)	8
Realized capital gains and losses, pre-tax	286	549	591
Income tax expense	(100)	(189)	(199)
Realized capital gains and losses, after-tax	$ 186	$ 360	$ 392

Realized capital gains and losses by transaction type for the years ended December 31 are as follows:

($ in millions)	2006	2005	2004
Write-downs	$ (47)	$ (55)	$(129)
Dispositions[1]	379	619	828
Valuation of derivative instruments	26	(95)	(46)
Settlement of derivative instruments	(72)	80	(62)
Realized capital gains and losses, pre-tax	286	549	591
Income tax expense	(100)	(189)	(199)
Realized capital gains and losses, after-tax	$ 186	$ 360	$ 392

(1) Dispositions include sales, losses recognized in anticipation of dispositions and other transactions such as calls and prepayments. The Company recognized losses of $112 million and $208 million in 2006 and 2005, respectively, due to changes in intent to hold impaired securities. There were no losses recognized due to change in intent during 2004.

Gross gains of $275 million, $506 million and $454 million and gross losses of $317 million, $192 million and $224 million were realized on sales of fixed income securities during 2006, 2005 and 2004, respectively.

Unrealized net capital gains and losses

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

($ in millions)	Fair value	Gross unrealized		Unrealized net gains (losses)
		Gains	Losses	
At December 31, 2006				
Fixed income securities	$98,320	$3,167	$(627)	$ 2,540
Equity securities	7,777	1,771	(20)	1,751
Derivative instruments[1]	(16)	7	(24)	(17)
Total				4,274
Amounts recognized for:[2]				
Premium deficiency reserve				(1,129)
Deferred policy acquisition and sales inducement costs				45
Total				(1,084)
Deferred income taxes				(1,116)
Unrealized net capital gains and losses				$ 2,074

(1) Included in the fair value of derivative securities are $(7) million classified as assets and $9 million classified as liabilities.

(2) See Note 2, Summary of Significant Accounting Policies for Deferred policy acquisition and sales inducement costs and Reserves for property-liability insurance claims and claims expense and life-contingent contract benefits.

($ in millions)	Fair value	Gross unrealized Gains	Gross unrealized Losses	Unrealized net gains (losses)
At December 31, 2005				
Fixed income securities	$98,065	$3,902	$(614)	$ 3,288
Equity securities	6,164	1,313	(22)	1,291
Derivative instruments[(1)]	(6)	6	(12)	(6)
Total				4,573
Amounts recognized for:				
Premium deficiency reserve				(1,342)
Deferred policy acquisition and sales inducement costs				(16)
Total				(1,358)
Deferred income taxes				(1,125)
Unrealized net capital gains and losses				$ 2,090

(1) Included in the fair value of derivative securities are $(4) million classified as assets and $2 million classified as liabilities.

Change in unrealized net capital gains and losses

The change in unrealized net capital gains and losses for the years ended December 31 is as follows:

($ in millions)	2006	2005	2004
Fixed income securities	$(748)	$(1,770)	$ (76)
Equity securities	460	(38)	69
Derivative instruments	(11)	11	(22)
Total	(299)	(1,797)	(29)
Amounts recognized for:			
Premium deficiency reserve	213	(253)	(156)
Deferred policy acquisition and sales inducement costs	61	669	(23)
Total	274	416	(179)
Deferred income taxes	9	483	71
Decrease in unrealized net capital gains and losses	$ (16)	$ (898)	$(137)

Portfolio monitoring

Inherent in the Company's evaluation of a particular security are assumptions and estimates about the operations of the 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 Company's ability and intent to retain the investment for a period of time sufficient to allow for an anticipated recovery in value; 2) the recoverability of principal and interest; 3) the duration and extent to which the fair value has been less than cost for equity securities or amortized cost for fixed income securities; 4) the financial condition, near-term and long-term prospects of the issuer, including relevant industry conditions and trends, and implications of rating agency actions and offering prices; and 5) the specific reasons that a security is in a significant unrealized loss position, including market conditions which could affect access to liquidity.

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.

	Less than 12 months			12 months or more			
$ in millions	Number of issues	Fair value	Unrealized losses	Number of issues	Fair value	Unrealized losses	Total unrealized losses
At December 31, 2006							
Fixed income securities							
U.S. government and agencies	17	$ 402	$ (5)	26	$ 143	$ (4)	$ (9)
Municipal	503	2,319	(27)	248	1,048	(33)	(60)
Corporate	567	7,146	(95)	692	8,945	(277)	(372)
Foreign government	18	132	(1)	15	193	(3)	(4)
Mortgage-backed securities	740	1,689	(11)	1,571	3,174	(76)	(87)
Commercial mortgage-backed securities	131	1,637	(10)	230	2,363	(54)	(64)
Asset-backed securities	158	1,934	(9)	152	1,462	(22)	(31)
Redeemable preferred stock	2	12	—	—	—	—	—
Total fixed income securities	2,136	15,271	(158)	2,934	17,328	(469)	(627)
Equity securities	185	163	(13)	43	28	(7)	(20)
Total fixed income & equity securities	2,321	$15,434	$(171)	2,977	$17,356	$(476)	$(647)
Investment grade fixed income securities	2,017	$14,517	$(143)	2,867	$16,885	$(450)	$(593)
Below investment grade fixed income securities	119	754	(15)	67	443	(19)	(34)
Total fixed income securities	2,136	$15,271	$(158)	2,934	$17,328	$(469)	$(627)
At December 31, 2005							
Fixed income securities							
U.S. government and agencies	23	$ 212	$ (2)	11	$ 41	$ (2)	$ (4)
Municipal	354	1,840	(17)	122	611	(16)	(33)
Corporate	1,016	12,043	(241)	190	2,268	(99)	(340)
Foreign government	41	526	(4)	2	16	—	(4)
Mortgage-backed securities	1,797	6,145	(95)	341	935	(27)	(122)
Commercial mortgage-backed securities	323	3,825	(55)	43	393	(12)	(67)
Asset -backed securities	212	2,531	(22)	75	671	(22)	(44)
Redeemable preferred stock	—	—	—	—	—	—	—
Total fixed income securities	3,766	27,122	(436)	784	4,935	(178)	(614)
Equity securities	204	291	(15)	38	32	(7)	(22)
Total fixed income & equity securities	3,970	$27,413	$(451)	822	$ 4,967	$(185)	$(636)
Investment grade fixed income securities	3,530	$26,101	$(401)	743	$ 4,642	$(150)	$(551)
Below investment grade fixed income securities	236	1,021	(35)	41	293	(28)	(63)
Total fixed income securities	3,766	$27,122	$(436)	784	$ 4,935	$(178)	$(614)

As of December 31, 2006, $640 million of unrealized losses 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 $640 million, $593 million related to unrealized losses on investment grade fixed income securities. Investment grade is defined as a security having a rating from the National Association of Insurance Commissioners ("NAIC") of 1 or 2; a rating of Aaa, Aa, A or Baa from Moody's or 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 December 31, 2006, the remaining $7 million of unrealized losses related to securities in unrealized loss positions greater than or equal to 20% of cost or amortized cost. Of the $7 million, $1 million related to below investment grade fixed income securities and $6 million related to equity securities. Of these amounts, none of the below investment grade fixed income securities had been in an unrealized loss position for a period of twelve months or more as of December 31, 2006. The Company expects eventual recovery of these securities. Every security was included in our portfolio monitoring process.

As of December 31, 2006, the securities comprising the $7 million 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.

As of December 31, 2006, the Company had the intent and ability to hold the fixed income and equity securities with unrealized losses for a period of time sufficient for them to recover.

As of December 31, 2006 and 2005, the carrying value for cost method investments was $953 million and $642 million, respectively, which primarily included limited partnership interests in fund investments. Each cost method investment was evaluated utilizing certain criteria such as a measurement of the Company's percentage share of the investee's equity relative to the carrying value and certain financial trends to determine if an event or change in circumstance occurred that could indicate an other-than-temporary impairment existed. Investments meeting any one of these criteria were further evaluated and, if it was determined that an other-than-temporary impairment existed, the investment was written down to the estimated fair value. The estimated fair value was generally based on the fair value of the underlying investments in the limited partnership funds. It is not practicable to estimate the fair value of each cost method investment in accordance with paragraphs 14 and 15 of SFAS 107, "Disclosures about Fair Value of Financial Instruments" ("SFAS No. 107") because the investments are private in nature and do not trade frequently. In addition, the information that would be utilized to estimate fair value is not readily available. In 2006 and 2005, the Company had write-downs of $17 million and $20 million, respectively, related to cost method investments that were other-than-temporarily impaired.

Mortgage loan impairment

A mortgage loan is impaired when it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement.

The net carrying value of impaired loans at December 31, 2006 and 2005 was $5 million and $3 million, respectively. No valuation allowances were held at December 31, 2006 or 2005 because the fair value of the collateral was greater than the recorded investment in the loans.

Interest income for impaired loans is recognized on an accrual basis if payments are expected to continue to be received; otherwise cash basis is used. The Company recognized interest income on impaired loans of $0.4 million, $0.2 million and $2 million during 2006, 2005 and 2004, respectively. The average balance of impaired loans was $5 million, $6 million and $29 million during 2006, 2005 and 2004, respectively.

No valuation allowances were charged to operations in 2006 or 2005. In 2004, a valuation allowance of $1 million was charged to operations and $1 million of a balance previously written off was recovered.

Investment concentration for municipal bond and commercial mortgage portfolios

The Company maintains a diversified portfolio of municipal bonds. The following table shows the principal geographic distribution of municipal bond issuers represented in the Company's portfolio. No other state represents more than 5% of the portfolio at December 31, 2006 or 2005.

(% of municipal bond portfolio carrying value)	2006	2005
California	11.3%	12.6%
Texas	10.3	10.9
Illinois	5.8	6.7
New York	5.3	5.7
Florida	5.0	4.0

The Company's mortgage loans are collateralized by a variety of commercial real estate property types located throughout the United States. Substantially all of the commercial mortgage loans are non-recourse to the borrower. The following table shows the principal geographic distribution of commercial real estate represented in the Company's mortgage portfolio. No other state represented more than 5% of the portfolio at December 31, 2006 or 2005.

(% of commercial mortgage portfolio carrying value)	2006	2005
California	18.0%	15.6%
Illinois	10.4	9.2
Texas	7.7	8.0
Pennsylvania	6.4	7.0
New York	4.7	5.3

The types of properties collateralizing the commercial mortgage loans at December 31 are as follows:

(% of commercial mortgage portfolio carrying value)	2006	2005
Office buildings	34.8%	32.5%
Retail	25.4	22.6
Warehouse	20.8	23.4
Apartment complex	15.3	17.8
Industrial	1.0	1.2
Other	2.7	2.5
Total	100.0%	100.0%

The contractual maturities of the commercial mortgage loan portfolio as of December 31, 2006 for loans that were not in foreclosure are as follows:

($ in millions)	Number of loans	Carrying value	Percent
2007	43	$ 311	3.3%
2008	76	609	6.4
2009	128	1,313	13.9
2010	107	1,395	14.7
2011	108	1,422	15.0
Thereafter	494	4,412	46.7
Total	956	$9,462	100.0%

In 2006, $419 million of commercial mortgage loans were contractually due. Of these, 70% were paid as due, 24% were refinanced at prevailing market terms and 6% were extended for less than one year. None were foreclosed or in the process of foreclosure, and none were in the process of refinancing or restructuring discussions.

At December 31, 2006, the carrying value of participation in pools of residential mortgage loans outstanding was $5 million.

Concentration of Credit Risk

At December 31, 2006, the Company is not exposed to any credit concentration of risk of a single issuer and its affiliates greater than 10% of the Company's shareholders' equity.

Securities loaned and security repurchase and resale

The Company's business activities include securities lending programs with third parties, mostly large brokerage firms. At December 31, 2006 and 2005, fixed income securities with a carrying value of $3.59 billion and $3.26 billion, respectively, were on loan under these agreements. In return, the Company receives cash that it invests and includes in short-term investments and fixed income securities, with an offsetting liability recorded in other liabilities and accrued expenses to account for the Company's obligation to return the collateral. Interest income on collateral, net of fees, was $10 million, $8 million and $6 million, for the years ended December 31, 2006, 2005 and 2004, respectively.

As part of its business activities, the Company sells securities under agreements to repurchase, primarily including a mortgage dollar roll program, and programs to purchase securities under agreements to resell. At December 31, 2006 and 2005, the Company had $196 million and $444 million, respectively, of securities that were subject to repurchase agreements. Of these securities, none were subject to resale agreements in 2006 and $45 million were subject to resale agreements in 2005. As part of these programs, the Company receives cash or securities that it invests or holds in short-term or fixed income securities. For repurchase agreements, an offsetting liability is recorded in other liabilities and accrued expenses to account for the Company's obligation to return these funds. Interest income recorded as a result of the program was $3 million, $21 million and $47 million for the years ended December 31, 2006, 2005 and 2004, respectively.

Other investment information

Included in fixed income securities are below investment grade assets totaling $5.37 billion and $5.13 billion at December 31, 2006 and 2005, respectively.

At December 31, 2006, fixed income securities with a carrying value of $257 million were on deposit with regulatory authorities as required by law.

At December 31, 2006, the carrying value of fixed income securities that were non-income producing was $68 million. No other investments were non-income producing at December 31, 2006.

6. Financial Instruments

In the normal course of business, the Company invests in various financial assets, incurs various financial liabilities and enters into agreements involving derivative financial instruments and other off-balance-sheet financial instruments. The fair value estimates of financial instruments presented below are not necessarily indicative of the amounts the Company might pay or receive in actual market transactions. Potential taxes and other transaction costs have not been considered in estimating fair value. The disclosures that follow do not reflect the fair value of the Company as a whole since a number of the Company's significant assets (including DAC and DSI, property and equipment, net and reinsurance recoverables, net) and liabilities (including reserve for property-liability insurance claims and claims expense, reserve for life-contingent contract benefits, contract-holder funds pertaining to interest-sensitive life contracts and deferred income taxes) are not included in accordance with SFAS No. 107. Other assets and liabilities considered financial instruments such as premium installment receivables, accrued investment income, cash and claim payments outstanding are generally of a short-term nature. Their carrying values are deemed to approximate fair value.

Financial assets

	December 31, 2006		December 31, 2005	
($ in millions)	Carrying value	Fair value	Carrying value	Fair value
Fixed income securities	$98,320	$98,320	$98,065	$98,065
Equity securities	7,777	7,777	6,164	6,164
Mortgage loans	9,467	9,536	8,748	8,931
Short-term investments	2,430	2,430	3,470	3,470
Policy loans	991	991	1,245	1,245
Separate Accounts	16,174	16,174	15,235	15,235

Fair values of publicly traded fixed income securities are based upon quoted market prices or dealer quotes. The fair value of non-publicly traded securities, primarily privately placed corporate obligations, is based on either widely accepted pricing valuation models, which use internally developed ratings and independent third party data (e.g., term structures and current publicly traded bond prices) as inputs, or independent third party pricing sources. Equity securities are valued based principally on quoted market prices. Mortgage loans are valued based on discounted contractual cash flows. Discount rates are selected using current rates at which similar loans would be made to borrowers with similar characteristics, using similar properties as collateral. Loans that exceed 100% loan-to-value are valued at the estimated fair value of the underlying collateral. Short-term investments are highly liquid investments with maturities of one year or less whose carrying values are deemed to approximate fair value. The carrying value of policy loans is deemed to approximate fair value. Separate accounts assets are carried in the Consolidated Statements of Financial Position at fair value based on quoted market prices.

Financial liabilities

($ in millions)	December 31, 2006 Carrying value	December 31, 2006 Fair value	December 31, 2005 Carrying value	December 31, 2005 Fair value
Contractholder funds on investment contracts	$52,182	$50,043	$51,179	$49,193
Short-term debt	12	12	413	413
Long-term debt	4,650	4,744	4,887	5,058
Liability for collateral and repurchase agreements	4,144	4,144	4,102	4,102
Separate Accounts	16,174	16,174	15,235	15,235

Contractholder funds include interest-sensitive life insurance contracts and investment contracts. Interest-sensitive life insurance contracts are not considered financial instruments subject to fair value disclosure requirements. The fair value of investment contracts is based on the terms of the underlying contracts. Fixed annuities are valued at the account balance less surrender charges. Immediate annuities without life contingencies and funding agreements are valued at the present value of future benefits using current interest rates. Market value adjusted annuities' fair value is estimated to be the market adjusted surrender value. Equity-indexed annuity contracts' fair value approximates carrying value since the embedded equity options are carried at fair value in the consolidated financial statements.

Short-term debt is valued at cost or amortized cost that approximates fair value due to its short-term nature. The fair value of long-term debt is based on quoted market prices or, in certain cases, is determined using discounted cash flow calculations based on interest rates of comparable instruments. Liability for collateral and repurchase agreements is valued at carrying value due to its short-term nature. Separate accounts liabilities are carried at the fair value of the underlying assets.

Derivative financial instruments

The Company primarily uses derivatives for risk reduction and asset replication. In addition, the Company has derivatives embedded in financial instruments, which are required to be separated and accounted for as derivative instruments. With the exception of derivatives used for asset replication and embedded derivatives which are required to be separated, all of the Company's derivatives are evaluated for their ongoing effectiveness as either accounting or non-hedge derivative financial instruments on at least a quarterly basis (see Note 2). The Company does not use derivatives for trading purposes. Non-hedge accounting is 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, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133") to permit the application of SFAS 133's hedge accounting model. The principal benefit of a "portfolio" level strategy is in its cost savings through its ability to use fewer derivatives with larger notional amounts.

Asset-liability management is a risk management strategy that is principally employed by Allstate Financial to align 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 and floors are acquired to change the interest rate characteristics of existing assets and liabilities to ensure a properly matched relationship is maintained and to reduce exposure to rising or falling interest rates. Allstate Financial uses financial futures to hedge anticipated asset and liability purchases and financial futures and options for hedging the Company's equity exposure contained in equity indexed and variable annuity product contracts that offer equity returns to contractholders. In addition, Allstate Financial also uses interest rate swaps to hedge interest rate risk inherent in funding agreements and foreign currency swaps primarily to reduce the foreign currency risk associated with issuing foreign currency denominated funding agreements.

Asset replication refers to the ''synthetic'' creation of an asset through the use of a credit derivative and a high quality cash instrument to replicate fixed income securities that are either unavailable in the cash bond market 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.

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 to change the duration of the portfolio to mitigate the exposure that interest rates would otherwise have on the market value of its fixed income securities.

Property-Liability also uses futures to hedge the market risk related to deferred compensation liability contracts and equity index futures to lock-in equity gains.

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

Property-Liability enters into commodity-based investments through the use of excess return swaps whose return is tied to a commodity-based index. The Company also uses commodity futures to periodically rebalance its exposure under commodity-indexed excess return swaps as they are very liquid and highly correlated with the commodity-based index.

Corporate and Other uses interest rate swaps to hedge interest rate exposure on its debt issuances.

In the tables that follow:

The notional amounts specified in the contracts are used to calculate the exchange of contractual payments under the agreements and are not representative of the potential for gain or loss on these agreements.

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. For exchange traded derivative contracts, the fair value is based on dealer or exchange quotes. The exchange requires margin deposits as well as daily cash settlements of margin. As of December 31, 2006, the Company pledged $61 million of securities in the form of margin deposits. The fair value of non-exchange traded derivative contracts, including embedded derivative financial instruments subject to bifurcation, is based on either independent third party pricing sources, including broker quotes, or widely accepted pricing and valuation models which use independent third party data as inputs.

Carrying value amounts include the fair value of the derivatives, including the embedded derivatives, and exclude the accrued periodic settlements which are short term in nature and are reported in accrued investment income or other invested assets. The carrying value amounts for freestanding derivatives have been further adjusted for the effects, if any, of legally enforceable master netting agreements.

The net impact to pretax income includes the settlements for derivatives, including the accrued periodic settlements, as well as changes in the fair value of freestanding and embedded derivatives. For those derivatives which qualify for fair value hedge accounting, it also 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 included. For embedded derivatives in convertibles and equity-indexed notes subject to bifurcation, accretion income related to the host instrument has also been included.

The following table categorizes the accounting hedge (fair value and cash flow) and non-hedge strategies employed by the Company. The notional amount, the fair value of the hedge and the impact on pretax income have been provided to illustrate the relative volume, the Company's exposure and the level of mark-to-market activity, respectively, for the derivative programs as of December 31.

	2006				2005				Net impact to pretax income		
		Fair value				Fair value					
	Notional amount	Fair value hedge	Cash flow hedge	Non-hedge	Notional amount	Fair value hedge	Cash flow hedge	Non-hedge	2006	2005	2004
Allstate Financial											
Risk reduction											
Interest rate exposure	$25,819	$ 24	$ —	$ 43	$22,304	$ 12	$—	$ 82	$ (45)	$(161)	$(241)
Macro hedging	3,425	—	—	1	3,319	—	—	1	16	(9)	(32)
Hedging of equity exposure in annuity contracts	4,722	—	—	125	4,523	—	—	66	103	20	53
Hedging interest rate and foreign currency risk inherent in funding agreements	1,948	366	—	—	2,501	327	—	—	13	77	143
Other	470	3	(17)	(4)	642	3	(6)	(1)	(75)	(10)	(8)
Asset replication	395	—	—	2	432	—	—	—	4	2	1
Embedded derivatives											
Convertibles	488	—	—	187	453	—	—	159	51	27	14
Equity indexed notes	625	—	—	305	325	—	—	133	49	19	—
Annuity contracts	6,122	—	—	(171)	4,494	—	—	(113)	(57)	(8)	13
Other	14	—	—	—	12	—	—	—	—	—	—
Total Allstate Financial	44,028	393	(17)	488	39,005	342	(6)	327	59	(43)	(57)
Property-liability											
Risk reduction											
Adjusting portfolio duration	750	—	—	1	310	—	—	—	(1)	26	(71)
Hedging deferred compensation	131	—	—	(1)	118	—	—	—	13	2	12
Hedging unrealized gains on equity securities	750	—	—	3	—	—	—	—	(16)	—	—
Asset replication	77	—	—	—	90	—	—	—	2	—	—
Embedded derivatives											
Convertibles	901	—	—	349	800	—	—	284	76	40	28
Commodity derivatives for excess return	579	—	—	—	329	—	—	(1)	(111)	(8)	—
Other	332	—	—	1	196	—	—	1	(5)	(5)	—
Total Property-liability	3,520	—	—	353	1,843	—	—	284	(42)	55	(31)
Corporate and other											
Risk reduction											
Hedging interest rate exposure in debt	—	—	—	—	550	(12)	—	—	(13)	(5)	7
Other	—	—	—	—	—	—	—	—	—	—	—
Total Corporate and other	—	—	—	—	550	(12)	—	—	(13)	(5)	7
Total	$47,548	$393	$(17)	$ 841	$41,398	$330	$(6)	$ 611	$ 4	$ 7	$ (81)

Derivative instruments are recorded at fair value and presented in the Consolidated Statements of Financial Position as of December 31, as follows:

	Carrying value			
	Assets		(Liabilities)	
($ in millions)	2006	2005	2006	2005
Fixed income securities	$ 840	$ 575	$ —	—
Other investments	673	525	—	
Other assets	3	3	—	—
Contractholder funds	—	—	(171)	(113)
Other liabilities and accrued expenses	—	—	(128)	(55)
Total	$1,516	$1,103	$(299)	(168)

For cash flow hedges, unrealized net pre-tax losses included in accumulated other comprehensive income were $(17) million and $(6) million at December 31, 2006 and 2005, respectively. The net pre-tax changes in accumulated other comprehensive income due to cash flow hedges resulted from changes in fair value of $(11) million, $11 million and $(19) million in 2006, 2005 and 2004, respectively, and the amortization of gains and (losses) to income of $3 million in 2004. Amortization to net income of accumulated other comprehensive income related to cash flow hedges is expected to be less than $1 million in 2007.

Notes

The following table summarizes the notional amount, fair value and carrying value of the Company's derivative financial instruments at December 31, 2006.

($ in millions)	Notional amount	Fair value	Carrying value Assets	Carrying value (Liabilities)
Interest rate contracts				
Interest rate swap agreements	$14,929	$ 24	$ 31	$ (7)
Financial futures contracts	3,976	1	1	—
Interest rate cap and floor agreements	12,065	28	27	1
Total interest rate contracts	30,970	53	59	(6)
Equity and index contracts				
Options, financial futures and warrants	5,403	127	236	(109)
Foreign currency contracts				
Foreign currency swap agreements	1,551	362	375	(13)
Foreign currency forwards and options	158	2	2	—
Foreign currency futures contracts	—	—	—	—
Total foreign currency contracts	1,709	364	377	(13)
Credit default swaps used for asset replication	472	2	1	1
Commodity index excess return swaps and futures	578	—	—	—
Embedded derivative financial instruments				
Guaranteed accumulation benefit	1,608	7	—	7
Guaranteed withdrawal benefit	1,067	1	—	1
Conversion options in fixed income securities	1,390	535	535	—
Equity-indexed call options in fixed income securities	625	305	305	—
Equity-indexed and forward starting options in life and annuity product contracts	3,343	(189)	—	(189)
Other embedded derivative financial instruments	104	10	—	10
Total embedded derivative financial instruments	8,137	669	840	(171)
Other derivative financial instruments	279	2	3	(1)
Total derivative financial instruments	$47,548	$1,217	$1,516	$(299)

The following table summarizes the notional amount, fair value and carrying value of the Company's derivative financial instruments at December 31, 2005.

($ in millions)	Notional amount	Fair value	Carrying value Assets	Carrying value (Liabilities)
Interest rate contracts				
Interest rate swap agreements	$12,062	$ 31	$ 49	$ (18)
Financial futures contracts	4,499	2	2	—
Interest rate cap and floor agreements	10,792	51	49	2
Total interest rate contracts	27,353	84	100	(16)
Equity and index contracts				
Options, financial futures and warrants	4,073	68	103	(35)
Foreign currency contracts				
Foreign currency swap agreements	2,765	321	323	(2)
Foreign currency forwards and options	102	(1)	—	(1)
Foreign currency futures contracts	31	—	—	—
Total foreign currency contracts	2,898	320	323	(3)
Credit default swaps used for asset replication	522	—	—	—
Commodity index excess return swaps and futures	329	(1)	—	(1)
Embedded derivative financial instruments				
Guaranteed accumulation benefit	1,208	2	—	2
Guaranteed withdrawal benefit	532	—	—	—
Conversion options in fixed income securities	1,253	442	442	—
Equity-indexed call options in fixed income securities	325	133	133	—
Equity-indexed and forward starting options in life and annuity product contracts	2,650	(120)	—	(120)
Other embedded derivative financial instruments	132	4	(1)	5
Total embedded derivative financial instruments	6,100	461	574	(113)
Other derivative financial instruments	123	3	3	—
Total derivative financial instruments	$41,398	$ 935	$1,103	$(168)

The Company manages its exposure to credit risk by utilizing highly rated counterparties, establishing risk control limits, executing legally enforceable master netting agreements and obtaining collateral where appropriate. The Company uses master netting agreements for over-the-counter derivative transactions, including interest rate swap, foreign currency swap, interest rate cap, interest rate floor, credit default swap and certain option agreements. 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 December 31, 2006, counterparties pledged $361 million in cash to the Company and the Company pledged $10 million in securities to counterparties. 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 associated potential credit risk.

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 freestanding 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 at December 31, as it relates to interest rate swap, foreign currency swap, interest rate cap, interest rate floor, credit default swap and certain option agreements.

($ in millions)	2006				2005			
Rating[1]	Number of counter-parties	Notional amount	Credit exposure[2]	Exposure, net of collateral[2]	Number of counter-parties	Notional amount	Credit exposure[2]	Exposure, net of collateral[2]
AAA	1	$ 457	$ 10	$10	1	$ 484	$ 10	$10
AA	5	8,681	139	33	5	6,272	123	25
AA-	7	8,116	202	21	4	3,576	15	15
A+	3	12,688	86	20	6	16,206	273	23
A	—	—	—	—	1	30	—	—
Total	16	$29,942	$437	$84	17	$26,568	$421	$73

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

(2) For each counterparty, only over-the-counter derivatives with a net positive fair value are included.

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.

Off-balance-sheet financial instruments and investment VIEs not consolidated

The contractual amounts and fair values of off-balance-sheet financial instruments at December 31 are as follows:

	2006		2005	
(in millions)	Contractual amount	Fair value	Contractual amount	Fair value
Commitments to invest	$1,430	$—	$1,172	$—
Private placement commitments	112	—	205	—
Commitments to extend mortgage loans	572	6	407	4

In the above table, the contractual amounts represent the amount at risk if the contract is fully drawn upon, the counterparty defaults and the value of any underlying security becomes worthless. Unless noted otherwise, the Company does not require collateral or other security to support off-balance-sheet financial instruments with credit risk.

Commitments to invest generally represent commitments to acquire financial interests or instruments. The Company enters into these agreements to allow for additional participation in certain limited partnership investments. Because the equity investments in the limited partnerships are not actively traded, it is not practical to estimate the fair value of these commitments.

Private placement commitments represent conditional commitments to purchase private placement debt and equity securities at a specified future date. The Company regularly enters into these agreements in the normal course of business. The fair value of these commitments generally cannot be estimated on the date the commitment is made as the terms and conditions of the underlying private placement securities are not yet final.

Commitments to extend mortgage loans are agreements to lend to a borrower provided there is no violation of any condition established in the contract. The Company enters into these agreements to commit to future loan fundings at a predetermined interest rate. Commitments generally have fixed expiration dates or other termination clauses. Commitments to extend mortgage loans, which are secured by the underlying properties, are valued based on estimates of fees charged by other institutions to make similar commitments to similar borrowers.

In 2006, the Company established an investment management variable interest entity (''VIE'') that holds assets under the management of Allstate Investment Management Company (''AIMCO''), a subsidiary of the Company, on behalf of unrelated third party investors. The VIE had assets consisting primarily of investment securities and cash totaling $401 million and liabilities, primarily long-term debt, totaling $378 million at December 31, 2006. The Company does not consolidate the VIE because it is not the primary beneficiary. The Company's maximum loss exposure related to its investment in the VIE is the current carrying value of its investment, which was $16 million at December 31, 2006.

The Company has an investment in a second investment management VIE, which was established in 2005 and holds assets under the management of AIMCO on behalf of unrelated third party investors. The VIE had assets consisting primarily of investment securities and cash totaling $335 million and liabilities, primarily long-term debt, totaling $313 million at December 31, 2006. The Company does not consolidate the VIE because it is not the primary beneficiary. The Company's maximum loss exposure related to its investment in the VIE is the current carrying value of its investment, which was $10 million at December 31, 2006.

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

As described in Note 2, 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 the 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 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 expenses in the Consolidated Statements of Operations in the period such changes are determined.

Activity in the reserve for property-liability insurance claims and claims expense is summarized as follows:

(in millions)	2006	2005	2004
Balance at January 1	$22,117	$19,338	$17,714
Less reinsurance recoverables	3,186	2,577	1,734
Net balance at January 1	18,931	16,761	15,980
Incurred claims and claims expense related to:			
Current year	16,988	21,643	18,073
Prior years	(971)	(468)	(230)
Total incurred	16,017	21,175	17,843
Claims and claims expense paid related to:			
Current year	10,386	12,340	10,989
Prior years	7,952	6,665	6,073
Total paid	18,338	19,005	17,062
Net balance at December 31	16,610	18,931	16,761
Plus reinsurance recoverables	2,256	3,186	2,577
Balance at December 31	$18,866	$22,117	$19,338

Incurred claims and claims expense represents the sum of paid losses and reserve changes in the calendar year. This expense includes losses from catastrophes of $810 million, $5.67 billion and $2.47 billion in 2006, 2005 and 2004, respectively, net of reinsurance and other recoveries (see Note 9). In 2005, losses from catastrophes included $5.00 billion, net of recoveries, related to Hurricanes Katrina, Rita and Wilma. In 2004, losses from catastrophes included $2.00 billion, net of recoveries, related to Hurricanes Charley, Frances, Ivan and Jeanne. These estimates include net losses in personal lines auto and property policies and net losses on commercial policies. Included in 2006 and 2005 losses from catastrophes are accruals for assessments from Citizens Property Insurance Corporation in the state of Florida (''FL Citizens'') and various other facilities (see Note 13).

Catastrophes are an inherent risk of the property-liability insurance business that have contributed to, and will continue to contribute to, material year-to-year fluctuations in the Company's results of operations and financial position.

The Company calculates and records a single best reserve estimate for losses from catastrophes, in conformance with generally accepted actuarial principles. As a result, management believes that no other estimate is better than the recorded amount. Due to the uncertainties involved, including the factors described above, the ultimate cost of losses may vary materially from recorded amounts, which are based on management's best estimates. Accordingly, management believes that it is not practicable to develop a meaningful range for any such changes in losses incurred.

During 2006, incurred claims and claims expense related to prior years was primarily composed of net decreases in auto reserves of $737 million due to claim severity development that was better than expected, and late reported loss development that was better than expected due to lower frequency trends in recent years, decreases in homeowners reserves of $244 million due to catastrophe loss reestimates, claim severity development, and late reported loss development that were better than expected, and decreases in other reserves of $122 million due to catastrophe loss reestimates and commercial lines loss development that was better than expected, offset by increases in asbestos reserves of $86 million. Claims and claims expense during 2006 includes favorable catastrophe loss

reestimates of $223 million, net of reinsurance and other recoveries, including a $63 million reduction related to the Company's assessment from FL Citizens and $62 million due to recoupments of prior year assessments from FL Citizens and Citizens Property Insurance Corporation in Louisiana (''LA Citizens''). See Note 13 for further disclosure of our FL Citizens accrual.

During 2005, incurred claims and claims expense related to prior years was primarily composed of net decreases in auto reserves of $661 million due to auto injury severity development that was better than expected and late reported loss development that was better than expected due to lower frequency trends in recent years, and increases in asbestos reserves of $139 million. Incurred claims and claims expense related to prior years also included $66 million of homeowners losses related to 2004 hurricanes of which $31 million was a FL Citizens assessment that was accruable in 2005.

During 2004, incurred claims and claims expense related to prior years was primarily composed of increases to asbestos reserves of $463 million, decreases in auto reserves of $657 million due to auto injury severity development that was better than expected and late reported loss development that was better than expected due to lower frequency trends in recent years, and decreases in homeowners reserves of $169 million due to late reported loss development that was better than expected.

Management believes that the reserve for property-liability claims and claims expense, net of 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 that date based on available facts, technology, laws and regulations.

For further discussion of asbestos and environmental reserves, see Note 13.

8. Reserves for Life-Contingent Contract Benefits and Contractholder Funds

At December 31, the reserve for life-contingent contract benefits consists of the following:

(in millions)	2006	2005
Immediate annuities:		
Structured settlement annuities	$ 6,950	$ 6,813
Other immediate annuities	2,323	2,420
Traditional life	2,424	2,282
Other	1,089	967
Total reserve for life-contingent contract benefits	$12,786	$12,482

The following table highlights the key assumptions generally used in calculating the reserve for life-contingent contract benefits:

Product	Mortality	Interest rate	Estimation method
Structured settlement annuities	U.S. population with projected calendar year improvements; mortality rates adjusted for each impaired life based on reduction in life expectancy and nature of impairment	Interest rate assumptions range from 4.1% to 11.7%	Present value of contractually specified future benefits
Other immediate annuities	1983 group annuity mortality table 1983 individual annuity mortality table 1983-a annuity mortality table	Interest rate assumptions range from 1.9% to 11.5%	Present value of expected future benefits based on historical experience
Traditional life	Actual company experience plus loading	Interest rate assumptions range from 4.0% to 11.3%	Net level premium reserve method using the Company's withdrawal experience rates
Other:			
Variable annuity guaranteed minimum death benefits	90% of 1994 group annuity mortality table with internal modifications	Interest rate assumptions range from 6.5% to 7.0%	Projected benefit ratio applied to cumulative assessments
Accident & health	Actual company experience plus loading		Unearned premium; additional contract reserves for traditional life

To the extent that unrealized gains on fixed income securities would result in a premium deficiency had those gains actually been realized, a premium deficiency reserve has been recorded for certain immediate annuities with life contingencies. A liability of $1.13 billion and $1.34 billion is included in the

reserve for life-contingent contract benefits with respect to this deficiency as of December 31, 2006 and 2005, respectively. The offset to this liability is recorded as a reduction of the unrealized net capital gains included in accumulated other comprehensive income.

At December 31, contractholder funds consist of the following:

(in millions)	2006	2005
Interest-sensitive life	$ 9,050	$ 8,842
Investment contracts:		
Fixed annuities	39,316	37,493
Funding agreements backing medium-term notes	12,787	12,454
Other investment contracts	105	369
Allstate Bank deposits	773	882
Total contractholder funds	$62,031	$60,040

The following table highlights the key contract provisions relating to contractholder funds:

Product	Interest rate	Withdrawal/Surrender charges
Interest-sensitive life	Interest rates credited range from 2.0% to 6.0%	Either a percentage of account balance or dollar amount grading off generally over 20 years
Fixed annuities	Interest rates credited range from 1.3% to 11.5% for immediate annuities and 0% to 10% for fixed annuities (which include equity-indexed annuities whose returns are indexed to the S&P 500)	Either a declining or a level percentage charge generally over nine years or less. Additionally, approximately 28.3% of fixed annuities are subject to market value adjustment for discretionary withdrawals.
Funding agreements backing medium-term notes	Interest rates credited range from 2.5% to 7.0% (excluding currency-swapped medium-term notes)	Not applicable
Other investment contracts:		
Variable guaranteed minimum income benefit[1] and secondary guarantees on interest-sensitive life and fixed annuities	Interest rates used in establishing reserves range from 1.8% to 10.3%	Withdrawal and surrender charges are based on the terms of the related interest-sensitive life or fixed annuity contract.
Guaranteed investment contracts	Interest rates credited range From 3.7% to 7.7%	Generally not subject to discretionary withdrawal
Other investment contracts	Not applicable	Not applicable
Allstate Bank	Interest rates credited range from 0% to 5.5%	A percentage of principal balance for time deposits withdrawn prior to maturity

(1) In 2006, the Company disposed of substantially all of its variable annuity business through reinsurance agreements with Prudential (see Note 3).

Contractholder funds include funding agreements held by VIEs issuing medium-term notes. The VIEs are Allstate Life Funding, LLC, Allstate Financial Global Funding, LLC, Allstate Life Global Funding and Allstate Life Global Funding II, and their primary assets are funding agreements used exclusively to back medium-term note programs.

Contractholder funds activity for the years ended December 31 is as follows:

(in millions)	2006	2005
Balance, beginning of year	$60,040	$55,709
Deposits	10,478	12,381
Interest credited	2,666	2,404
Benefits	(1,517)	(1,348)
Surrenders and partial withdrawals	(5,945)	(4,734)
Maturities of institutional products	(2,726)	(3,090)
Net transfers to separate accounts	(145)	(339)
Contract charges	(749)	(698)
Fair value hedge adjustments for institutional products	38	(289)
Other adjustments	(109)	44
Balance, end of year	$62,031	$60,040

The Company offers various guarantees to variable annuity contractholders including a return of no less than (a) total deposits made on the contract less any customer withdrawals, (b) total deposits made on the contract less any customer withdrawals plus a minimum return or (c) the highest contract value on a specified anniversary date minus any customer withdrawals following the contract anniversary. These guarantees included benefits that are payable in the event of death (death benefits), upon annuitization (income benefits), upon periodic withdrawal (withdrawal benefits), or at specified dates during the accumulation period (accumulation benefits). Liabilities for variable contract guarantees related to death benefits are included in reserve for life-contingent contract benefits and the liabilities related to the income, withdrawal and accumulation benefits are included in contractholder funds in the Consolidated Statements of Financial Position. All liabilities for variable contracts guarantees are reported on a gross basis on the balance sheet with a corresponding reinsurance recoverable asset for those contracts subject to the Prudential Reinsurance Agreements as disclosed in Note 3.

Absent any contract provision wherein the Company guarantees either a minimum return or account value upon death, a specified contract anniversary date, partial withdrawal or annuitization, variable annuity and variable life insurance contractholders bear the investment risk that the separate accounts' funds may not meet their stated investment objectives. The account balances of variable annuities contracts' separate accounts with guarantees included $14.64 billion and $13.90 billion of equity, fixed income and balanced mutual funds and $674 million and $580 million of money market mutual funds at December 31, 2006 and 2005, respectively.

The table below presents information regarding the Company's variable annuity contracts with guarantees. The Company's variable annuity contracts may offer more than one type of guarantee in each

contract; therefore, the sum of amounts listed exceeds the total account balances of variable annuity contracts' separate accounts with guarantees.

($ in millions)	December 31, 2006	December 31, 2005
In the event of death		
Separate account value	$ 15,269	$ 14,465
Net amount at risk[1]	$ 1,068	$ 1,521
Average attained age of contractholders	65 years	65 years
At annuitization		
Separate account value	$ 3,830	$ 3,836
Net amount at risk[2]	$ 64	$ 45
Weighted average waiting period until annuitization options available	4 years	6 years
For cumulative periodic withdrawals		
Separate account value	$ 1,041	$ 508
Net amount at risk[3]	$ —	$ —
Accumulation at specified dates		
Separate account value	$ 1,595	$ 1,175
Net amount risk[4]	$ —	$ —
Weighted average waiting period until guarantee date	11 years	11 years

(1) Defined as the estimated current guaranteed minimum death benefit in excess of the current account balance at the balance sheet date.

(2) Defined as the estimated present value of the guaranteed minimum annuity payments in excess of the current account balance.

(3) Defined as the estimated current guaranteed minimum withdrawal balance (initial deposit) in excess of the current account balance at the balance sheet date.

(4) Defined as the estimated present value of the guaranteed minimum accumulation balance in excess of the current account balance.

Pursuant to the adoption of SOP 03-1 in 2004, the liability for death and income benefit guarantees was established equal to a benefit ratio multiplied by the cumulative contract charges earned, plus accrued interest less contract benefit payments. The benefit ratio is calculated as the estimated present value of all expected contract benefits divided by the present value of all expected contract charges. The establishment of reserves for these guarantees requires the projection of future separate account fund performance, mortality, persistency and customer benefit utilization rates. These assumptions are periodically reviewed and updated. For guarantees related to death benefits, benefits represent the current guaranteed minimum death benefit payments in excess of the current account balance. For guarantees related to income benefits, benefits represent the present value of the minimum guaranteed annuitization benefits in excess of the current account balance.

Projected benefits and contract charges used in determining the liability for certain guarantees are developed using models and stochastic scenarios that are also used in the development of estimated expected gross profits. Underlying assumptions for the liability related to income benefits include assumed future annuitization elections based on factors such as the extent of benefit to the potential annuitant, eligibility conditions and the annuitant's attained age. The liability for guarantees is re-evaluated periodically, and adjustments are made to the liability balance through a charge or credit to life and annuity contract benefits.

Guarantees related to withdrawal and accumulation benefits are considered to be derivative financial instruments; therefore, the liability for these benefits is established based on its fair value.

The following table summarizes the liabilities for guarantees:

(in millions)	Liability for guarantees related to death benefits and interest-sensitive life products	Liability for guarantees related to income benefits	Liability for guarantees related to accumulation benefits	Total
Balance at December 31, 2004	$ 95	$ 46	$ (1)	$140
Less reinsurance recoverables	(10)	—	—	(10)
Net balance at December 31, 2004	85	46	(1)	130
Incurred guaranteed benefits	50	6	(1)	55
Paid guarantee benefits	(48)	—	—	(48)
Net change	2	6	(1)	7
Net balance at December 31, 2005	87	52	(2)	137
Plus reinsurance recoverables	10	—	—	10
Balance, December 31, 2005[1]	$ 97	$ 52	$ (2)	$147
Less reinsurance recoverables	(10)	—	—	(10)
Net balance at December 31, 2005	87	52	(2)	137
Variable annuity business disposition related reinsurance recoverables	(75)	(23)	12	(86)
Incurred guaranteed benefits	23	(2)	(10)	11
Paid guarantee benefits	(17)	(2)	—	(19)
Net change	(69)	(27)	2	(94)
Net balance at December 31, 2006	18	25	—	43
Plus reinsurance recoverables	96	23	(8)	111
Balance, December 31, 2006[2]	$114	$ 48	$ (8)	$154

(1) Included in the total liability balance at December 31, 2005 are reserves for variable annuity death benefits of $77 million, variable annuity income benefits of $20 million, variable annuity accumulation benefits of $(2) million and other guarantees of $52 million.

(2) Included in the total liability balance at December 31, 2006 are reserves for variable annuity death benefits of $89 million, variable annuity income benefits of $20 million, variable annuity accumulation benefits of $(8) million and other guarantees of $53 million.

9. Reinsurance

The effects of reinsurance on property-liability premiums written and earned and life and annuity premiums and contract charges for the years ended December 31 are as follows:

(in millions)	2006	2005	2004
Property-liability insurance premiums written			
Direct	$28,601	$27,094	$25,262
Assumed	44	873	1,711
Ceded	(1,119)	(576)	(442)
Property-liability insurance premiums written, net of reinsurance	$27,526	$27,391	$26,531
Property-liability insurance premiums earned			
Direct	$28,437	$26,514	$24,574
Assumed	45	1,111	1,814
Ceded	(1,113)	(586)	(399)
Property-liability insurance premiums earned, net of reinsurance	$27,369	$27,039	$25,989
Life and annuity premiums and contract charges			
Direct	$ 2,736	$ 2,665	$ 2,628
Assumed	43	80	52
Ceded	(815)	(696)	(608)
Life and annuity premiums and contract charges, net of reinsurance	$ 1,964	$ 2,049	$ 2,072

Property-Liability

The Company purchases reinsurance after evaluating the financial condition of the reinsurer, as well as the terms and price of coverage. Developments in the insurance and reinsurance industries have fostered a movement to segregate environmental, asbestos and other discontinued lines exposures into separate legal entities with dedicated capital. Regulatory bodies in certain cases have supported these actions. The Company is unable to determine the impact, if any, that these developments will have on the collectibility of reinsurance recoverables in the future.

Property-Liability Reinsurance Recoverable

Total amounts recoverable from reinsurers at December 31, 2006 and 2005 were $2.33 billion and $3.37 billion, respectively, including $78 million and $185 million, respectively, related to property-liability losses paid by the Company and billed to reinsurers, and $2.26 billion and $3.19 billion, respectively, estimated by the Company with respect to ceded unpaid losses (including IBNR), which are not billable until the losses are paid.

With the exception of the recoverable balances from the Michigan Catastrophic Claim Association (“MCCA”), Florida Hurricane Catastrophe Fund (“FHCF”), National Flood Insurance Program (“NFIP”), Lloyd’s of London and other industry pools and facilities, as disclosed below, the largest reinsurance recoverable balance the Company had outstanding was $85 million and $91 million from Employers’ Reinsurance Company at December 31, 2006 and 2005. No other amount due or estimated to be due from any single property-liability reinsurer was in excess of $67 million and $57 million at December 31, 2006 and 2005, respectively.

At December 31, 2006 and 2005, Allstate Texas Lloyd's ("ATL"), a syndicate insurance company, had $58 million and $250 million, respectively, of reinsurance recoverable on the Texas excess catastrophe loss treaty related to losses incurred from Hurricane Rita. ATL cedes 100% of its business net of reinsurance with external parties to AIC.

The allowance for uncollectible reinsurance was $235 million and $213 million at December 31, 2006 and 2005, respectively, and is related to the Company's Discontinued Lines and Coverages segment. There were $32 million of additions and $10 million of net recoveries in 2006, and $17 million of net recoveries in 2005.

Industry Pools and Facilities

Reinsurance recoverable on paid and unpaid claims including IBNR at December 31, 2006 and 2005 include $1.02 billion and $1.04 billion, respectively, from the MCCA. The MCCA, established in 1978, is a mandatory reinsurance mechanism for personal injury protection losses over a retention level that increases each MCCA fiscal year. The retention levels are $375 thousand per claim and $400 thousand per claim for the fiscal years ending June 30, 2006 and 2007, respectively. The MCCA is funded by assessments from member companies who, in turn, can recover assessments from policyholders.

Ceded premiums earned under the FHCF agreement were $49 million, $45 million and $37 million in 2006, 2005 and 2004, respectively. Ceded losses incurred include $146 million, $197 million and $703 million in 2006, 2005 and 2004, respectively. The Company has access to reimbursement provided by the FHCF for 90% of qualifying personal property losses that exceed its current estimated retention of $254 million for the two largest hurricanes and $85 million for other hurricanes, up to an estimated maximum total of $753 million effective from June 1, 2006 to May 31, 2007. Estimates of residential property losses for Hurricane Wilma in 2005 exceeded the Company's FHCF retention. Reinsurance recoverables include $70 million and $229 million recoverable from the FHCF for qualifying property losses related to the 2005 and 2004 hurricanes at December 31, 2006 and 2005, respectively.

Allstate sells and administers policies as a participant in the NFIP. The total amounts recoverable at December 31, 2006 and 2005 were $33 million and $743 million, respectively. Ceded premiums earned include $232 million, $199 million and $181 million in 2006, 2005 and 2004, respectively. Ceded losses incurred include $32 million, $3.30 billion and $171 million, in 2006, 2005 and 2004, respectively. Under the arrangement, the Federal Government is obligated to pay all claims.

Catastrophe reinsurance

The Company has multi-year reinsurance treaties, effective from June 1, 2005 to May 31, 2008, that cover excess catastrophe losses in Connecticut, New Jersey, New York, and Texas. The Company also has an excess of loss agreement, effective from June 1, 2005 to May 31, 2007, that covers excess catastrophe losses in Florida. On May 31, 2006, the Company terminated its previously existing multi-year treaties, effective June 1, 2005, in North Carolina and South Carolina. The Company entered into the following reinsurance agreements effective from June 1, 2006 to May 31, 2007: aggregate excess of loss agreement that covers storms named or numbered by the National Weather Service, earthquakes, and fires following earthquakes for personal lines auto and property business countrywide except for Florida; New Jersey excess of loss agreement that covers personal property catastrophe losses in excess of the New Jersey multi-year agreement entered into in 2005; South-East agreement that covers personal property excess catastrophe losses for storms named or numbered by the National Weather Service in 10 Atlantic and Gulf states and the District of Columbia; and four reinsurance agreements entered into by Allstate Floridian Insurance Company ("AFIC"), a subsidiary of the Company that sells and services residential property policies in the state of Florida, for personal property excess catastrophe losses in Florida. The Company also entered into a California Fire Following agreement, effective from February 1, 2006 to

May 31, 2008, that covers personal property excess catastrophe losses in California for fires following earthquakes. Under these contracts, the Company ceded premiums earned of $521 million and $111 million in the years ended December 31, 2006 and 2005.

Florida

During 2006, AFIC entered into a 100% quota share reinsurance agreement with Royal Palm Insurance Company (''Royal Palm'') on selected personal property policies written in Florida. AFIC plans to no longer offer coverage on these policies after their contract terms expire, at which time Royal Palm may offer coverage to these policyholders. Any qualifying recoveries from the FHCF and the existing excess of loss agreement will be shared with Royal Palm under this agreement. Subject to the agreement, in 2006 AFIC ceded $63 million of unearned premiums and the related transfer of cash was recorded in cash flows from operating activities in the Company's Consolidated Statements of Cash Flows. AFIC is also ceding premiums and losses on these policies through their expiration under an indemnity reinsurance agreement totaling $81 million of premiums written, $84 million of premiums earned and $16 million of incurred losses during 2006.

During 2005, AFIC reached a definitive agreement for a portion of its existing customers to have new policies available from Universal Insurance Company of North America, a non-affiliate, when their existing policies expire and are not renewed. AFIC is also ceding premiums and losses on these policies through their expiration under an indemnity reinsurance agreement. Subject to the agreement, AFIC ceded premiums written of $67 million in 2005, $14 million and $51 million of premiums earned and $5 million and $42 million of claims and claims expense in 2006 and 2005, respectively, related to these policies.

Asbestos, Environmental and Other

Reinsurance recoverables include $271 million and $247 million from Lloyd's of London at December 31, 2006 and 2005, respectively. Lloyd's of London implemented a restructuring plan in 1996 to solidify its capital base and to segregate claims for years prior to 1993. In addition, efforts have been recently made by Lloyd's of London to impose increased documentation standards on reinsurance claims and to secure additional reinsurance. The impact, if any, of the restructuring and related actions on the collectibility of the recoverable from Lloyd's of London is uncertain at this time. The recoverable from Lloyd's of London syndicates is spread among thousands of investors who have unlimited liability.

Allstate Financial

The Company's Allstate Financial segment reinsures certain of its risks to other insurers primarily under yearly renewable term, coinsurance, modified coinsurance and coinsurance with funds withheld agreements. These agreements result in a passing of the agreed-upon percentage of risk to the reinsurer in exchange for negotiated reinsurance premium payments. Modified coinsurance and coinsurance with funds withheld are similar to coinsurance except that the cash and investments that support the liability for contract benefits are not transferred to the assuming company and settlements are made on a net basis between the companies. Allstate Financial cedes 100% of the morbidity risk on substantially all of its long-term care contracts. Allstate Financial cedes specified percentages of the mortality risk on certain life policies, depending upon the issue date and product, to a pool of fourteen unaffiliated reinsurers. Beginning in 2006, Allstate Financial increased its mortality risk retention to $5 million per life for certain insurance applications meeting specific criteria. Prior to 2006, but subsequent to October 1998, Allstate Financial ceded mortality risk on new life contracts that exceeded $2 million per life for individual coverage. For business sold prior to October 1998, Allstate Financial ceded mortality risk in excess of specific amounts up to $1 million per life for individual coverage.

In addition, Allstate Financial has used reinsurance to effect the acquisition or disposition of certain blocks of business. As of December 31, 2006, Allstate Financial had reinsurance recoverables of $1.49 billion due from Prudential related to the disposal of substantially all of its variable annuity business that was effected through Reinsurance Agreements (see Note 3). In 2006, life and annuity premiums and contract charges of $170 million, contract benefits of $29 million, interest credited to contractholder funds of $35 million, and operating costs and expenses of $64 million were ceded to Prudential pursuant to the Reinsurance Agreements. Prior to this disposal, Allstate Financial ceded 100% of the mortality and certain other risks related to product features on certain in-force variable annuity contracts. In addition, as of December 31, 2006 and 2005 Allstate Financial had reinsurance recoverables of $153 million and $150 million, respectively due from subsidiaries of Citigroup and Scottish Re (U.S.) Inc. in connection with the disposition of substantially all of the direct response distribution business in 2003.

As of December 31, 2006, the gross life insurance in force was $493 billion of which $238 billion was ceded to the unaffiliated reinsurers.

Reinsurance recoverables at December 31 are summarized in the following table.

	Reinsurance recoverable on paid and unpaid claims	
(in millions)	**2006**	**2005**
Annuities	$1,654	$ 172
Life insurance	1,225	1,123
Long-term care	518	412
Other	96	103
Total Allstate Financial	$3,493	$1,810

At December 31, 2006 and 2005, approximately 88% and 83%, respectively, of Allstate Financial's reinsurance recoverables are due from companies rated A- or better by S&P.

10. Deferred Policy Acquisition and Sales Inducement Costs

Deferred policy acquisition costs for the years ended December 31 are as follows:

	2006		
(in millions)	Allstate Financial	Property-Liability	Total
Balance, beginning of year	$4,318	$1,484	$5,802
Disposition of operation[1]	(726)	—	(726)
Acquisition costs deferred	822	4,131	4,953
Amortization charged to income	(626)	(4,131)	(4,757)
Effect of unrealized gains and losses	60	—	60
Balance, end of year	$3,848	$1,484	$5,332

	2005		
	Allstate Financial	Property-Liability	Total
Balance, beginning of year	$3,508	$1,460	$4,968
Acquisition costs deferred	848	4,116	4,964
Amortization charged to income	(629)	(4,092)	(4,721)
Effect of unrealized gains and losses	591	—	591
Balance, end of year	$4,318	$1,484	$5,802

	2004		
	Allstate Financial	Property-Liability	Total
Balance, beginning of year	$3,517	$1,325	$4,842
Impact of adoption of SOP 03-1[2]	(134)	—	(134)
Disposition of operation[3]	(238)	—	(238)
Acquisition costs deferred	918	4,009	4,927
Amortization charged to income	(591)	(3,874)	(4,465)
Effect of unrealized gains and losses	36	—	36
Balance, end of year	$3,508	$1,460	$4,968

(1) In 2006, DAC was reduced related to the disposition through reinsurance agreements of substantially all of Allstate Financial's variable annuity business (see Note 3).

(2) In 2004, the impact of adoption of SOP 03-1 included a write-down in variable annuity DAC of $108 million, the reclassification of DSI from DAC to other assets resulting in a decrease to DAC of $44 million, an increase to DAC of $8 million for an adjustment to the effect of unrealized capital gains and losses and the reclassification of unearned revenue from DAC to contractholder funds resulting in an increase to DAC of $10 million (see Note 2).

(3) In 2004, DAC was reduced related to the disposition of substantially all of Allstate Financial's direct response distribution business.

Net amortization charged to income, due to the realization of capital (gains) and losses, includes $(50) million, $126 million and $120 million in 2006, 2005 and 2004, respectively.

As disclosed in Note 3, DAC and DSI balances were reduced during 2006 related to the disposal through reinsurance agreements of substantially all of the variable annuity business. During 2005 and 2004, DAC and DSI amortization was estimated using stochastic modeling and was significantly impacted by the anticipated return on the underlying funds. The Company's long-term expectation of separate accounts fund performance, net of fees, was approximately 7% in 2005 and 8% in 2004. Whenever actual separate accounts fund performance based on the two most recent years varied from the expectation, the Company projected performance levels over the next five years such that the mean return over a seven-year period equaled the long-term expectation. This approach is commonly referred to as "reversion to the mean" and is commonly used by the life insurance industry as an appropriate method for amortizing variable annuity and life DAC and DSI. In applying the reversion to the mean process, the Company did not allow the future mean rates of return including fees projected over the five-year period to exceed 12.75% or fall below 0%. The Company periodically evaluated the results of utilization of this process to confirm that it was reasonably possible that variable annuity and life fund performance would revert to the expected long-term mean within this time horizon.

DSI activity for Allstate Financial, which primarily relates to fixed annuities, for the twelve months ended December 31 was as follows:

(in millions)	2006	2005	2004[2]
Balance, beginning of year	$237	$134	$ 99
Disposition of operation[1]	(70)	—	—
Sales inducements deferred	105	99	55
Amortization charged to income	(48)	(74)	(45)
Effect of unrealized gains and losses	1	78	25
Balance, end of year	$225	$237	$134

(1) In 2006, DSI was reduced related to the disposition through reinsurance agreements of substantially all of Allstate Financial's variable annuity business (see Note 3).

(2) The January 1, 2004 balance includes a $16 million write-down of DSI due to the adoption of SOP 03-1 (see Note 2).

Notes

11. Capital Structure

Debt outstanding

Total debt outstanding at December 31 consisted of the following:

(in millions)	2006	2005
5.375% Senior Notes, due 2006[1]	$ —	$ 538
7.20% Senior Notes, due 2009[1]	750	750
6.125% Senior Notes, due 2012[1]	350	350
5.00% Senior Notes, due 2014[1]	650	650
6.125% Senior Notes, due 2032[1]	250	250
5.350% Senior Notes due 2033[1]	400	400
5.55% Senior Notes due 2035[1]	800	800
5.95% Senior Notes, due 2036[1]	650	—
7.83% Junior Subordinated Debentures, due 2045, callable	—	200
7.50% Debentures, due 2013	250	250
6.75% Senior Debentures, due 2018	250	250
6.90% Senior Debentures, due 2038	250	250
Synthetic lease VIE obligations, floating rates, due 2011	42	117
Structured investment security VIE obligations, due 2007	—	49
Floating rate notes, due 2016 to 2017, callable	6	32
Other various notes, due 2008	2	1
Total long-term debt	4,650	4,887
Short-term debt[2]	12	413
Total debt	$4,662	$5,300

(1) Senior Notes are subject to redemption at the Company's option in whole or in part at any time at the greater of either 100% of the principal amount plus accrued and unpaid interest to the redemption date or the discounted sum of the present values of the remaining scheduled payments of principal and interest and accrued and unpaid interest to the redemption date.

(2) The Company classifies any borrowings, which have a maturity of twelve months or less at inception as short-term debt.

Total debt outstanding by maturity at December 31 consisted of the following:

(in millions)	2006	2005
Due within one year or less	$ 12	$1,068
Due after one year through 5 years	794	800
Due after 5 years through 10 years	1,251	1,262
Due after 10 years through 20 years	255	270
Due after 20 years	2,350	1,900
Total debt	$4,662	$5,300

In 2006, the Company issued $650 million of 5.95% Senior Notes due 2036. The net proceeds were used for general corporate purposes, including to facilitate the repayment of the $550 million of 5.375% senior notes at their scheduled maturity on December 1, 2006.

In 2005, the Company issued $800 million of 5.55% senior notes due 2035. The net proceeds of this issuance were used for general corporate purposes, including funding the repayment of a portion of the $900 million of 7⅞% senior notes, which were repaid at their scheduled maturity, May 1, 2005.

In 1996, the Company issued junior subordinated debentures to Allstate Financing II ("AF II"), a VIE, which used the junior subordinated debentures as collateral to issue $200 million of 7.83% mandatorily redeemable preferred securities of subsidiary trust ("trust preferred securities") to unrelated third party investors. The Company was not required to consolidate the VIE because the Company owned none of the variable interests issued by the VIE. AF II issued 200,000 shares of trust preferred securities at $1,000 per share. The sole assets of AF II were junior subordinated debentures issued by the Company. In 2006, the Company elected to redeem the junior subordinated debentures, thereby triggering the redemption of the trust preferred securities. The debentures were redeemed on December 1, 2006 at a price of 103.915% plus accrued and unpaid interest from availability liquidity.

The Company is the primary beneficiary of a consolidated VIE used to acquire up to 38 automotive collision repair stores ("synthetic lease VIE"). In 2006, the Company renewed the synthetic lease for a five-year term at a floating rate due 2011. In 2006, the Company purchased a headquarters office building previously owned by the synthetic lease VIE for $78 million, thus reducing long-term debt by $75 million. The Company's Consolidated Statements of Financial Position include $42 million and $117 million of property and equipment, net, and long-term debt as of December 31, 2006 and 2005, respectively.

The Company was the primary beneficiary of a consolidated structured investment security VIE. The Company's Consolidated Statements of Financial Position included $54 million of investments and $49 million of long-term debt as of December 31, 2005. In 2006, the debt associated with the VIE was redeemed.

To manage short-term liquidity, Allstate can issue commercial paper, draw on its credit facilities and engage in securities repurchase agreements (see Note 2). The Company currently maintains a credit facility and a commercial paper program as a potential source of funds. These include a $1.00 billion five-year revolving credit facility expiring in 2009 and a commercial paper program with a borrowing limit of $1.00 billion. The five-year facility contains an increase provision that would make up to an additional $500 million available for borrowing provided the increased portion could be fully syndicated at a later date among existing or new lenders. The right to borrow from the five-year facility is subject to a requirement to maintain a 37.5% debt to capital resources ratio as defined in the agreement. Although the right to borrow under the five-year facility is not subject to a minimum-rating requirement, the costs of maintaining the five-year facility and borrowing under it are based on the ratings of our senior, unsecured, nonguaranteed long-term debt. The total amount outstanding at any point in time under the combination of the commercial paper program and the credit facility cannot exceed the amount that can be borrowed under the credit facility. No amounts were outstanding under the credit facilities as of December 31, 2006 and 2005. The Company had no commercial paper outstanding at December 31, 2006 and $413 million with a weighted average interest rate of 4.22% outstanding at December 31, 2005. The Company paid $322 million, $318 million and $301 million of interest on debt in 2006, 2005 and 2004, respectively.

During 2006, the Company filed a universal shelf registration statement with the SEC. The registration statement covers an unspecified amount of securities and can be used to issue debt securities, common stock, preferred stock, depositary shares, warrants, stock purchase contracts, stock purchase units and securities of subsidiaries.

Capital stock

The Company had 900 million shares of issued common stock of which 622 million shares were outstanding and 278 million shares were held in treasury as of December 31, 2006. In 2006, the Company reacquired 31 million shares at an average cost of $57.10 and reissued 7 million shares under equity incentive plans.

12. 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 and the Company's 2006 voluntary termination offer (''VTO''). The expenses related to these activities are included in the Consolidated Statements of Operations as restructuring and related charges, and totaled $182 million, $41 million and $51 million in 2006, 2005 and 2004, respectively.

Restructuring and related charges include $94 million in 2006 related to the Company's VTO and reduction in force. The VTO included severance, which was recorded as a restructuring liability and fully settled during 2006. The VTO also included one-time termination benefits for accelerated vesting of stock-based incentive compensation, eligibility for postretirement benefits, and a non-cash pension settlement charge recorded during the third quarter, which were expensed as incurred. The VTO was offered to most employees located at the Company's headquarters.

The following table illustrates the inception to date changes in the restructuring liability:

(in millions)	Employee costs	Exit costs	Total liability
Liability at inception	67	21	88
Net adjustments to liability	(4)	(3)	(7)
Payments applied against liability	(43)	(16)	(59)
Balance at the end of the period	20	2	22
Total	$ 20	$ 2	$ 22

At December 31, 2005, the total liability was $10 million and consisted of $7 million in employee costs and $3 million in exit costs. The payments applied against the liability for employee costs primarily reflect severance costs, and the payments for exit costs generally consist of post-exit rent expenses and contract termination penalties.

13. Commitments, Guarantees and Contingent Liabilities

Leases

The Company leases certain office facilities and computer equipment. Total rent expense for all leases was $308 million, $354 million and $367 million in 2006, 2005 and 2004, respectively.

Minimum rental commitments under noncancelable capital and operating leases with an initial or remaining term of more than one year as of December 31, 2006 are as follows:

(in millions)	Capital leases	Operating leases
2007	$12	$208
2008	12	169
2009	12	120
2010	12	97
2011	5	67
Thereafter	32	163
Total	$85	$824
Present value of minimum lease payments	$64	

In 2006, the Company entered into sale-leaseback transactions to dispose of three buildings and lease back certain portions of the buildings ranging from 49% to 100% for a period of ten years. The transactions resulted in a pre-tax gain of $12 million of which $4 million was recognized as a gain in 2006 and $8 million was deferred and will be amortized as a reduction to rent expense over the ten-year leaseback period. The Company also entered into another sale-leaseback transaction in 2006 to dispose of a building and leaseback approximately 23% of the building for a period of three years. This transaction resulted in a pre-tax gain of $8 million of which $7 million was recognized as a gain in 2006 and the remaining $1 million was deferred and will be amortized as a reduction to rent expense over the three-year leaseback period. The Company has limited involvement other than being a tenant, and the leases are accounted for as operating leases.

In 2005, the Company entered into a sale-leaseback transaction to dispose of three buildings and lease back 100% of the buildings for a period of ten years. The transaction resulted in a pre-tax gain of $40 million that was deferred and will be amortized as a reduction to rent expense over the ten-year leaseback period. The Company also entered into another sale-leaseback transaction in 2005 to dispose of a building and leaseback approximately 47% of the building for a period of ten years. This transaction resulted in a pre-tax gain of $24 million of which $12 million was recognized as a gain in 2005 and the remaining $12 million was deferred and will be amortized as a reduction to rent expense over the ten-year leaseback period. The Company has limited involvement other than being a tenant, and the leases are accounted for as operating leases.

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.

AFIC and its subsidiaries are subject to assessments from FL Citizens, which was initially created by the state of Florida to provide insurance to property owners unable to obtain coverage in the private insurance market. FL Citizens, at the discretion and direction of its Board of Governors ("FL Citizens Board"), can levy a regular assessment on "assessable insurers" and "assessable insureds" for a deficit in any calendar year up to a maximum of the greater of 10% of the deficit or 10% of Florida property premiums industry-wide for the prior year. Under new property legislation enacted in January 2007, the base of "assessable insurers" was expanded to include all property and casualty premiums in the state, except workers' compensation, medical malpractice, accident and health insurance and policies written

under NFIP. An insurer may recoup a regular assessment through a surcharge to policyholders. In order to recoup this assessment, an insurer must file for a policy surcharge with the Florida Office of Insurance Regulation (‘‘FL OIR’’) at least fifteen days prior to imposing the surcharge on policies. If a deficit remains after the regular assessment, FL Citizens can also levy emergency assessments in the current and subsequent years. Companies are required to collect the emergency assessments directly from residential property policyholders and remit to FL Citizens as collected. In addition, FL Citizens may issue bonds to further fund a deficit. Participating companies are obligated to purchase any unsold bonds issued by FL Citizens.

FL Citizens reported a deficit for the 2004 plan year. In 2005, the Company paid its portion of the deficit assessment totaling $43 million and has recouped $35 million as of December 31, 2006, with an additional $1 million expected to be recouped in 2007. The difference between the assessment and the total expected recoupment is primarily due to the Company’s exit from the commercial property market in Florida announced in May 2005 and expected to be completed in 2007. Recoupments are recorded in catastrophe losses as the related premiums are written.

FL Citizens reported losses from Hurricane Wilma in 2005, which followed the deficit for the 2004 plan year. The FL Citizens Board met at the end of May 2006 and certified the 2005 FL Citizens deficit at $1.73 billion of which $920 million was to be funded through a regular assessment. The Company paid its portion of the deficit assessment totaling $14 million during 2006, which was a decrease from its estimated accrual of $77 million at December 31, 2005. The Company estimates that the recoupment from policyholders will be approximately $12 million. The remainder of the deficit and the continuing growth of FL Citizens will be funded by $3.1 billion in bonds issued in 2006. Should the actions taken by FL Citizens not produce adequate cash flow to cover the debt, the Company could be subject to an emergency assessment.

The Company is also subject to assessments from the Louisiana Citizens Property Insurance Corporation (‘‘LA Citizens’’). LA Citizens can levy a regular assessment on participating companies for a deficit in any calendar year up to a maximum of the greater of 10% of the calendar year deficit or 10% of Louisiana direct property premiums industry-wide for the prior calendar year. LA Citizens had a financial deficit due to losses incurred from the hurricanes that struck Louisiana during 2005, and therefore levied an assessment to participating companies. The Company paid its share of this regular assessment totaling $34 million during 2005, and has recouped $27 million as of December 31, 2006, with the remaining $7 million expected to be recouped in 2007.

California Earthquake Authority

Exposure to certain potential losses from earthquakes in California is limited by the Company’s participation in the California Earthquake Authority (‘‘CEA’’), which provides insurance for California earthquake losses. The CEA is a privately-financed, publicly-managed state agency created to provide insurance coverage for earthquake damage. Insurers selling homeowners insurance in California are required to offer earthquake insurance to their customers either through their company or by participation in the CEA. The Company’s homeowners policies continue to include coverages for losses caused by explosions, theft, glass breakage and fires following an earthquake, which are not underwritten by the CEA.

Should losses arising from an earthquake cause a deficit in the CEA, additional funding would be obtained through assessments on participating insurance companies and reinsurance proceeds. Participating insurers are required to pay an assessment, currently estimated not to exceed $2.20 billion, if the capital of the CEA falls below $350 million. Participating insurers are required to pay a second assessment, currently estimated not to exceed $1.47 billion, if aggregate CEA earthquake losses exceed $8.17 billion and the capital of the CEA falls below $350 million. At September 30, 2006, the CEA’s capital

balance was approximately $2.44 billion. If the CEA assesses its member insurers for any amount, the amount of future assessments on members is reduced by the amounts previously assessed. To date, the only assessment made by the CEA has been its initial assessment paid by participating insurers beginning in 1996. The authority of the CEA to assess participating insurers for the first assessment expires when it has completed twelve years of operation, at year-end 2008. All future assessments on participating CEA insurers are based on their CEA insurance market share as of December 31 of the preceding year. As of December 31, 2005, the Company's share of the CEA was 22.2%. Allstate does not expect its CEA market share to materially change. At this level, the Company's maximum possible CEA assessment would be $812 million. Accordingly, assessments from the CEA for a particular quarter or annual period may be material to the results of operations and cash flows, but not the financial position of the Company. Management believes Allstate's exposure to earthquake losses in California has been significantly reduced as a result of its participation in the CEA.

Florida Hurricane Catastrophe Fund

As of December 31, 2006, AFIC participates in the mandatory coverage provided by the FHCF and therefore has access to reimbursements on certain qualifying Florida hurricane losses (see Note 9) from the FHCF, has exposure to assessments and pays annual premiums to the FHCF for this reimbursement protection. The FHCF has the authority to issue bonds to pay its obligations to insurers participating in the mandatory coverage in excess of its capital balances. Payment of these bonds is funded by emergency assessments on all property and casualty premiums in the state, except workers' compensation, medical malpractice, accident and health insurance and policies written under the NFIP. The FHCF emergency assessments are limited to 6% of premiums per year beginning the first year in which reimbursements require bonding, and up to a total of 10% of premiums per year for assessments in the second and subsequent years, if required to fund additional bonding. In 2006, the FHCF issued approximately $4 billion in bonds, and the FL OIR ordered an emergency assessment of 1% of premiums collected, which began on January 1, 2007. As required, companies will collect the FHCF emergency assessments directly from policyholders and remit them to the FHCF as they are collected.

Facilities such as FL Citizens, LA Citizens and the FHCF are generally designed so that the ultimate cost is borne by policyholders, however, the exposure to assessments and the availability of recoupments or premium rate increases from these facilities may not offset each other in the Company's financial statements. Moreover, even if they do offset each other, they may not offset each other in financial statements for the same fiscal period due to the ultimate timing of the assessments and recoupments or premium rate increases, as well as the possibility of policies not being renewed in subsequent years.

Guaranty funds

Under state insurance guaranty fund laws, insurers doing business in a state can be assessed, up to prescribed limits, for certain obligations of insolvent insurance companies to policyholders and claimants. The Company's policy is to accrue assessments as the related written premium upon which the assessment is based is written. The Company's expenses related to these funds totaled $27 million, $23 million and $58 million in 2006, 2005 and 2004, respectively. As of December 31, 2006 and 2005, the liability balance included in other liabilities and accrued expenses was $106 million and $104 million, respectively.

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 results of operations.

PMI runoff support agreement

The Company has certain limited rights and obligations under a capital support agreement (“Runoff Support Agreement”) with PMI Mortgage Insurance Company (“PMI”), the primary operating subsidiary of PMI Group, related to the Company’s disposition of PMI in prior years. Under the Runoff Support Agreement, the Company would be required to pay claims on PMI policies written prior to October 28, 1994 if PMI fails certain financial covenants and fails to pay such claims. In the event any amounts are so paid, the Company would receive a commensurate amount of preferred stock or subordinated debt of PMI Group or PMI. The Runoff Support Agreement also restricts PMI’s ability to write new business and pay dividends under certain circumstances. Management does not believe this agreement will have a material adverse effect on results of operations, cash flows or financial position of the Company.

Guarantees

The Company provides residual value guarantees on Company leased automobiles. If all outstanding leases were terminated effective December 31, 2006, the Company’s maximum obligation pursuant to these guarantees, assuming the automobiles have no residual value, would be $18 million at December 31, 2006. 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.

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 $276 million at December 31, 2006. The obligations associated with these fixed income securities expire at various times during the next seven years.

In the normal course of business, the Company provides standard indemnifications to counterparties in contracts in connection with numerous transactions, including acquisitions and divestitures. The types of indemnifications typically provided include indemnifications for breaches of representations and warranties, taxes and certain other liabilities, such as third party lawsuits. The indemnification clauses are often standard contractual terms and are entered into in the normal course of business based on an assessment that the risk of loss would be remote. The terms of the indemnifications vary in duration and nature. In many cases, the maximum obligation is not explicitly stated and the contingencies triggering the obligation to indemnify have not occurred and are not expected to occur. Consequently, the maximum amount of the obligation under such indemnifications is not determinable. Historically, the Company has not made any material payments pursuant to these obligations.

The aggregate liability balance related to all guarantees was not material as of December 31, 2006.

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, 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.

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" sub-section below, please note the following:

- These matters raise difficult and complicated factual and legal issues and are subject to many uncertainties and complexities, including but not limited to, 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 and, in some cases, the timing of their resolutions relative to other similar matters involving other companies; the fact that many 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 many 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.
- 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 our 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 on-going basis and follows the provisions of SFAS No. 5, "Accounting for Contingencies", when making accrual and disclosure decisions. When assessing reasonably possible and probable outcomes, the Company bases its decisions on its assessment of the ultimate outcome following all appeals.
- Due to the complexity and scope of the matters disclosed in the "Proceedings" subsection below and the many uncertainties that exist, the ultimate outcome of these matters cannot be reasonably predicted. In the event of an unfavorable outcome in one or more of these matters, the ultimate liability may be in excess of amounts currently reserved and may be material to the Company's operating results or cash flows for a particular quarter 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 two multi-state certified class action lawsuits pending against Allstate in state courts alleging that its failure to pay ''inherent diminished value'' to insureds under the collision, comprehensive, or uninsured motorist property damage liability provisions of auto policies constitutes breach of contract and fraud. Plaintiffs define ''inherent diminished value'' as the difference between the market value of the insured automobile before an accident and the market value after repair. Plaintiffs allege that they are entitled to the payment of inherent diminished value under the terms of the policy. To a large degree, these lawsuits mirror similar lawsuits filed against other carriers in the industry. A trial in the case involving collision and comprehensive coverage concluded on April 29, 2004, with a jury verdict in favor of the Company. The plaintiffs filed an appeal from the judgment, and on June 1, 2006, the judgment for Allstate was affirmed by the appellate court. The plaintiffs requested a reconsideration of this ruling, which was denied by the court. The plaintiffs then filed a petition for leave to appeal to the Illinois Supreme Court, and that petition was denied on November 29, 2006. Plantiffs have until February 27, 2007 to petition the U.S. Supreme Court to review this case, however, Allstate does not expect the plantiffs to do so. In the other case, which involves uninsured motorist property damage coverage, the trial court certified a 19 state class action. The appellate court granted the Company's petition for review of the order of certification, and has affirmed the certification. The Company filed a petition to appeal to the Washington Supreme Court, which was denied. The case has been remanded to the trial court for further proceedings. The Company has been vigorously defending these lawsuits and, since 1998, has been implementing policy language in more than 40 states reaffirming that its collision and comprehensive coverages do not include diminished value claims. The outcome of these disputes remains uncertain.

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, among other things, the manner in which Allstate determines reasonableness and necessity. One nationwide class action and one statewide class action have been certified. These lawsuits, which to a large degree mirror similar lawsuits filed against other carriers in the industry, allege these processes result in a breach of the insurance policy as well as fraud. Plaintiffs seek monetary damages in the form of contractual and extra-contractual damages. The Company denies these allegations and has been vigorously defending these lawsuits. The outcome of these disputes is currently uncertain.

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 flaws in the database result in valuations to the detriment of insureds. The plaintiffs are seeking actual and punitive damages. The lawsuit is in the early stages of discovery and Allstate is vigorously defending it, but the ultimate outcome is currently uncertain.

The Company has received preliminary approval of a settlement in a putative nationwide class action that alleged that the Company discriminates against non-Caucasian policyholders through underwriting and rate-making practices, including the use of credit information. The Company is also defending a putative statewide class action in federal court challenging its use of credit information under certain state insurance statutes. These plaintiffs seek monetary and equitable relief, including actual and punitive damages and injunctive relief. The Company denies these allegations and has been vigorously defending this lawsuit. The outcome of this dispute is currently uncertain.

The Company is defending a number of matters filed in the aftermath of Hurricanes Katrina and Rita, including several statewide putative class action lawsuits pending in Mississippi, Louisiana and Texas. In one matter, 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 a putative class action in Mississippi, some members of the Mississippi Windstorm Underwriters Association (''MWUA'') have filed suit 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. In a putative class action in Louisiana, the trial court judge recently ruled that Allstate's and other carriers' flood, water and negligent construction exclusions do not apply to man-made floods (i.e., floods caused by human negligence), and therefore do not apply to flooding in the New Orleans area to the extent it was caused by human negligence in the design, construction and/or maintenance of the levees. Allstate and other insurers have filed a petition for interlocutory appeal with the Fifth Circuit Court of Appeals, which was accepted on February 2, 2007. These suits seek primarily declaratory relief, and in some cases, actual and punitive damages in unspecified amounts. These matters are in various stages of development and Allstate intends to vigorously defend them. The outcome of these disputes is currently uncertain.

Allstate is defending various lawsuits involving worker classification issues. These lawsuits include a putative class action and several certified class actions challenging the overtime exemption claimed by the Company under the Fair Labor Standards Act or state wage and hour laws. In these cases, plaintiffs seek monetary relief, such as penalties and liquidated damages, and non-monetary relief, such as injunctive relief and an accounting. These class actions mirror similar lawsuits filed against other carriers in the industry and other employers. Allstate is continuing to vigorously defend its worker classification lawsuits. The outcome of these disputes is currently uncertain.

The Company is defending certain matters relating to the Company's agency program reorganization announced in 1999. These matters include a lawsuit filed in December 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 August 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 March 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 asked the court to clarify and/or reconsider its memorandum and order and on January 16, 2007, the judge denied their request. The case otherwise remains pending. The EEOC also filed another lawsuit in October 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 October 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 filed a motion for interlocutory appeal from the partial summary judgment, which was granted by the trial court on January 4, 2007. The Company has filed a petition for immediate review of two controlling issues of law to the Court of Appeals for the Eighth Circuit and that petition is currently pending. The Company is also defending a certified class action filed by former employee agents who terminated their employment prior to the agency program reorganization. These plaintiffs have asserted breach of contract and ERISA claims. 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 April 2005. 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. The outcome of these disputes is currently uncertain.

The Company is defending its homeowners insurance rates and discount programs in administrative actions filed by the Texas Department of Insurance. The Department is focusing, as they have with other insurers, on the reasonableness of the Company's rates for the risks to which they apply. On July 13, 2005, the Administrative Law Judge granted partial summary disposition in the Company's favor on almost all of the Department's claims regarding the Company's discount program. In the rate proceeding, on May 22, 2006, the Texas Commissioner of Insurance ordered the Company to reduce its homeowners rates by 5% and to pay refunds on the difference plus interest back to December 30, 2004, for which the Company has been accruing. The Company has filed a petition for judicial review of the Texas Commissioner's rate refund order with the district court, and has also filed and implemented a 5% rate decrease occurring in two stages.

Other Matters

The Company and some of its subsidiaries have received interrogatories and demands for information from regulatory and enforcement authorities relating to various insurance products and practices. The areas of inquiry include variable annuity market timing, late trading and the issuance of funding agreements backing medium-term notes. The Company and some of its subsidiaries have also received interrogatories and demands for information from authorities seeking information relevant to on-going investigations into the possible violation of antitrust or insurance laws by unnamed parties and, in particular, seeking information as to whether any person engaged in activities for the purpose of price fixing, market allocation, or bid rigging. The Company believes that these inquiries are similar to those made to many financial services companies as part of industry-wide investigations by various authorities into the practices, policies and procedures relating to insurance and financial services products. Moreover, the Company has not received any communication from authorities related to the variable annuity market timing and late trading inquiries since November 2005. The Company and its subsidiaries have responded and will continue to respond to these inquiries.

Various other legal and regulatory actions, including state market conduct exams, 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 quarter 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, 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.

Asbestos and environmental

Allstate's reserves for asbestos claims were $1.38 billion and $1.37 billion, net of reinsurance recoverables of $823 million and $831 million at December 31, 2006 and 2005, respectively. Reserves for environmental claims were $194 million and $205 million, net of reinsurance recoverables of $55 million

and $47 million at December 31, 2006 and 2005, respectively. Approximately 67% and 68% of the total net asbestos and environmental reserves at December 31, 2006 and 2005, respectively, were for incurred but not reported estimated losses.

Management believes its net loss reserves for environmental, asbestos 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 collectibility 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.

14. Income Taxes

The Company and its eligible domestic subsidiaries file a consolidated federal income tax return. Tax liabilities and benefits realized by the consolidated group are allocated as generated by the respective entities. Tax liabilities and benefits of ineligible domestic subsidiaries are computed separately based on taxable income of the individual subsidiary and reported on separate federal tax returns.

The Internal Revenue Service ("IRS") has completed its review of the Company's federal income tax returns through the 2002 tax year and the statute of limitations has expired for these years. Any adjustments that may result from IRS examinations of tax returns are not expected to have a material effect on the results of operations, cash flows or financial position of the Company.

The components of the deferred income tax assets and liabilities at December 31 are as follows:

(in millions)	2006	2005
Deferred assets		
Life and annuity reserves	$ 758	$ 991
Unearned premium reserves	700	698
Discount on loss reserves	385	477
Other postretirement benefits	335	262
Pension	203	—
Other assets	343	429
Total deferred assets	2,724	2,857
Deferred liabilities		
Deferred policy acquisition costs	(1,362)	(1,565)
Unrealized net capital gains	(1,116)	(1,125)
Pension	—	(463)
Other liabilities	(22)	(55)
Total deferred liabilities	$(2,500)	$(3,208)
Net deferred asset (liability)	$ 224	$ (351)

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 assumption that certain levels of income will be achieved. The total amount of the valuation allowance reducing deferred tax assets was $5 million and $3 million at December 31, 2006 and 2005, respectively.

The components of income tax expense for the years ended December 31 are as follows:

(in millions)	2006	2005	2004
Current	$2,172	$ 503	$1,280
Deferred	13	(180)	(50)
Total income tax expense	$2,185	$ 323	$1,230

The Company paid income taxes of $1.64 billion, $1.06 billion and $1.21 billion in 2006, 2005 and 2004, respectively. The Company had a current income tax receivable of $20 million and $483 million at December 31, 2006 and 2005, respectively.

A reconciliation of the statutory federal income tax rate to the effective income tax rate on income from operations for the years ended December 31 is as follows:

	2006	2005	2004
Statutory federal income tax rate	35.0%	35.0%	35.0%
Tax-exempt income	(4.2)	(16.0)	(7.4)
Adjustment to prior year tax liabilities	(0.2)	(2.8)	(0.2)
Other	(0.2)	(0.7)	(0.6)
Effective income tax rate	30.4%	15.5%	26.8%

15. Statutory Financial Information

Allstate's domestic property-liability and life insurance subsidiaries prepare their statutory-basis financial statements in conformity with accounting practices prescribed or permitted by the insurance department of the applicable state of domicile. Prescribed statutory accounting practices include a variety of publications of the NAIC, as well as state laws, regulations and general administrative rules. Permitted statutory accounting practices encompass all accounting practices not so prescribed.

All states require domiciled insurance companies to prepare statutory-basis financial statements in conformity with the NAIC Accounting Practices and Procedures Manual, subject to any deviations prescribed or permitted by the applicable insurance commissioner and/or director.

Statutory accounting practices primarily differ from GAAP since they require charging policy acquisition and certain sales inducement costs to expense as incurred, establishing life insurance reserves based on different actuarial assumptions, and valuing investments and establishing deferred taxes on a different basis.

Statutory net income and capital and surplus of Allstate's domestic insurance subsidiaries, determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities are as follows:

	Net income			Capital and Surplus	
(in millions)	**2006**	**2005**	**2004**	**2006**	**2005**
Amounts by major business type:					
Property-Liability	$5,142	$1,717	$3,334	$15,768	$11,170
Allstate Financial	277	294	294	3,587	3,889
Amount per statutory accounting practices	$5,419	$2,011	$3,628	$19,355	$15,059

The Property-Liability statutory capital and surplus balances above exclude wholly-owned subsidiaries included in the Allstate Financial segment.

Dividends

The ability of the Company to pay dividends is dependent on business conditions, income, cash requirements of the Company, receipt of dividends from AIC and other relevant factors. The payment of shareholder dividends by AIC without the prior approval of the state insurance regulator is limited to formula amounts based on net income and capital and surplus, determined in conformity with statutory accounting practices, as well as the timing and amount of dividends paid in the preceding twelve months. Notification and approval of inter-company lending activities is also required by the Illinois Department of

Insurance (''IL DOI'') for transactions that exceed a level that is based on a formula using statutory admitted assets and statutory surplus.

AIC paid dividends of $1.01 billion in 2006, which was less than the maximum amount allowed under Illinois insurance law without the prior approval of the IL DOI based on 2005 formula amounts. Based on 2006 AIC statutory net income, the maximum amount of dividends AIC will be able to pay without prior IL DOI approval at a given point in time during 2007 is $4.92 billion, less dividends paid during the preceding twelve months measured at that point in time.

16. Benefit Plans

Pension and other postretirement plans

Defined benefit pension plans cover most full-time employees, certain part-time employees and employee-agents. Benefits under the pension plans are based upon the employee's length of service and eligible annual compensation. A cash balance formula was added to the Allstate Retirement Plan effective January 1, 2003. All eligible employees hired before August 1, 2002 were provided with a one-time opportunity to choose between the cash balance formula and the final average pay formula. The cash balance formula applies to all eligible employees hired after August 1, 2002.

The Company also provides certain health care and life insurance subsidies for employees hired before January 1, 2003 when they retire (''postretirement benefits''). Qualified employees may become eligible for these benefits if they retire in accordance with the Company's established retirement policy and are continuously insured under the Company's group plans or other approved plans in accordance with the plan's participation requirements. The Company shares the cost of the retiree medical benefits with retirees based on years of service, with the Company's share being subject to a 5% limit on annual medical cost inflation after retirement. The Company has the right to modify or terminate these pension and postretirement benefit plans.

As described in Note 2, the Company adopted the recognition and related disclosure provisions of SFAS No. 158 as of December 31, 2006. The incremental effect of this adoption on the individual line items in the December 31, 2006 Consolidated Statement of Financial Position is shown in the following table.

(in millions)	Before Application of SFAS No. 158	Adjustments	After Application of SFAS No. 158
Deferred income taxes	$ —	$ 224	$ 224
Other assets	3,135	(1,024)	2,111
Total assets	$158,354	$ (800)	$157,554
Other liabilities and accrued expenses	$ 9,430	$ 615	$ 10,045
Deferred income taxes	350	(350)	—
Total liabilities	135,443	265	135,708
Minimum pension liability adjustment	(44)	44	—
Net funded status of pension and other postretirement benefit obligation	—	(1,109)	(1,109)
Accumulated other comprehensive income	2,056	(1,065)	991
Total shareholders' equity	22,911	(1,065)	21,846
Total liabilities and shareholders' equity	$158,354	$ (800)	$157,554

Obligations and funded status

The Company calculates benefit obligations based upon generally accepted actuarial methodologies using the PBO for pension plans and the APBO for other postretirement plans. The determination of pension costs and other postretirement obligations as of December 31 are determined using an October 31 measurement date, but under the guidance of SFAS No. 158 will be transitioned to a December 31 measurement date on December 31, 2008. The benefit obligations represent the actuarial present value of all benefits attributed to employee service rendered. The PBO is measured using the pension benefit formula and assumptions as to future compensation levels. A plan's funded status is calculated as the difference between the benefit obligation and the fair value of plan assets. The Company's funding policy for the pension plans is to make annual contributions at a minimum level that is at least in accordance with regulations under the Internal Revenue Code ("IRC") and in accordance with generally accepted actuarial principles. The Company's postretirement benefits plans are not funded.

The components of the plans' funded status that are reflected in the Consolidated Statements of Financial Position as of December 31, 2006 are as follows:

(in millions)	Pension benefits	Postretirement benefits
Fair value of plan assets	$4,636	$ —
Benefit obligation	5,293	1,115
Funded status	$ (657)	$(1,115)
Items not yet recognized as a component of net periodic cost:		
Net actuarial gain or loss	$1,691	$ 40
Prior service cost	(14)	(12)
Items not yet recognized as a component of net periodic cost	$1,677	$ 28

The majority of the $1.69 billion net actuarial pension benefit losses not yet recognized as a component of net periodic pension cost in 2006 reflected the effect of increases in the PBO resulting from decreases in the discount rate over time, and the impact of unfavorable equity market conditions on the value of the pension plan assets in prior years.

Estimates of the net actuarial loss and prior service cost expected to be recognized as component of net periodic benefit cost during 2007 are shown in the table below. Allstate amortizes its net actuarial losses over the average remaining service period of active employees expected to receive benefits.

(in millions)	Pension benefits	Postretirement benefits
Net actuarial loss	$116	$ 1
Prior service cost	(2)	(1)

A reconciliation of the plans' funded status to amounts recognized in the Consolidated Statements of Financial Position as of December 31, 2005, prior to the adoption of SFAS No. 158, is as follows:

(in millions)	Pension benefits	Postretirement benefits
Fair value of plan assets	$4,487	$ —
Benefit obligation	5,187	1,140
Funded status	(700)	(1,140)
Amounts not recognized:		
Unamortized prior service cost	(23)	(13)
Unrecognized net actuarial loss	2,063	126
Net amount recognized	$1,340	$(1,027)
Prepaid benefit costs	$1,444	$ —
Accrued benefit cost	(151)	(1,027)
Intangible assets	—	—
Accumulated other comprehensive income	47	—
Net amount recognized	$1,340	$(1,027)

The majority of the $2.06 billion unrecognized net actuarial pension benefit losses in 2005 reflected the effect of increases in the PBO resulting from decreases in the discount rate over time, and the impact of unfavorable equity market conditions on the value of the pension plan assets in prior years.

The accumulated benefit obligation ("ABO") for all defined benefit pension plans was $4.46 billion and $4.33 billion at December 31, 2006 and 2005, respectively. The ABO is the actuarial present value of all benefits attributed by the pension benefit formula to employee service rendered. However, it differs from the PBO due to the exclusion of an assumption as to future compensation levels. Prior to the adoption of SFAS No. 158 in 2006, a minimum pension liability was recognized as a reduction to accumulated other comprehensive income when the ABO exceeded the fair value of plan assets. The minimum pension liability was $30 million, after-tax, at December 31, 2005. In 2005, the minimum pension liability decreased by $359 million, after-tax, which was reported as an increase to accumulated other comprehensive income. The Company made contributions during 2005 sufficient to eliminate a minimum pension liability for one of its qualified pension plans. The minimum pension liability reported at December 31, 2005 related solely to the Company's unfunded non-qualified pension plans.

The PBO, ABO and fair value of plan assets for the Company's pension plans with an ABO in excess of plan assets were $246 million, $181 million, and $3 million, respectively as of December 31, 2006, and $216 million, $154 million, and $3 million, respectively as of December 31, 2005. Included in the accrued benefit cost of the pension benefits are certain unfunded non-qualified plans with accrued benefit costs of $177 million and $151 million for 2006 and 2005, respectively.

The changes in benefit obligations for all plans for the years ended December 31 are as follows:

	Pension benefits		Postretirement benefits	
(in millions)	**2006**	**2005**	**2006**	**2005**
Change in benefit obligation				
Benefit obligation, beginning of year	$5,187	$4,981	$1,140	$1,244
Service cost	185	206	26	30
Interest cost	304	283	68	65
Participant contributions	1	1	40	39
Actuarial loss (gain)	162	(12)	(84)	(158)
Benefits paid	(542)	(271)	(78)	(81)
Translation adjustment and other	(4)	(1)	3	1
Benefit obligation, end of year	$5,293	$5,187	$1,115	$1,140

Benefits paid include lump sum distributions, a portion of which may trigger settlement accounting treatment.

As disclosed in Note 2, the recognition of the subsidy provided by the Medicare Prescription Drug, Improvement and Modernization Act of 2003 reduced the Company's APBO and net periodic postretirement benefit cost in 2005.

Components of net periodic cost

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

(in millions)	Pension benefits			Postretirement benefits		
	2006	2005	2004	2006	2005	2004
Service cost[1]	$185	$206	$157	$26	$ 30	$ 28
Interest cost	304	283	268	68	65	71
Expected return on plan assets	(321)	(313)	(288)	—	—	—
Amortization of:						
Prior service cost	(3)	(3)	(3)	(1)	(1)	(1)
Net actuarial loss	143	135	121	1	7	14
Settlement loss[2]	142	28	41	—	—	—
Special termination benefit	—	—	—	3	—	—
Net periodic cost	$450	$336	$296	$97	$101	$112

(1) In 2005, the Company recognized $19 million and $4 million pretax for pension and postretirement benefits, respectively, related to a non-recurring increase in liability for future benefits of a discontinued benefit plan.

(2) In 2006, the Company recognized a $142 million pretax non-cash settlement charge as a result of higher lump sum payments to participants of the Company's pension plans.

Assumptions

Weighted average assumptions used to determine net pension cost and net postretirement benefit cost for the years ended December 31 are:

(in millions)	Pension benefits			Postretirement benefits		
	2006	2005	2004	2006	2005	2004
Weighted average discount rate	6.00%	5.75%	6.25%	6.00%	5.75%	6.25%
Rate of increase in compensation levels	4.0-4.5	4.0-4.5	4.0-4.5	n/a	n/a	n/a
Expected long-term rate of return on plan assets	8.5	8.5	8.5	n/a	n/a	n/a

Weighted-average assumptions used to determine benefit obligations at December 31, based on an October 31 measurement date, are:

	Pension benefits		Postretirement benefits	
	2006	2005	2006	2005
Discount rate	6.00%	6.00%	6.00%	6.00%
Rate of increase in compensation levels	4.0-4.5	4.0-4.5	n/a	n/a

The weighted average health care cost trend rate used in measuring the accumulated postretirement benefit cost is 7.7% for 2007, gradually declining to 5.5% in 2010 and remaining at that level thereafter.

Assumed health care cost trend rates have a significant effect on the amounts reported for the postretirement health care plans. A one percentage-point increase in assumed health care cost trend rates would increase the total of the service and interest cost components of net periodic benefit cost of other postretirement benefits and the APBO by $8 million and $53 million, respectively. A one percentage-point decrease in assumed health care cost trend rates would decrease the total of the service and

interest cost components of net periodic benefit cost of other postretirement benefits and the APBO by $7 million and $46 million, respectively.

Pension Plan Assets

The pension plans target percentage of plan assets at 2006 and the actual percentage of plan assets, by asset category at December 31 are as follows:

Asset Category	Target percentage of plan assets	Percentage of plan assets	
	2006	2006	2005
Equity securities	64%	64%	66%
Fixed income securities	30	30	32
Real estate	3	3	1
Other	3	3	1
Total	100%	100%	100%

The expected long-term rate of return on plan assets reflects the average rate of earnings expected on plan assets. This assumption is reviewed annually giving consideration to appropriate financial data including, but not limited to, the plan asset allocation, the period over which benefits will be paid, historical returns on plan assets and other relevant market data. A consistent method was used to determine the long-term return on plan assets assumption at December 31, 2006 and 2005 of 8.5%. As of the 2006 measurement date, the arithmetic average of the annual actual return on plan assets for the most recent 10 and 5 years was 9.6% and 8.7%, respectively.

Pension plan assets include $12 million and $8 million of the Company's common stock at December 31, 2006 and 2005. No plan assets are expected to be returned to the Company during 2007.

The change in pension plan assets for the years ended December 31 is as follows:

(in millions)	2006	2005
Fair value of plan assets, beginning of year	$4,487	$3,983
Actual return on plan assets	571	408
Employer contribution	134	367
Benefits paid	(542)	(271)
Translation adjustment and other	(14)	—
Fair value of plan assets, end of year	$4,636	$4,487

Cash Flows

There was no minimum funding requirement under the IRC for the tax qualified pension plans as of December 31, 2006. The Company currently plans to contribute $147 million to its pension plans in 2007. This plan may be amended or terminated at any time.

The Company contributed $38 million and $42 million to the postretirement benefit plans in 2006 and 2005, respectively. Contributions by participants were $40 million and $39 million in 2006 and 2005.

Estimated Future Benefit Payments

Estimated future benefit payments expected to be paid in the next 10 years, based on the assumptions used to measure the Company's benefit obligation at December 31, 2006, and the estimated subsidy to be received are as follows:

		Postretirement benefits	
(in millions)	Pension benefits	Gross benefit payments	Gross Medicare Part D receipts
2007	$ 181	$ 52	$ 3
2008	248	55	3
2009	243	57	3
2010	275	60	4
2011	316	63	4
2012-2016	2,131	367	25
Total benefit payments	$3,394	$654	$42

Profit sharing plans

Employees of the Company, with the exception of those employed by the Company's international subsidiaries and Sterling Collision Centers ("Sterling") subsidiary, are eligible to become members of The Savings and Profit Sharing Fund of Allstate Employees ("Allstate Plan"). The Company's contributions are based on the Company's matching obligation and performance. The Company is responsible for funding its anticipated contribution to the Allstate Plan, and may, at the discretion of management, use the ESOP to pre-fund certain portions. In connection with the Allstate Plan, the Company has a note from the ESOP with a principal balance of $41 million at December 31, 2006. The ESOP note has a fixed interest rate of 7.9% and matures in 2019. The Company records dividends on the ESOP shares in retained income and all the shares held by the ESOP are included in basic and diluted weighted average common shares outstanding.

The Company's contribution to the Allstate Plan was $127 million, $48 million and $112 million in 2006, 2005 and 2004, respectively. These amounts were reduced by the ESOP benefit computed for the years ended December 31 as follows:

(in millions)	2006	2005	2004
Interest expense recognized by ESOP	$ 4	$ 4	$ 6
Less dividends accrued on ESOP shares	(14)	(7)	(14)
Cost of shares allocated	16	6	17
Compensation expense	6	3	9
Reduction of defined contribution due to ESOP	122	43	107
ESOP benefit	$(116)	$(40)	$ (98)

The Company contributed $13 million, $16 million and $24 million to the ESOP in 2006, 2005 and 2004, respectively. At December 31, 2006, total committed to be released, allocated and unallocated ESOP shares were 2 million, 29 million and 8 million, respectively.

Allstate has profit sharing plans for eligible employees of its Canadian insurance subsidiaries and Sterling. Profit sharing expense for these plans was $9 million, $10 million and $6 million in 2006, 2005 and 2004, respectively.

17. Equity Incentive Plans

The Company currently has two equity incentive plans that permit it to grant nonqualified stock options, incentive stock options, restricted or unrestricted shares of the Company's stock and restricted stock units to certain employees and directors of the Company. The total compensation expense related to these equity awards was $98 million, $87 million and $61 million and the total income tax benefits were $34 million, $31 million and $21 million for the years ended December 31, 2006, 2005 and 2004, respectively. Total cash received from the exercise of options was $239 million, $281 million and $236 million. Total tax benefit realized on options exercised and stock unrestricted was $67 million, $75 million and $70 million for the years ended December 31, 2006, 2005 and 2004, respectively.

The Company records compensation expense related to awards under these plans over the vesting period of each grant. The Company records compensation expense for employees eligible for continued vesting upon retirement over the vesting period to the date that the employee is eligible for retirement. As of December 31, 2006, total unrecognized compensation cost related to all nonvested awards was $108 million, which is expected to be recognized over the weighted average vesting period of 1.97 years.

Options are granted under the plans at exercise prices equal to the fair value of the Company's common stock on the applicable grant date. The options granted under the Allstate plans generally vest ratably over a four-year period. The options granted may be exercised once vested and will expire ten years after the date of grant unless the employee retires. After retirement, stock options vest as scheduled. When the options become vested, they may be exercised on or before the earlier of the option expiration date or the fifth anniversary of the employee's retirement. Restricted stock and restricted stock units generally unrestrict in full on the fourth anniversary of the grant date. The awards are subject to forfeiture upon termination. For terminations due to retirement, shares continue to unrestrict as provided for in the original grant. As disclosed in Note 12, the Company accelerated the vesting of stock-based incentive compensation as a one-time benefit for employees electing its VTO program.

A total of 49.6 million shares of common stock were originally authorized to be used for awards under the plans, subject to adjustment in accordance with the plans' terms. At December 31, 2006, 22.7 million shares were reserved and remained available for future issuance under these plans. The Company uses its treasury shares for these issuances.

The fair value of each option grant is estimated on the date of grant using a binomial lattice model for the 2006 and 2005 grants, and the Black-Scholes pricing model for prior years' grants. The Company uses historical data to estimate option exercise and employee termination within the valuation model. In addition, separate groups of employees that have similar historical exercise behavior are considered separately for valuation purposes. The expected term of options granted is derived from the output of the binominal lattice model and represents the period of time that options granted are expected to be outstanding. The expected volatility of fair value is implied based on traded options and historical volatility of the Company's common stock. The expected dividends are based on the current dividend yield of the Company's stock as of the date of the grant. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant. The assumptions used are shown in the following table.

	2006	2005	2004
Weighted average expected term	7.1 years	7.3 years	6 years
Expected volatility	17.0 - 30.0%	12.8 - 30.0%	30%
Weighted average volatility	28.1%	27.4%	—
Expected dividends	2.6%	2.4%	2.4%
Risk-free rate	4.3 - 5.2%	2.3 - 4.5%	3.3%

A summary of option activity for the year ended December 31, 2006 is shown in the following table.

	Number (in 000s)	Weighted average exercise price	Aggregate intrinsic value (in 000s)	Weighted average remaining contractual term
Outstanding at January 1, 2006	24,508	$39.90		
Granted	4,997	53.93		
Exercised	(6,535)	36.51		
Forfeited	(426)	49.39		
Expired	(35)	53.80		
Outstanding at December 31, 2006:	22,509	$43.80	$485,744	6.2
Outstanding, net of expected forfeitures	21,681	$43.80	$467,876	6.2
Outstanding, exercisable (“vested”)	12,159	$38.23	$330,117	5.1

The weighted average grant date fair value of options granted was $15.25, $14.52 and $12.10 during the years ended December 31, 2006, 2005 and 2004, respectively. The intrinsic value, which is the difference between the fair value and the exercise price, of options exercised was $149 million, $169 million and $121 million during the years ended December 31, 2006, 2005 and 2004, respectively. The total fair value of options vested was $61 million, $80 million and $60 million during the years ended December 31, 2006, 2005 and 2004, respectively.

The changes in restricted stock and restricted stock units are shown in the following table for the year ended December 31, 2006.

	Number (in 000s)	Weighted average grant date fair value
Nonvested at January 1, 2006	2,186	$41.46
Granted	908	54.10
Vested	(181)	40.25
Forfeited	(79)	47.26
Nonvested at December 31, 2006	2,834	$45.91

The fair value of restricted stock and restricted stock units is based on the market value of the Company’s stock as of the date of the grant. The weighted average grant date fair value of restricted stock and restricted stock units granted was $54.10, $53.12 and $46.17 during the years ended December 31, 2006, 2005 and 2004, respectively. The total fair value of restricted stock and restricted stock units vested was $7 million, $0.3 million and $15 million during the years ended December 31, 2006, 2005 and 2004, respectively.

The following table illustrates the effect on net income and earnings per share as if SFAS No. 123 had been applied to all outstanding and unvested options during 2005 and 2004.

(in millions except per share data)	2005	2004
Net income, as reported[1]	$1,765	$3,181
Add: Employee stock option expense included in reported net income, after-tax	31	14
Deduct: Total employee stock option expense determined under fair value based method for all options, after tax	(46)	(40)
Pro forma net income	$1,750	$3,155
Earnings per share—basic		
As reported	$ 2.67	$ 4.57
Pro forma	2.64	4.54
Earnings per share—diluted		
As reported	2.64	4.54
Pro forma	2.62	4.51

(1) In 2005, the Company recognized a total of $21 million after-tax related to the acceleration of deferred compensation expense on unvested stock awards granted to employees eligible for continued vesting upon retirement including $12 million after-tax on unvested stock options (included in the table above) and $9 million after-tax on restricted stock.

The tax benefit realized in 2006, 2005 and 2004 related to tax deductions from stock option exercises and included in shareholders' equity was $47 million, $56 million and $40 million, respectively. The tax benefit realized in 2006, 2005 and 2004 related to all stock-based compensation and credited directly to shareholders' equity was $53 million, $62 million and $48 million, respectively.

18. Business Segments

Allstate management is organized around products and services, and this structure is considered in the identification of its four reportable segments. These segments and their respective operations are as follows:

Allstate Protection sells principally private passenger auto and homeowners insurance in the United States and Canada. Revenues generated outside the United States were $728 million, $655 million and $622 million for the years ended December 31, 2006, 2005 and 2004, respectively. The Company evaluates the results of this segment based upon underwriting results.

Discontinued Lines and Coverages consists of business no longer written by Allstate, including results from environmental, asbestos and other discontinued lines exposures, and certain commercial and other business in run-off. This segment also includes the historical results of the commercial and reinsurance businesses sold in 1996. The Company evaluates the results of this segment based upon underwriting results.

Allstate Financial sells life insurance, retirement and investment products and supplemental accident and health insurance products to individual and institutional customers. The principal individual products are deferred and immediate fixed annuities, interest-sensitive, traditional and variable life insurance, and supplemental accident and health insurance. The principal institutional product is funding agreements backing medium-term notes issued to institutional and individual investors. Banking products and services are also offered to customers through the Allstate Bank. Revenues generated outside the United States were immaterial with respect to Allstate Financial total revenues for the years ended December 31, 2006, 2005 and 2004. The Company evaluates the results of this segment based upon operating income.

Corporate and Other comprises holding company activities and certain non-insurance operations.

Allstate Protection and Discontinued Lines and Coverages together comprise Property-Liability. The Company does not allocate Property-Liability investment income, realized capital gains and losses, or assets to the Allstate Protection and Discontinued Lines and Coverages segments. Management reviews assets at the Property-Liability, Allstate Financial, and Corporate and Other levels for decision-making purposes.

The accounting policies of the business segments are the same as those described in Note 2. The effects of certain inter-segment transactions are excluded from segment performance evaluation and therefore eliminated in the segment results.

Measuring segment profit or loss

The measure of segment profit or loss used by Allstate's management in evaluating performance is underwriting income (loss) for the Allstate Protection and Discontinued Lines and Coverages segments and operating income (loss) for Allstate Financial and Corporate and Other segments. A reconciliation of these measures to income before cumulative effect of change in accounting principle, after-tax, is provided below.

Underwriting income (loss) is calculated as premiums earned, less claims and claims expenses (''losses''), amortization of DAC, operating costs and expenses, and restructuring and related charges as determined using GAAP.

Operating income (loss) is income (loss) before cumulative effect of change in accounting principle, after-tax, excluding:

- realized capital gains and losses, after-tax, except for periodic settlements and accruals on non-hedge derivative instruments, which are reported with realized capital gains and losses but included in operating income,
- amortization of DAC and DSI, to the extent they resulted from the recognition of realized capital gains and losses,
- loss (gain) on disposition of operations, after-tax and
- adjustments for other significant non-recurring, infrequent or unusual items, when (a) the nature of the charge or gain is such that it is reasonably unlikely to recur within two years, or (b) there has been no similar charge or gain within the prior two years.

Summarized revenue data for each of the Company's business segments for the years ended December 31 are as follows:

(in millions)	2006	2005	2004
Property-Liability			
Property-liability insurance premiums earned			
Standard auto	$16,750	$16,220	$15,498
Non-standard auto	1,535	1,767	1,984
Auto	18,285	17,987	17,482
Homeowners	6,383	6,375	5,878
Other	2,698	2,676	2,623
Allstate Protection	27,366	27,038	25,983
Discontinued Lines and Coverages	3	1	6
Total property-liability insurance premiums earned	27,369	27,039	25,989
Net investment income	1,854	1,791	1,773
Realized capital gains and losses	348	516	592
Total Property-Liability	29,571	29,346	28,354
Allstate Financial			
Life and annuity premiums and contract charges			
Traditional life	281	282	337
Immediate annuities with life contingencies	278	197	316
Accident and health and other	340	439	392
Total life and annuity premiums	899	918	1,045
Interest-sensitive life	853	786	729
Fixed annuities	73	65	52
Variable annuities	139	280	246
Total contract charges	1,065	1,131	1,027
Total life and annuity premiums and contract charges	1,964	2,049	2,072
Net investment income	4,173	3,830	3,410
Realized capital gains and losses	(77)	19	1
Total Allstate Financial	6,060	5,898	5,483
Corporate and Other			
Service fees	10	9	12
Net investment income	150	125	101
Realized capital gains and losses	15	14	(2)
Total Corporate and Other before reclassification of service fees	175	148	111
Reclassification of service fees[1]	(10)	(9)	(12)
Total Corporate and Other	165	139	99
Consolidated Revenues	$35,796	$35,383	$33,936

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

Summarized financial performance data for each of the Company's reportable segments for the years ended December 31 are as follows:

(in millions)	2006	2005	2004
Income before cumulative effect of change in accounting principle, after tax			
Property-Liability			
Underwriting income (loss)			
Allstate Protection	$4,636	$ (461)	$2,468
Discontinued Lines and Coverages	(139)	(175)	(638)
Total underwriting (loss) income	4,497	(636)	1,830
Net investment income	1,854	1,791	1,773
Income tax expense on operations	(1,963)	(63)	(955)
Realized capital gains and losses, after-tax	227	339	397
(Loss) on disposition of operations, after-tax	(1)	—	—
Property-Liability income before cumulative effect of change in accounting principle, after-tax	4,614	1,431	3,045
Allstate Financial			
Life and annuity premiums and contract charges	1,964	2,049	2,072
Net investment income	4,173	3,830	3,410
Periodic settlements and accruals on non-hedge derivative financial instruments	56	63	49
Contract benefits and interest credit to contractholder funds	(4,184)	(3,986)	(3,601)
Operating costs and expenses and amortization of deferred acquisition costs	(1,117)	(1,107)	(1,105)
Restructuring and related charges	(24)	(2)	(5)
Income tax expense on operations	(274)	(266)	(269)
Operating income	594	581	551
Realized capital gains and losses, after-tax	(50)	12	(3)
DAC and DSI amortization relating to realized capital gains and losses, after-tax	36	(103)	(89)
Reclassification of periodic settlements and accruals on non-hedge derivative instruments, after-tax	(36)	(40)	(32)
Non-recurring items, after-tax[1]	(18)	(22)	—
Loss on disposition of operations, after-tax	(62)	(12)	(6)
Allstate Financial income before cumulative effect of change in accounting principle, after-tax	464	416	421
Corporate and Other			
Service fees[2]	10	9	12
Net investment income	150	125	101
Operating costs and expenses	(366)	(335)	(330)
Income tax benefit on operations	112	110	109
Operating loss	(94)	(91)	(108)
Realized capital gains and losses, after-tax	9	9	(2)
Corporate and Other loss before cumulative effect of change in accounting principle, after-tax	(85)	(82)	(110)
Consolidated income before cumulative effect of change in accounting principle, after-tax	$4,993	$1,765	$3,356

(1) Non-recurring items include a 2006 write-off of present value of future profits related to a block of corporate owned life insurance policies that terminated due to bankruptcy of the policyholder and an increase in liability which occurred in 2005 for future benefits from a discontinued benefit plan.

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

Additional significant financial performance data for each of the Company's reportable segments for the years ended December 31 are as follows:

(in millions)	2006	2005	2004
Amortization of deferred policy acquisition costs			
Property-Liability	$4,131	$4,092	$3,874
Allstate Financial	626	629	591
Consolidated	$4,757	$4,721	$4,465
Income tax expense (benefit)			
Property-Liability	$2,084	$ 240	$1,150
Allstate Financial	207	188	189
Corporate and Other	(106)	(105)	(109)
Consolidated	$2,185	$ 323	$1,230

Interest expense is primarily incurred in the Corporate and Other segment. Capital expenditures for long-lived assets are generally made in the Property-Liability segment. A portion of these long-lived assets are used by entities included in the Allstate Financial and Corporate and Other segments, and accordingly, are charged expenses in proportion to their use.

Summarized data for total assets and investments for each of the Company's reportable segments as of December 31 are as follows:

(in millions)	2006	2005	2004
Assets			
Property-Liability	$ 53,952	$ 53,604	$ 52,458
Allstate Financial	101,317	98,795	94,274
Corporate and Other	2,285	3,673	2,993
Consolidated	$157,554	$156,072	$149,725
Investments			
Property-Liability	41,663	39,574	40,267
Allstate Financial	75,951	75,233	72,530
Corporate and Other	2,143	3,490	2,733
Consolidated	$119,757	$118,297	$115,530

The balances above reflect the elimination of related party investments between the Allstate Financial and Corporate and Other segments. The composition of the segments was revised in 2006. The loan protection business previously managed by Allstate Financial is now being managed by Allstate Protection. The revenue results of this business are included in other property-liability insurance premiums earned in 2006 and in accident and health and other in life and annuity premiums and contract charges in 2005. Goodwill related to this business totaling $116 million was also reflected in the Allstate Financial segment in 2005 and Property-Liability in 2006. The amounts are not material and therefore the segment results for prior periods have not been reclassified.

19. Other Comprehensive Income

The components of other comprehensive (loss) income on a pretax and after-tax basis for the years ended December 31 are as follows:

(in millions)	2006 Pretax	2006 Tax	2006 After-tax	2005 Pretax	2005 Tax	2005 After-tax	2004 Pretax	2004 Tax	2004 After-Tax
Unrealized net holding (losses) gains arising during the period, net of related offsets	$363	$(127)	$236	$ (971)	$340	$(631)	$ 416	$(145)	$ 271
Less: reclassification adjustment of realized capital gains and losses	388	(136)	252	411	(144)	267	627	(219)	408
Unrealized net capital (losses) gains	(25)	9	(16)	(1,382)	484	(898)	(211)	74	(137)
Unrealized foreign currency translation adjustments	6	(2)	4	9	(3)	6	40	(14)	26
Unrealized minimum pension liability adjustments	(22)	8	(14)	552	(193)	359	(46)	16	(30)
Other comprehensive (loss) income	$ (41)	$ 15	$ (26)	$ (821)	$288	$(533)	$(217)	$ 76	$(141)

20. Quarterly Results (unaudited)

(in millions except per share data)	First Quarter 2006	First Quarter 2005	Second Quarter 2006	Second Quarter 2005	Third Quarter 2006	Third Quarter 2005	Fourth Quarter 2006	Fourth Quarter 2005
Revenues	$9,081	$8,705	$8,875	$8,791	$8,738	$8,942	$9,102	$8,945
Net income (loss)	1,415	1,123	1,207	1,149	1,158	(1,548)	1,213	1,041
Net Income Earnings per share-Basic	2.20	1.66	1.91	1.72	1.84	(2.36)	1.94	1.61
Net Income Earnings per share-Diluted[(1)]	2.19	1.64	1.89	1.71	1.83	(2.36)	1.93	1.59

(1) As a result of the third quarter 2005 net loss, weighted average dilutive potential common shares outstanding resulting from stock options and restricted stock units totaling 5.6 million were not included in the computation of diluted earnings per share for the third quarter of 2005 since inclusion of these securities would have an anti-dilutive effect. In the absence of the net loss, weighted average common and dilutive potential common shares outstanding would have totaled 660.4 million.

Report of Independent Registered Public Accounting Firm

TO THE BOARD OF DIRECTORS AND SHAREHOLDERS OF THE ALLSTATE CORPORATION

We have audited the accompanying Consolidated Statements of Financial Position of The Allstate Corporation and subsidiaries (the ''Company'') as of December 31, 2006 and 2005, and the related Consolidated Statements of Operations, Comprehensive Income, Shareholders' Equity, and Cash Flows for each of the three years in the period ended December 31, 2006. We also have audited management's assessment, included in the accompanying Management's Report on Internal Control Over Financial Reporting, that the Company maintained effective internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on these financial statements, an opinion on management's assessment, and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audit of financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

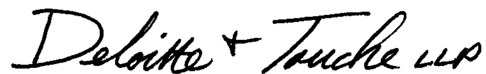
A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that

the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2006 and 2005, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2006, in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, management's assessment that the Company maintained effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

As discussed in Note 2 to the consolidated financial statements, the Company changed its method of accounting for defined pension and other postretirement plans in 2006, and its method of accounting for certain nontraditional long-duration contracts and separate accounts in 2004.



Chicago, Illinois
February 21, 2007

The Allstate Corporation

Corporate Headquarters/ Home Office
The Allstate Corporation
2775 Sanders Road
Northbrook, IL 60062-6127
(800) 574-3553
www.allstate.com

Annual Meeting
Shareholders of record are invited to attend the annual meeting of The Allstate Corporation on Tuesday, May 15, 2007, 11:00 a.m. at Chase Auditorium
Plaza Level
Chase Tower
10 South Dearborn
Chicago, IL 60603-2300

Holders of common stock of record at the close of business on March 16, 2007, are entitled to vote at the meeting. A notice of meeting, proxy statement and proxy card and/or voting instruction form were provided to shareholders with this annual report.

Transfer Agent/Shareholder Records
For information or assistance regarding individual stock records, dividend reinvestment, dividend checks, 1099DIV and 1099B tax forms, direct deposit of dividend payments, or stock certificates, contact Wells Fargo Shareowner Services, in any of the following ways:

By Telephone:
(800) 355-5191 within the U.S. or
(651) 450-4064 outside the U.S.

By Fax:
(651) 450-4085

By Mail:
Wells Fargo Bank, N.A.
Shareowner Services
P.O. Box 64874
St. Paul, MN 55164-0856

By Certified/Overnight Mail:
Wells Fargo Bank, N.A.
Shareowner Services
161 North Concord Exchange
South St. Paul, MN 55075-1139

On the Internet–Account Information:
www.shareowneronline.com

Profit Sharing
For information about The Savings and Profit Sharing Fund of Allstate Employees, call the Allstate Benefits Center at (888) 255-7772.

Investor Relations
Security analysts, portfolio managers and representatives of financial institutions seeking information about the company should contact:
Investor Relations
The Allstate Corporation
2775 Sanders Road
Northbrook, IL 60062-6127
(800) 416-8803
invrel@allstate.com

Communications to the Board of Directors
Shareholders or other interested parties who wish to communicate to the Board of Directors may do so by mail or e-mail as follows. Please let us know if you are a shareholder.

By e-mail: directors@allstate.com

By mail:
The Allstate Corporation
Nominating & Governance Committee
c/o General Counsel
Allstate Insurance Company
2775 Sanders Road, Ste F8
Northbrook, IL 60062-6127

Code of Ethics
Allstate's Code of Ethics is available on the Corporate Governance portion of the company's website, www.allstate.com.

Common Stock and Dividend Information
(in dollars)

	High	Low	Close	Dividends Declared
2006				
First quarter	56.09	50.22	52.11	.35
Second quarter	57.69	50.30	54.73	.35
Third quarter	62.94	54.16	62.73	.35
Fourth quarter	66.14	60.66	65.11	.35
2005				
First quarter	55.41	49.66	54.06	.32
Second quarter	60.87	52.35	59.75	.32
Third quarter	63.22	49.90	55.29	.32
Fourth quarter	57.91	51.61	54.07	.32

Stock price ranges are from the New York Stock Exchange Composite Listing. As of 4:00 p.m. (EST) on January 31, 2007, the closing price of Allstate common stock as reported on the New York Stock Exchange was $60.16 and there were 130,552 shareholders of record.

Media Inquiries
Allstate Media Relations
2775 Sanders Road
Northbrook, IL 60062-6127
(847) 402-5600

Form 10-K, Other Reports
Shareholders may receive without charge a copy of The Allstate Corporation Form 10-K annual report (filed with the U.S. Securities and Exchange Commission) and other public financial information for the year ended December 31, 2006, by contacting:
Investor Relations
The Allstate Corporation
2775 Sanders Road
Northbrook, IL 60062-6127
(800) 416-8803
invrel@allstate.com
The Allstate Corporation's annual report is available online at: www.allstate.com/annualreport.

Annual Report Recordings
Audio cassette tapes of the Allstate annual report are available without charge to the visually impaired by calling (800) 416-8803 or by e-mailing your request to invrel@allstate.com.

Stock Exchange Listing
The Allstate Corporation common stock is listed on the New York Stock Exchange under the trading symbol ALL. Common stock is also listed on the Chicago Stock Exchange.

CEO and CFO Certifications
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, CEO and CFO certifications were filed as Exhibits 31.1 and 31.2 to The Allstate Corporation's annual report on Form 10-K for 2006.

In addition, pursuant to Section 303A.12(a) of the New York Stock Exchange Corporate Governance listing standards, an Annual CEO Certification was submitted in June 2006, which stated The Allstate Corporation was in compliance with the Corporate Governance listing standards without exception.

Independent Registered Public Accounting Firm
Deloitte & Touche LLP
111 South Wacker Drive
Chicago, IL 60606-4301

Online Information
Investor supplements describing Allstate quarterly fiscal results, as well as audio rebroadcasts of investor conferences at which the company participates, will be posted on www.allstate.com. Investor conference calls will also be broadcast from that web site.

Cover Design: Meta4 Design, Inc., Chicago
Cover Paper: 100% of the paper utilized for the printing of this annual report cover is certified by the Forest Stewardship Council, which promotes environmentally appropriate, socially beneficial and economically viable management of the world's forests.

The Allstate Corporation

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www.allstate.com/annualreport

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