ALLSTATE CORP
Form 10-K
February 22, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2006

OR

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

Commission file number 1-11840

THE ALLSTATE CORPORATION

(Exact name of registrant as specified in its charter)

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

2775 Sanders Road, Northbrook, Illinois 60062

(Address of principal executive offices) (Zip Code)

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

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

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

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

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

Yes ý No o

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

Yes o No ý

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

Yes ý No o

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

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

Large accelerated filer	Accelerated filer	Non-accelerated filer
ý	o	o

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

Yes o No ý

The aggregate market value of the common stock held by non-affiliates of the registrant, computed by reference to the closing price as of the last business day of the registrant's most recently completed second fiscal quarter, June 30, 2006, was approximately $34.23 billion.

As of January 31, 2007, the registrant had 618,738,246 shares of common stock outstanding.

Documents Incorporated By Reference

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

Part III of this Form 10-K incorporates by reference certain information from the registrant's definitive proxy statement for its annual stockholders meeting to be held on May 15, 2007 (the "Proxy Statement") to be filed not later than 120 days after the end of the fiscal year covered by this Form 10-K.

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Part I

Item 1. Business

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

The Allstate Corporation is the largest publicly held personal lines insurer in the United States. Widely known through the "You're In Good Hands With Allstate®" slogan, Allstate provides insurance products to more than 17 million households through a distribution network that utilizes a total of approximately 14,800 exclusive agencies and exclusive financial specialists in the United States and Canada. Allstate is the second-largest personal property and casualty insurer in the United States on the basis of 2005 statutory premiums earned. In addition, according to A.M. Best, it is the nation's 13th largest issuer of life insurance business on the basis of 2005 ordinary life insurance in force and 16th largest on the basis of 2005 statutory admitted assets.

Allstate has four business segments:

Allstate Protection	Discontinued Lines and Coverages
Allstate Financial	Corporate and Other

In this annual report on Form 10-K, we occasionally refer to statutory financial information that has been prepared in accordance with the National Association of Insurance Commissioners ("NAIC") Accounting Practices and Procedure Manual ("Manual"). All domestic U.S. insurance companies are required to prepare statutory-basis financial statements in accordance with the Manual. As a result, industry data is available that enables comparisons between insurance companies, including competitors that are not subject to the requirement to publish financial statements on the basis of accounting principles generally accepted in the U.S. ("GAAP"). We frequently use industry publications containing statutory financial information to assess our competitive position.

Allstate's goal is to become better, bigger and broader in personal property and casualty insurance and in life insurance, retirement and investment products.

To achieve this goal, Allstate will help customers feel better protected today and better prepared for tomorrow by delivering on the Good Hands® Promise. The Good Hands Promise is made up of five planks that reflect what Allstate stands for:

- Have competitive prices
- Be easy to do business with
- Offer products and services to help meet customer needs
- Provide a knowledgeable and experienced team
- Establish relationships that value customers

In pursuit of our goal to become better, bigger and broader, we intend to maintain discipline in pricing, underwriting, capital, and expense and risk management in order to create long-term shareholder value. We may also engage in selective business start-ups, acquisitions and alliances.

ALLSTATE PROTECTION SEGMENT

Products and Distribution

Our Allstate Protection segment accounted for 93% of Allstate's 2006 consolidated insurance premiums and contract charges. In this segment, we sell principally private passenger auto and homeowners insurance, primarily through agencies. These products are marketed under the Allstate, Encompass® and Deerbrook® brand names.

Allstate brand auto and homeowners insurance products are sold primarily through Allstate exclusive agencies and, to a lesser extent, through independent agencies in areas not served by exclusive agencies. Encompass brand auto and homeowners insurance products as well as Deerbrook brand auto insurance products are sold through independent agencies.

In many states, consumers can also purchase certain Allstate brand personal insurance products and obtain service through our Customer Information Centers and, in a majority of those states, over the Internet.

Our broad-based network of approximately 12,900 Allstate exclusive agencies in approximately 11,900 locations in the U.S. produced approximately 85% of the Allstate Protection segment's written premiums in 2006. The rest was generated primarily by approximately 11,200 independent agencies. We are among the five largest providers of personal property and casualty insurance products through independent agencies in the United States, based on statutory written premium information provided by A.M. Best for 2005.

We also sell a variety of other personal property and casualty insurance products, including landlords, personal umbrella, renters, condominium, residential fire, manufactured housing, boat owners, loan protection and selected commercial property and casualty products and we participate in the "involuntary" or "shared" private passenger auto insurance business in order to maintain our licenses to do business in many states. Through Allstate Motor Club, Inc. we also provide emergency road service. Allstate exclusive agencies and exclusive financial specialists also sell non-proprietary mutual funds, variable annuities, health products and long-term care insurance in addition to Allstate Financial products.

Competition

The markets for personal private passenger auto and homeowners insurance are highly competitive. The following charts provide the market shares of our principal competitors in the U.S. by direct written premium for the year ended December 31, 2005 (the most recent date such competitive information is available) according to A. M. Best.

Private Passenger Auto Insurance		Homeowners Insurance	
Insurer	**Market Share**	**Insurer**	**Market Share**
State Farm	18.0%	State Farm	22.4%
Allstate*	11.1%	Allstate*	12.3%
Progressive	7.4%	Farmers	7.1%
Govt Employees Group	6.2%	Nationwide	4.7%
Farmers	4.8%	Travelers	4.2%
Nationwide	4.7%	USAA	4.0%

* Allstate's market shares, above, include premiums reported by A.M. Best for Allstate Insurance Group as well as a small amount of premium for select companies of CNA Insurance Companies, which Allstate acquired in 1999.

In the personal property and casualty insurance market, we compete principally on the basis of the recognition of our brands, the scope of our distribution system, price, the breadth of our product offerings, product features, customer service, claim handling, and use of technology. In addition, our

proprietary database of underwriting and pricing experience enables Allstate to use "Tiered Pricing" to more accurately price risks and to cross sell products within our customer base. "Tiered Pricing" is the term that we use to describe our sophisticated process for segmenting a market.

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

Our primary focus in using Tiered Pricing has been on acquiring and retaining new business. The program is designed to enhance Allstate's competitive position with respect to "high lifetime value" market segments while maintaining or improving profitability. "Lifetime value" is the discounted value of a customer's future cash flow stream. To estimate a customer's lifetime value score, we analyze characteristics about the customer (for example, age, marital status and driving record) and characteristics about the product the customer has purchased (for example, coverages, limits, and descriptors of the asset insured) on the basis of historic data patterns and trends. Because future loss and retention patterns of customers vary significantly, the distribution of lifetime values for a large group of customers will vary from very negative to very positive. "High lifetime value" generally refers to customers who potentially present more favorable prospects for profitability over the course of their relationships with us.

Allstate® Your Choice Auto insurance allows qualified customers to choose from a variety of optional auto insurance packages at various prices that we believe will further differentiate Allstate from its competitors, and allow for increased growth and increased retention. Allstate® Your Choice Homeowners allows qualified customers to choose from options such as claims free bonus and personalized coverage. Allstate Blue℠ is our new non-standard auto insurance product which offers features such as loyalty bonuses and roadside assistance coverage.

Geographic Markets

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

The following table reflects, in percentages, the principal geographic distribution of premiums earned for the Allstate Protection segment for the year ended December 31, 2006. No other jurisdiction accounted for more than five percent of the premiums earned for the segment.

California	10.9%
New York	10.1%
Texas	9.7%
Florida	9.4%
Pennsylvania	5.2%

We are taking actions 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. As part of those actions we expect to continue to adjust underwriting practices with respect to our property business in markets with significant catastrophe risk exposure.

Additional Information

Information regarding the last three years' revenues and income from operations attributable to the Allstate Protection segment is contained in Note 18 of the Consolidated Financial Statements. Note 18 also includes information regarding the last three years' identifiable assets attributable to our property-liability operations, which includes our Allstate Protection segment and our Discontinued Lines and Coverages segment. Note 18 is incorporated in this Part I, Item 1 by reference.

Information regarding the amount of premium earned for Allstate Protection segment products for the last three years is set forth in Part II, Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations, page 51, in the table regarding premiums earned by brand. That table is incorporated in this Part I, Item 1 by reference.

ALLSTATE FINANCIAL SEGMENT

Products and Distribution

Our Allstate Financial segment provides life insurance, retirement and investment products and supplemental accident and health insurance products to individual and institutional customers. Our principal individual products are deferred and immediate fixed annuities, interest-sensitive, traditional and variable life insurance, and supplemental accident and health insurance. We also distribute variable annuities through our bank distribution partners, however this product is fully reinsured. Our 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. The table on page 5 lists our major distribution channels for this segment, with the associated products and targeted customers.

As the table indicates, we sell Allstate Financial products to individuals through multiple intermediary distribution channels, including Allstate exclusive agencies, independent agents, banks, broker-dealers, and specialized structured settlement brokers. We have distribution relationships with over 60 percent of the 75 largest banks, most of the national broker-dealers, a number of regional brokerage firms and many independent broker-dealers. We sell products through independent agents affiliated with approximately 150 master brokerage agencies. Independent workplace enrolling agents and Allstate exclusive agencies also sell our supplemental accident and health insurance products primarily to employees of small and medium size firms. We sell funding agreements to unaffiliated trusts used to back medium term notes issued to institutional and individual investors.

Allstate Financial Distribution Channels, Products and Target Customers

Distribution Channel	Primary Products	Target Customers
Allstate exclusive agencies (Allstate Exclusive Agents and Allstate Exclusive Financial Specialists)	Term life insurance Interest sensitive life insurance Variable life insurance Deferred fixed annuities (including indexed and market value adjusted "MVA") Immediate fixed annuities Bank products (Certificates of deposit, money market accounts, savings accounts, checking accounts, first mortgage loans, home equity loans and Allstate Agency loans) Workplace life and supplemental accident and health insurance (Interest sensitive and term life insurance; disability income insurance; cancer, accident, critical illness and heart/stroke insurance; hospital indemnity; limited benefit medical insurance; and dental insurance)	Moderate and middle-income consumers with retirement and family financial protection needs
Independent agents (Through master brokerage agencies)	Term life insurance Interest sensitive life insurance Variable life insurance Deferred fixed annuities (including indexed and MVA) Immediate fixed annuities	Affluent and middle-income consumers with retirement and family financial protection needs
Independent agents (As workplace enrolling agents)	Workplace life and supplemental accident and health insurance (Interest sensitive and term life insurance; disability income insurance; cancer, accident, critical illness and heart/stroke insurance; hospital indemnity; limited benefit medical insurance; and dental insurance)	Moderate and middle-income consumers with family financial protection needs employed by small and medium size firms
Banks	Deferred fixed annuities (including indexed and MVA) Single premium fixed life insurance Variable annuities (fully reinsured)	Middle-income consumers with retirement needs
Broker-dealers	Deferred fixed annuities (including indexed and MVA) Single premium variable life insurance	Affluent and middle-income consumers with retirement needs
Structured settlement annuity brokers	Structured settlement annuities	Typically used to fund or annuitize large claims or litigation settlements
Broker-dealers (Funding agreements)	Funding agreements backing medium term notes	Institutional and individual investors

Competition

We compete principally on the basis of the scope of our distribution systems, the breadth of our product offerings, the recognition of our brands, our financial strength and ratings, our product features and prices, and the level of customer service that we provide. In addition, with respect to variable annuity and variable life insurance products in particular, we compete on the basis of the variety of fund managers and choices of funds for our separate accounts and the management and performance of those funds within our separate accounts. With regard to funding agreements, we compete principally on the basis of our financial strength and ratings.

The market for life insurance, retirement and investment products continues to be highly fragmented and competitive. As of December 31, 2006, there were approximately 690 groups of life insurance companies in the United States, most of which offered one or more similar products. According to A.M. Best, as of December 31, 2005, the Allstate Financial segment is the nation's 13th largest issuer of life insurance and related business on the basis of 2005 ordinary life insurance in force and 16th largest on the basis of 2005 statutory admitted assets. In addition, because many of these products include a savings or investment component, our competition includes domestic and foreign securities firms, investment advisors, mutual funds, banks and other financial institutions. Competitive pressure continues to grow due to several factors, including cross marketing alliances between unaffiliated businesses, as well as consolidation activity in the financial services industry.

Our website for financial professionals, accessallstate.com, won DALBAR's Communications Seal beginning in 2004. The site attained DALBAR's highest designation of "Excellent" since the second quarter of 2005 and is ranked second based on its overall quarterly rankings for Life Insurance/Annuity websites for Financial Professionals. DALBAR, Inc., an independent financial services research organization, recognized accessallstate.com for providing a means by which financial professionals can easily and conveniently develop and manage their business online.

Geographic Markets

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

The following table reflects, in percentages, the principal geographic distribution of statutory premiums and annuity considerations for the Allstate Financial segment for the year ended December 31, 2006, based on information contained in statements filed with state insurance departments. Approximately 98.0% of the statutory premiums and annuity considerations generated in Delaware represent deposits received in connection with funding agreements sold to trusts domiciled in Delaware. No other jurisdiction accounted for more than five percent of the statutory premiums and annuity considerations.

State	%
Delaware	17.0%
California	9.0%
New York	7.0%
Florida	6.0%
Texas	6.0%

Additional Information

Information regarding the last three years' revenues and income from operations attributable to the Allstate Financial segment is contained in Note 18 of the Consolidated Financial Statements. Note 18 also includes information regarding the last three years' identifiable assets attributable to the Allstate Financial segment. Note 18 is incorporated in this Part I, Item 1 by reference.

Information regarding premiums and contract charges for Allstate Financial segment products for the last three years is set forth in Part II, Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations, page 88, in the table that summarizes premiums and contract charges by product. That table is incorporated in this Part I, Item 1 by reference.

OTHER BUSINESS SEGMENTS

Our Corporate and Other segment is comprised of holding company activities and certain non-insurance operations. Note 18 of the Consolidated Financial Statements contains information regarding the revenues, income from operations, and identifiable assets attributable to our Corporate and Other segment over the last three years.

Our Discontinued Lines and Coverages segment includes results from insurance coverage that we no longer write and results for certain commercial and other business in run-off. Our exposure to asbestos, environmental and other discontinued lines claims arises in this segment. Note 18 of the Consolidated Financial Statements contains information for the last three years regarding revenues, income from operations, and identifiable assets attributable to our property-liability operations, which includes both our Allstate Protection segment and our Discontinued Lines and Coverages segment. Note 18 is incorporated in this Part I, Item 1 by reference.

RESERVE FOR PROPERTY-LIABILITY CLAIMS AND CLAIMS EXPENSE

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

Reconciliation of Claims Reserves

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

	Year Ended December 31,		
GROSS **($ in millions)**	**2006**	**2005**	**2004**
Gross reserve for property-liability claims and claims expense, beginning of year	$ 22,117	$ 19,338	$ 17,714
Incurred claims and claims expense			
Provision attributable to the current year	17,296	25,319	18,994
Change in provision attributable to prior years	(816)	(127)	448
Total claims and claims expense	16,480	25,192	19,442
Claim payments			
Claims and claims expense attributable to current year	10,398	14,966	11,494
Claims and claims expense attributable to prior years	9,333	7,447	6,324
Total payments	19,731	22,413	17,818
Gross reserve for property-liability claims and claims expense, end of year as shown on 10-K loss reserve development table	$ 18,866	$ 22,117	$ 19,338

	Year Ended December 31,		
NET **($ in millions)**	**2006**	**2005**	**2004**
Net reserve for property-liability claims and claims expense, beginning of year	$ 18,931	$ 16,761	$ 15,980
Incurred claims and claims expense			
Provision attributable to the current year	16,988	21,643	18,073
Change in provision attributable to prior years	(971)	(468)	(230)
Total claims and claims expense	16,017	21,175	17,843
Claim payments			
Claims and claims expense attributable to current year	10,386	12,340	10,989
Claims and claims expense attributable to prior years	7,952	6,665	6,073
Total payments	18,338	19,005	17,062
Net reserve for property-liability claims and claims expense, end of year as shown on 10-K loss reserve development table[1]	$ 16,610	$ 18,931	$ 16,761

(1)

Reserves for claims and claims expense are net of reinsurance of $2.26 billion, $3.19 billion and $2.58 billion at December 31, 2006, 2005 and 2004, respectively.

The year-end 2006 gross reserves of $18.87 billion for property-liability insurance claims and claims expense, as determined under GAAP, were $3.36 billion more than the net reserve balance of $15.51 billion recorded on the basis of statutory accounting practices for reports provided to state regulatory authorities. The principal differences are reinsurance recoverables from third parties totaling $2.26 billion that reduce reserves for statutory reporting and are recorded as assets for GAAP reporting, and a liability for the reserves of the Canadian subsidiaries for $839 million. Remaining differences are due to variations in requirements between GAAP and statutory reporting.

As the tables above illustrate, Allstate's net reserve for property-liability insurance claims and claims expense at the end of 2005 decreased in 2006 by $971 million, compared to reestimates of the gross reserves of a decrease of $816 million. Net reserve reestimates in 2006, 2005 and 2004 were more favorable than the gross reserve reestimates due to reinsurance cessions.

Loss Reserve Reestimates

The following Loss Reserve Reestimates table illustrates the change over time of the net reserves established for property-liability insurance claims and claims expense at the end of the last eleven calendar years. The first section shows the reserves as originally reported at the end of the stated year. The second section, reading down, shows the cumulative amounts paid as of the end of successive years with respect to that reserve liability. The third section, reading down, shows retroactive reestimates of the original recorded reserve as of the end of each successive year which is the result of Allstate's expanded awareness of additional facts and circumstances that pertain to the unsettled claims. The last section compares the latest reestimated reserve to the reserve originally established, and indicates whether the original reserve was adequate to cover the estimated costs of unsettled claims. The table also presents the gross reestimated liability as of the end of the latest reestimation period, with separate disclosure of the related reestimated reinsurance recoverable. The Loss Reserve Reestimates table is cumulative and, therefore, ending balances should not be added since the amount at the end of each calendar year includes activity for both the current and prior years. Unfavorable reserve reestimates are shown in this table in parenthesis.

Loss Reserve Reestimates

	December 31,										
($ millions)	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Gross Reserves for Unpaid Claims and Claims Expense	$ 17,382	$ 17,403	$ 16,881	$ 17,814	$ 16,859	$ 16,500	$ 16,690	$ 17,714	$ 19,338	$ 22,117	$ 18,866
Deduct:											
Reinsurance Recoverable	1,784	1,630	1,458	1,653	1,634	1,667	1,672	1,734	2,577	3,186	2,256
Reserve For Unpaid Claims and Claims Expense	$ 15,598	$ 15,773	$ 15,423	$ 16,161	$ 15,225	$ 14,833	$ 15,018	$ 15,980	$ 16,761	$ 18,931	$ 16,610
Paid (cumulative) as of:											
One year later	5,013	5,488	5,615	5,973	6,748	6,874	6,275	6,073	6,665	7,952	
Two years later	7,952	8,361	8,638	9,055	10,066	9,931	9,241	9,098	9,587		
Three years later	9,773	10,336	10,588	11,118	11,889	11,730	11,165	10,936			
Four years later	11,040	11,587	11,950	12,197	12,967	12,949	12,304				
Five years later	11,847	12,512	12,608	12,842	13,768	13,648					
Six years later	12,528	12,967	13,038	13,434	14,255						
Seven years later	12,881	13,294	13,532	13,800							
Eight years later	13,146	13,735	13,835								
Nine years later	13,553	14,000									
Ten years later	13,795										
Reserve Reestimated as of:											
End of year	15,598	15,773	15,423	16,161	15,225	14,833	15,018	15,980	16,761	18,931	16,610
One year later	14,921	15,073	14,836	15,439	15,567	15,518	15,419	15,750	16,293	17,960	
Two years later	14,450	14,548	14,371	15,330	15,900	16,175	15,757	15,677	16,033		
Three years later	14,156	14,183	14,296	15,583	16,625	16,696	15,949	15,721			
Four years later	13,894	14,168	14,530	16,317	17,249	16,937	16,051				
Five years later	13,888	14,406	15,260	17,033	17,501	17,041					
Six years later	14,140	15,109	16,024	17,302	17,633						
Seven years later	14,824	15,899	16,292	17,436							
Eight years later	15,625	16,184	16,431								
Nine years later	15,911	16,326									
Ten years later	16,061										
Initial reserve in excess of (less than) reestimated reserve:											
Amount of reestimate	$ (463)	$ (553)	$ (1,008)	$ (1,275)	$ (2,408)	$ (2,208)	$ (1,033)	$ 259	$ 728	$ 971	
Percent	-3.0%	-3.5%	-6.5%	-7.9%	-15.8%	-14.9%	-6.9%	1.6%	4.3%	5.1%	
Gross Reestimated Liability-Latest	$ 19,228	$ 19,304	$ 19,300	$ 20,418	$ 20,609	$ 19,993	$ 18,990	$ 18,483	$ 19,028	$ 21,301	
Reestimated Recoverable-Latest	3,167	2,978	2,869	2,982	2,976	2,952	2,939	2,762	2,995	3,341	
Net Reestimated Liability-Latest	$ 16,061	$ 16,326	$ 16,431	$ 17,436	$ 17,633	$ 17,041	$ 16,051	$ 15,721	$ 16,033	$ 17,960	
Gross Cumulative Reestimate (Increase) Decrease	$ (1,846)	$ (1,901)	$ (2,419)	$ (2,604)	$ (3,750)	$ (3,493)	$ (2,300)	$ (769)	$ 310	$ 816	

Amount of Reestimates for Each Segment

December 31,

	December 31,									
($ millions)	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**
Net Discontinued Lines and Coverages Reestimate	$ (1,851)	$ (1,883)	$ (1,811)	$ (1,774)	$ (1,765)	$ (1,739)	$ (1,508)	$ (934)	$ (299)	$ (132)
Net Allstate Protection Reestimate	1,388	1,330	803	499	(643)	(469)	475	1,193	1,027	1,103
Amount of Reestimate (Net)	$ (463)	$ (553)	$ (1,008)	$ (1,275)	$ (2,408)	$ (2,208)	$ (1,033)	$ 259	$ 728	$ 971

As shown in the above table, the subsequent cumulative increase in the net reserves established from December 31, 1996 to December 31, 2002 reflects additions to reserves in the Discontinued Lines

and Coverages Segment, primarily for asbestos and environmental liabilities, which offset the effects of favorable severity trends experienced by Allstate Protection, as discussed more fully below. The decreases in net reserves established as of December 31, 2003 to December 31, 2005 reflects favorable reestimates as more fully discussed below.

The following table is derived from the Loss Reserve Reestimates table and summarizes the effect of reserve reestimates, net of reinsurance, on calendar year operations for the ten-year period ended December 31, 2006. The total of each column details the amount of reserve reestimates made in the indicated calendar year and shows the accident years to which the reestimates are applicable. The amounts in the total accident year column on the far right represent the cumulative reserve reestimates for the indicated accident year(s). Favorable reserve reestimates are shown in this table in parenthesis.

Effect of Net Reserve Reestimates on
Calendar Year Operations

(in millions)	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	TOTAL
BY ACCIDENT YEAR											
1996 & PRIOR	(677)	(471)	(294)	(262)	(6)	252	684	801	286	150	463
1997		(229)	(231)	(103)	(9)	(14)	19	(11)	(1)	(8)	(587)
1998			(62)	(100)	(60)	(4)	27	(26)	(17)	(3)	(245)
1999				(257)	(34)	19	4	(48)	1	(5)	(320)
2000					451	80	(9)	(92)	(17)	(2)	411
2001						352	(68)	(103)	(11)	(28)	142
2002							(256)	(183)	(49)	(2)	(490)
2003								(568)	(265)	(58)	(891)
2004									(395)	(304)	(699)
2005										(711)	(711)
TOTAL	$ (677)	$ (700)	$ (587)	$ (722)	$ 342	$ 685	$ 401	$ (230)	$ (468)	$ (971)	$ (2,927)

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

In 2003 and 2002, we increased our reserve estimates for prior years. Unfavorable reserve reestimates in 2003 were due to increases primarily related to asbestos and other discontinued lines, partially offset by favorable Allstate Protection auto injury severity and late reported loss development that was better than previous estimates. Unfavorable reserve reestimates in 2002 were due to claim severity and late reported losses for Allstate Protection that were greater than what was anticipated in previous reserve estimates and to increased estimates of losses primarily related to asbestos and environmental liabilities in the Discontinued Lines and Coverages segment.

In 2001, we increased our reserve estimates for prior years due to greater volume of late reported weather related losses than expected from the end of the year 2000 which were reported in the year 2001, additional incurred losses on the 1994 Northridge earthquake, adverse results of class action and other litigation, upward reestimates of property losses and upward reestimates of losses in the Encompass and Canadian businesses.

Favorable calendar year reserve reestimates in 1997 through 2000 were the result of favorable severity trends in each of the four years for Allstate Protection, which more than offset adverse reestimates in the Discontinued Lines and Coverages segment, primarily for asbestos and environmental liabilities, virtually all of which relates to 1984 and prior years. The favorable severity trend during this

period was primarily the result of favorable injury severity trends, as compared to our anticipated trends. Favorable injury severity trends were largely due to more moderate medical cost inflation and the mitigating effects of our loss management programs.

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

REGULATION

Allstate is subject to extensive regulation, primarily at the state level. The method, extent and substance of such regulation varies by state but generally has its source in statutes that establish standards and requirements for conducting the business of insurance and that delegate regulatory authority to a state regulatory agency. In general, such regulation is intended for the protection of those who purchase or use insurance products issued by our subsidiaries, not the holders of securities issued by The Allstate Corporation. These rules have a substantial effect on our business and relate to a wide variety of matters including insurance company licensing and examination, agent and adjuster licensing, price setting, trade practices, policy forms, accounting methods, the nature and amount of investments, claims practices, participation in shared markets and guaranty funds, reserve adequacy, insurer solvency, transactions with affiliates, the payment of dividends, and underwriting standards. Some of these matters are discussed in more detail below. For a discussion of statutory financial information, see Note 15 of the Consolidated Financial Statements. For a discussion of regulatory contingencies, see Note 13 of the Consolidated Financial Statements. Notes 13 and 15 are incorporated in this Part I, Item 1 by reference.

In recent years the state insurance regulatory framework has come under increased federal scrutiny. Legislation that would provide for federal chartering of insurance companies has been proposed. In addition, state legislators and insurance regulators continue to examine the appropriate nature and scope of state insurance regulation. We cannot predict whether any specific state or federal measures will be adopted to change the nature or scope of the regulation of the insurance business or what effect any such measures would have on Allstate.

Agent and Broker Compensation. In 2005, several states considered new legislation or regulations regarding the compensation of agents and brokers by insurance companies. The proposals ranged in nature from new disclosure requirements to new duties on insurance agents and brokers in dealing with customers. New disclosure requirements have been imposed in certain circumstances upon some agents and brokers in several states, including Texas.

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

Holding Company Regulation. The Allstate Corporation and Allstate Insurance Company are insurance holding companies subject to regulation throughout the jurisdictions in which their insurance subsidiaries do business. In the U.S., these subsidiaries are organized under the insurance codes of Florida, Illinois, Massachusetts, Nebraska, New Hampshire, New York, Pennsylvania and Texas. Generally, the insurance codes in these states provide that the acquisition or change of "control" of a domestic insurer or of any person that controls a domestic insurer cannot be consummated without the prior approval of the relevant insurance regulator. In general, a presumption of "control" arises from the ownership, control, possession with the power to vote, or possession of proxies with respect to, ten

percent or more of the voting securities of a domestic insurer or of a person that controls a domestic insurer. In addition, certain state insurance laws require pre-acquisition notification to state agencies of a change in control with respect to a non-domestic insurance company licensed to do business in that state. While such pre-acquisition notification statutes do not authorize the state agency to disapprove the change of control, such statutes do authorize certain remedies, including the issuance of a cease and desist order with respect to the non-domestic insurer if certain conditions exist, such as undue market concentration. Thus, any transaction involving the acquisition of ten percent or more of The Allstate Corporation's common stock would generally require prior approval by the state insurance departments in Illinois, Massachusetts, Nebraska, New Hampshire, New York, Pennsylvania and Texas. The prior approval of the Florida insurance department would be necessary for the acquisition of five percent or more. Moreover, notification would be required in those other states that have adopted pre-acquisition notification provisions and where the insurance subsidiaries are admitted to transact business. Such approval requirements may deter, delay or prevent certain transactions affecting the ownership of The Allstate Corporation's common stock.

Price Regulation. Nearly all states have insurance laws requiring personal property and casualty insurers to file price schedules, policy or coverage forms, and other information with the state's regulatory authority. In many cases, such price schedules, policy forms or both must be approved prior to use. While they vary from state to state, the objectives of the pricing laws are generally the same: a price cannot be excessive, inadequate or unfairly discriminatory.

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

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

Changes in Allstate's claim settlement process may require Allstate to actuarially adjust loss information used in its pricing process. Some state insurance regulatory authorities may not approve price increases that give full effect to these adjustments.

From time to time, the private passenger auto insurance industry comes under pressure from state regulators, legislators and special interest groups to reduce, freeze or set prices at levels that do not correspond with our analysis of underlying costs and expenses. Homeowners insurance comes under similar pressure, particularly as regulators in states subject to high levels of catastrophe losses struggle to identify an acceptable methodology to price for catastrophe exposure. We expect this kind of pressure to persist. In addition, our use of insurance scoring based on credit report information for underwriting and pricing regularly comes under attack by regulators, legislators and special interest groups in various states. The result could be legislation or regulation that adversely affects the profitability of the Allstate Protection segment. We cannot predict the impact on our business of possible future legislative and regulatory measures regarding pricing.

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

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

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

Investment Regulation. Our insurance subsidiaries are subject to regulations that require investment portfolio diversification and that limit the amount of investment in certain categories. Failure to comply with these rules leads to the treatment of non-conforming investments as non-admitted assets for purposes of measuring statutory surplus. Further, in some instances, these rules require divestiture of non-conforming investments. As of December 31, 2006 the investment portfolios of our insurance subsidiaries complied with such laws and regulations in all material respects.

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

Variable Life Insurance, Variable Annuities and Registered Fixed Annuities. The sale and administration of variable life insurance, variable annuities and registered fixed annuities with market value adjustment features are subject to extensive regulatory oversight at the federal and state level, including regulation and supervision by the Securities and Exchange Commission and the National Association of Securities Dealers.

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

Regulation and Legislation Affecting Consolidation in the Financial Services Industry. The Gramm-Leach-Bliley Act of 1999 permits mergers that combine commercial banks, insurers and securities firms within one holding company group. In addition, it allows grandfathered unitary thrift holding companies, including our parent company, to engage in activities that are not financial in nature. The ability of banks to affiliate with insurers may materially adversely affect our business by substantially increasing the number, size and financial strength of potential competitors.

Banking. The Allstate Corporation is a diversified savings and loan holding company for Allstate Bank, a federal stock savings bank and a member of the Federal Deposit Insurance Corporation ("FDIC"). The principal supervisory authority for the diversified savings and loan holding company activities and the

bank is the Office of Thrift Supervision. The bank is also subject to the authority of the FDIC and other federal financial regulators implementing various laws applicable to banking.

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

Asbestos. President Bush has indicated support for efforts to pass meaningful federal reform to address asbestos claims and litigation. Congress has considered such legislation in the past, but unified support among various defendant and insurer groups considered essential to any possible reform has been lacking. In February 2006, there was a renewed effort to bring such measures before the Senate. There has been no real interest by Congress in pushing this legislation forward since that time. We cannot predict the impact on our business of possible future legislative measures regarding asbestos.

Environmental. Environmental pollution clean-up of polluted waste sites is the subject of both federal and state regulation. The Comprehensive Environmental Response Compensation and Liability Act of 1980 ("Superfund") and comparable state statutes ("mini-Superfund") govern the clean-up and restoration of waste sites by "Potentially Responsible Parties" (PRPs). Superfund and the mini-Superfunds (Environmental Clean-up Laws or ECLs) establish a mechanism to assign liability to PRPs or to fund the clean-up of waste sites if PRPs fail to do so. The extent of liability to be allocated to a PRP is dependent on a variety of factors. By some estimates, there are thousands of potential waste sites subject to clean-up, but the exact number is unknown. The extent of clean-up necessary and the process of assigning liability remain in dispute. The insurance industry is involved in extensive litigation regarding coverage issues arising out of the clean-up of waste sites by insured PRPs and the insured parties' alleged liability to third parties responsible for the clean-up. The insurance industry, including Allstate, has disputed and is disputing many such claims. Key coverage issues include whether Superfund response, investigation and clean-up costs are considered damages under the policies; trigger of coverage; the applicability of several types of pollution exclusions; proper notice of claims; whether administrative liability triggers the duty to defend; appropriate allocation of liability among triggered insurers; and whether the liability in question falls within the definition of an "occurrence." Identical coverage issues exist for clean-up and waste sites not covered under Superfund. To date, courts have been inconsistent in their rulings on these issues. Allstate's exposure to liability with regard to its insureds that have been, or may be, named as PRPs is uncertain. While comprehensive Superfund reform proposals have been introduced in Congress, only modest reform measures have been enacted.

INTERNET WEBSITE

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

OTHER INFORMATION ABOUT ALLSTATE

As of December 31, 2006, Allstate had approximately 36,800 full-time employees and 1,100 part-time employees.

Information regarding revenues generated outside of the United States is incorporated in this Part I, Item 1 by reference to Note 18 of the Consolidated Financial Statements.

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

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

We use the names "Allstate," "Encompass," "Deerbrook," "Lincoln Benefit Life" and variations of these names extensively in our business, along with related logos and slogans, such as "Good Hands." Our rights in the United States to these names, logos and slogans continue so long as we continue to use them in commerce. Most of these service marks are the subject of renewable U.S. and/or foreign service mark registrations. We believe that these service marks are important to our business and we intend to maintain our rights to them by continued use.

"Allstate" is one of the most recognized brand names in the U. S. According to independent market research conducted in 2004, "You're In Good Hands With Allstate" was recognized by 87% of consumers, making it the most recognized company tagline in the U.S.

Executive Officers

The following table sets forth the names of our executive officers, their ages as of February 1, 2007, their positions, and the dates of their first election as officers. "AIC" refers to Allstate Insurance Company.

Name	Age	Position/Offices	Date First Elected Officer
Edward M. Liddy	61	Chairman of the Board of Directors of The Allstate Corporation	1994
Thomas J. Wilson	49	President, Chief Executive Officer and a director of The Allstate Corporation; also Chairman of the Board, President and Chief Executive Officer of AIC	1995
Catherine S. Brune	53	Senior Vice President and Chief Information Officer of AIC	1999
Frederick F. Cripe	49	Senior Vice President of AIC	1990
Joan M. Crockett	56	Senior Vice President of AIC (Human Resources)	1994
Danny L. Hale	62	Vice President and Chief Financial Officer of The Allstate Corporation; Senior Vice President and Chief Financial Officer of AIC	2003
James E. Hohmann	51	President and Chief Executive Officer of Allstate Financial Senior Vice President of AIC	2007
Michael J. McCabe	61	Vice President and General Counsel of The Allstate Corporation; Senior Vice President, General Counsel and Assistant Secretary of AIC (Chief Legal Officer)	1980
Ronald D. McNeil	54	Senior Vice President of AIC (Allstate Protection Product Distribution)	1994
Samuel H. Pilch	60	Controller of The Allstate Corporation; Group Vice President and Controller of AIC	1995
Michael J. Roche	55	Senior Vice President of AIC (Claims)	2005
George E. Ruebenson	58	President Allstate Protection Senior Vice President of AIC	1990
Eric A. Simonson	61	Senior Vice President and Chief Investment Officer of AIC (President, Allstate Investments, LLC)	2002
Casey J. Sylla	63	Senior Vice President of AIC (Chairman of the Board and President of Allstate Life Insurance Company)	1995
Joseph V. Tripodi	51	Senior Vice President and Chief Marketing Officer of AIC	2003
Joan H. Walker	59	Senior Vice President of AIC (Corporate Relations)	2005

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

With the exception of Messrs. Hale, Hohmann, Roche, Simonson, Tripodi and Ms. Walker, these officers have held the listed positions for at least the last five years or have served Allstate in various executive or administrative capacities for at least five years.

Prior to joining Allstate in 2003, Mr. Hale served as Executive Vice President and Chief Financial Officer of Promus Hotel Corporation in 1999 and as Executive Vice President and Chief Financial Officer of USF&G Corporation from 1993 to 1998.

Prior to joining Allstate in 2007, Mr. Hohmann was President and Chief Operating Officer of Conseco, Inc. in 2006 and Executive Vice President and Chief Administrative Officer from 2004 to 2006. Mr. Hohmann also served as President and Chief Executive Officer of XL Life and Annuity from 2001 to 2004.

Prior to joining Allstate in 2002, Mr. Roche was Group President of Small Business Finance for Heller Financial from 1990-2002.

Prior to joining Allstate in 2002, Mr. Simonson performed consulting services for large institutional investors from 2000 to 2002 and was Senior Vice President and Chief Investment Strategist for John Hancock Mutual Life Insurance Company from 1996 to 2000.

Prior to joining Allstate in 2003, Mr. Tripodi was Chief Marketing Officer of The Bank of New York from 2002 to 2003 and Chief Marketing Officer of Seagram Spirits & Wine Group from 1999 to 2002.

Prior to joining Allstate in 2005, Ms. Walker served as Executive Vice President of Marketing and Communications at Qwest Communications International, Inc. from 2002 to 2005 and as Senior Vice President of Global Public Affairs at Pharmacia Corporation from 1999 to 2001.

Item 1A. Risk Factors

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

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Our home office complex is located in Northbrook, Illinois. As of December 31, 2006, the complex consists of several buildings totaling approximately 2.3 million square feet of office space on a 250-acre site.

We also operate from 1,274 administrative, data processing, claims handling and other support facilities in North America. Approximately 4.4 million square feet are owned and 7.0 million are leased. In addition, we lease three properties as lessee in Northern Ireland comprising approximately 152,900 square feet. Generally, only major facilities are owned. In almost all cases, lease terms are for five years or less.

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

Item 3. Legal Proceedings

Information required for Item 3 is incorporated by reference to the discussion under the heading "Regulation" and under the heading "Legal proceedings" in Note 13 of the Consolidated Financial Statements.

Item 4. Submission of Matters to a Vote of Security Holders

None.

Part II

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

As of January 31, 2007, there were 130,552 record holders of The Allstate Corporation's common stock. The principal market for the common stock is the New York Stock Exchange but it is also listed on the Chicago Stock Exchange. Set forth below are the high and low New York Stock Exchange Composite listing prices of, and cash dividends declared for, the common stock during 2006 and 2005.

	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

The payment of dividends by Allstate Insurance Company to The Allstate Corporation is limited by Illinois insurance law to formula amounts based on statutory net income and statutory surplus, as well as the timing and amount of dividends paid in the preceding twelve months. In the twelve-month period ending December 31, 2006, Allstate Insurance Company paid dividends of $1.01 billion. Based on the greater of 2006 statutory net income or 10% of statutory surplus, the maximum amount of dividends that Allstate Insurance Company will be able to pay without prior Illinois Department of Insurance approval at a given point in time in 2007 is $4.92 billion, less dividends paid during the preceding twelve months measured at that point in time. Notification and approval of intercompany lending activities is also required by the Illinois Department of Insurance for those transactions that exceed formula amounts based on statutory admitted assets and statutory surplus.

Period	Total Number of Shares (or Units) Purchased[1]	Average Price Paid per Share (or Unit)	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs[2]	Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
October 1, 2006 - October 31, 2006	3,173,865	$ 62.5165	3,173,400	$96 million
November 1, 2006 - November 30, 2006	2,692,110	$ 62.9676	2,651,700	$2.9 billion
December 1, 2006 - December 31, 2006	2,207,937	$ 64.7862	2,098,185	$2.8 billion
Total	8,073,912	$ 63.2876	7,923,285	

(1)

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

October: 465
November: 40,410
December: 109,752

(2)

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

On November 9, 2004, Allstate announced the approval of a new repurchase program for $4.00 billion. This program was completed as of December 31, 2006.

On October 18, 2006, Allstate announced the approval of a new share repurchase program for $3.00 billion, which is expected to be completed by March, 31 2008.

Item 6. 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.

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

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OVERVIEW

The following discussion highlights significant factors influencing the consolidated financial position and results of operations of The Allstate Corporation (referred to in this document as "we", "our", "us", the "Company" or "Allstate"). It should be read in conjunction with the 5-year summary of selected financial data, consolidated financial statements and related notes found under Part II, Item 6 and Item 8 contained herein. Further analysis of our insurance segments is provided in 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 49, 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 47. 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

(in millions)	2006	2005	2004

(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.

	Allstate brand			Encompass brand			Total Allstate Protection		
(in millions)	**2006**	**2005**	**2004**	**2006**	**2005**	**2004**	**2006**	**2005**	**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.

	Allstate brand			Encompass brand			Total Allstate Protection		
(in millions)	**2006**	**2005**	**2004**	**2006**	**2005**	**2004**	**2006**	**2005**	**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.

	Allstate brand		
Homeowners	**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 62.

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 45.

				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			

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

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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

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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.

	2006		**2005**		**2004**	
(in millions)	**Jan 1 Reserves**	**Reserve Reestimate[1]**	**Jan 1 Reserves**	**Reserve Reestimate[1]**	**Jan 1 Reserves**	**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.

	2006		2005		2004	
(in millions)	Jan 1 Reserves	Reserve Reestimate	Jan 1 Reserves	Reserve Reestimate	Jan 1 Reserves	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

(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.

	2006		2005		2004	
(in millions, except ratios)	**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.

	December 31, 2006			December 31, 2005			December 31, 2004		
(in millions)	**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%

	December 31, 2006	December 31, 2005	December 31, 2004
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

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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.

	Reserve for Property-Liability insurance claims and claims expense		Reinsurance recoverables, net	
(in millions)	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

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.

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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

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 91.

- 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 91, 93 and 94, 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**