ALLSTATE CORP
Form 10-K
February 25, 2010

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, 2009

OR

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

Commission file number 1-11840

THE ALLSTATE CORPORATION

(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

Yes __X__ No____

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

Yes ____ No__X__

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

subject to such filing requirements for the past 90 days.

Yes __X__ No____

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

Yes __X__ No____

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

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

Large accelerated filer __X__ Accelerated filer ____

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

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

Yes ____ No__X__

The aggregate market value of the common stock held by non-affiliates of the registrant, computed by reference to the closing price as of the last business day of the registrant's most recently completed second fiscal quarter, June 30, 2009, was approximately $13.01 billion.

As of February 1, 2010, the registrant had 536,571,250 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 18, 2010 (the "Proxy Statement") to be filed not later than 120 days after the end of the fiscal year covered by this Form 10-K.

TABLE OF CONTENTS

		Page
PART I		
Item 1.	Business	1
	Goals	1
	Allstate Protection Segment	1
	Allstate Financial Segment	3
	Other Business Segments	5
	Reserve for Property-Liability Claims and Claims Expense	5
	Regulation	9
	Internet Website	12
	Other Information about Allstate	12
	Executive Officers	13
Item 1A.	Risk Factors	14
Item 1B.	Unresolved Staff Comments	24
Item 2.	Properties	24
Item 3.	Legal Proceedings	24
Item 4.	Submission of Matters to a Vote of Security Holders	24
PART II		
Item 5.	Market for Registrant's Common Equity, Related Stockholders Matters and Issuer Purchases of Equity Securities	25
Item 6.	Selected Financial Data	26
Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations	27
Item 7A.	Quantitative and Qualitative Disclosures About Market Risk	118
Item 8.	Financial Statements and Supplementary Data	118
Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	200
Item 9A.	Controls and Procedures	200
Item 9B.	Other Information	200
PART III		
Item 10.	Directors, Executive Officers and Corporate Governance	201
Item 11.	Executive Compensation	201
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	202
Item 13.	Certain Relationships and Related Transactions, and Director Independence	202
Item 14.	Principal Accounting Fees and Services	202
PART IV		
Item 15.	Exhibits and Financial Statement Schedules	203
Signatures		207
Financial Statement Schedules		S-1

Part I

Item 1. Business

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

The Allstate Corporation is the largest publicly held personal lines insurer in the United States. Widely known through the "You're In Good Hands With Allstate®" slogan, Allstate is reinventing protection and retirement to help individuals in approximately 17 million households protect what they have today and better prepare for tomorrow. Customers can access Allstate products and services such as auto insurance and homeowners insurance through more than 14,000 exclusive Allstate agencies and financial representatives in the United States and Canada. Allstate is the 2nd largest personal property and casualty insurer in the United States on the basis of 2008 statutory direct premiums earned. In addition, according to A.M. Best, it is the nation's 16th largest issuer of life insurance business on the basis of 2008 ordinary life insurance in force and 17th largest on the basis of 2008 statutory admitted assets.

Allstate has four business segments:

Allstate Protection	Discontinued Lines and Coverages
Allstate Financial	Corporate and Other

To achieve its goals in 2010, Allstate is focused on three priorities: improve customer loyalty, reinvent protection and retirement for the consumer, and grow our businesses.

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

ALLSTATE PROTECTION SEGMENT

Products and Distribution

Our Allstate Protection segment accounted for about 93% of Allstate's 2009 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 and Encompass® brand names. The Allstate Protection segment also includes a separate organization called Emerging Businesses which is comprised of Business Insurance (commercial products for small business owners), Consumer Household (specialty products including motorcycles, boats, renters and condominium insurance policies), Allstate Dealer Services (insurance and non-insurance products sold primarily to auto dealers), Allstate Roadside Services (retail and wholesale roadside assistance products) and Ivantage (insurance agency). We also participate in the involuntary or shared private passenger auto insurance business in order to maintain our licenses to do business in many states. In some states, Allstate exclusive agencies offer non-proprietary property insurance products.

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 are sold through independent agencies.

In most states, consumers can also purchase certain Allstate brand personal insurance, Emerging Business products, and obtain service through our direct channel that includes call centers and the internet.

Total Allstate Protection premiums written were $25.97 billion in 2009. Our broad-based network of approximately 12,300 Allstate exclusive agencies in approximately 11,500 locations in the U.S. produced approximately 87% of the Allstate Protection segment's written premiums in 2009. The direct channel accounted for 2.4% of this total. The rest was generated primarily by approximately 4,300 independent agencies. We are among the six 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 2008.

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, 2008 (the most recent date such competitive information is available) according to A.M. Best.

Private Passenger Auto Insurance

Insurer	Market Share
State Farm	17.8%
Allstate	11.0%
GEICO	7.7%
Progressive	7.2%
Farmers	5.5%
Nationwide	4.7%

Homeowners Insurance

Insurer	Market Share
State Farm	20.9%
Allstate	10.5%
Farmers	6.9%
Liberty Mutual	4.9%
Nationwide	4.7%
Travelers	4.6%
USAA	4.0%

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 pricing sophistication to more accurately price risks and to cross sell products within our customer base.

Pricing sophistication 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 pricing sophistication methods has been on acquiring and retaining new business. The aim has been 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. "High lifetime value" generally refers to customers who are homeowners with multiple autos to insure, who have better retention and more favorable loss experience, and thus potentially present more favorable prospects for profitability over the course of their relationships with us. We provide and continue to enhance a range of discounts to attract more high lifetime value customer segments. For example, we implemented a new auto discount for the high lifetime value customer segment. In many states, we also increased the discount our homeowners customers receive if they insure their automobiles with Allstate.

Allstate® Your Choice Auto insurance allows qualified customers to choose from a variety of optional auto insurance packages at various prices. We believe that Allstate Your Choice Auto differentiates Allstate from its competitors and allows for increased growth and increased retention. Allstate® Your Choice Home allows qualified customers to choose from options such as a claim-free bonus and greater ability to tailor their own home insurance protection coverage. Allstate Blue® is our non-standard auto insurance product which offers features such as a loyalty bonus 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, 2009, based on information contained in statements filed with state insurance departments. No other jurisdiction accounted for more than 5 percent of the premiums earned for the segment.

New York	10.5%
California	9.8%
Texas	9.4%
Florida	8.2%
Pennsylvania	5.3%

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

Additional Information

Information regarding the last three years' revenues and income from operations attributable to the Allstate Protection segment is contained in Note 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 47, 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 voluntary accident and health insurance products. Our principal products are fixed annuities including deferred and immediate; interest-sensitive, traditional and variable life insurance; and voluntary accident and health insurance. 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. Banking products and services are also offered to customers through the Allstate Bank. The table on page 4 lists our major distribution channels for this segment, with the associated products and targeted customers.

As the table indicates, we sell Allstate Financial products to individuals through multiple intermediary distribution channels, including Allstate exclusive agencies and exclusive financial specialists, independent agents, banks, broker-dealers, and specialized structured settlement brokers. We sell products through independent agents affiliated with approximately 150 master brokerage agencies. Independent workplace enrolling agents and Allstate exclusive agencies also sell our voluntary accident and health insurance products primarily to employees of unaffiliated businesses. We sell funding agreements to unaffiliated trusts used to back medium-term notes.

Allstate Financial Distribution Channels, Products and Target Customers

Distribution Channel	Proprietary Products	Target Customers
Allstate exclusive agencies (Allstate Exclusive Agents and Allstate Exclusive Financial Specialists)	Term life insurance 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 and Allstate Agency loans) Workplace life and voluntary accident and health insurance[4]	Middle market[1], emerging affluent[2] and mass affluent consumers[3] with retirement and family financial protection needs
Independent agents (through master brokerage agencies)	Term life insurance Interest-sensitive life insurance Variable life insurance Deferred fixed annuities (including indexed and MVA) Immediate fixed annuities	Emerging affluent and mass affluent consumers with retirement and financial protection needs
Independent agents (as workplace enrolling agents)	Workplace life and voluntary accident and health insurance[4]	Middle market consumers with family financial protection needs employed by small, medium, and large size firms
Banks	Deferred fixed annuities (including indexed and MVA) Single premium life insurance	Middle market and emerging affluent consumers with retirement needs
Broker-dealers	Deferred fixed annuities (including indexed and MVA)	Emerging affluent and mass affluent 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

(1) Consumers with $35,000-$75,000 in household income

(2) Consumers with $75,000-$150,000 in household income

(3) Consumers with greater than $150,000 in household income

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

Allstate exclusive agencies and exclusive financial specialists also sell the following non-proprietary products in addition to Allstate Financial products: mutual funds, variable annuities, disability insurance, and long-term care insurance.

Competition

We compete on a wide variety of factors, including the scope of our distribution systems, the type of our product offerings, the recognition of our brands, our financial strength and ratings, our differentiated product features and prices, and the level of customer service that we provide. 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, 2009, there were approximately 480 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, 2008, the Allstate Financial segment is the nation's 16th largest issuer of life insurance and related business on the basis of 2008 ordinary life insurance in force and 17th largest on the basis of 2008 statutory admitted assets. In addition, because many of these products include a savings or investment component, our competition includes domestic and foreign securities firms, investment advisors, mutual funds, banks and other financial institutions. Competitive pressure continues to grow due to several factors, including cross marketing alliances between unaffiliated businesses, as well as consolidation activity in the financial services industry.

Geographic Markets

We sell life insurance, retirement and investment, and voluntary 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 also sell funding agreements in the United States.

The following table reflects, in percentages, the principal geographic distribution of statutory premiums and annuity considerations for the Allstate Financial segment for the year ended December 31, 2009, based on information contained in statements filed with state insurance departments. No other jurisdiction accounted for more than 5 percent of the statutory premiums and annuity considerations.

California	10.9%
Florida	9.2%
Texas	7.2%
New York	6.7%

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 71, 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.

GROSS

($ in millions)	**Year Ended December 31,**		
	2009	**2008**	**2007**
Gross reserve for property-liability claims and claims expense, beginning of year	$ 19,456	$ 18,865	$18,866
Incurred claims and claims expense			
Provision attributable to the current year	19,111	20,381	18,107
Change in provision attributable to prior years	50	303	(70)
Total claims and claims expense	19,161	20,684	18,037
Claim payments			
Claims and claims expense attributable to current year	12,002	12,941	11,026
Claims and claims expense attributable to prior years	7,448	7,152	7,012
Total payments	19,450	20,093	18,038
Gross reserve for property-liability claims and claims expense, end of year as shown on the Loss Reserve Reestimates table	$ 19,167	$ 19,456	$18,865

NET

($ in millions)	**Year Ended December 31,**		
	2009	**2008**	**2007**
Net reserve for property-liability claims and claims expense, beginning of year	$ 17,182	$ 16,660	$ 16,610
Incurred claims and claims expense			
Provision attributable to the current year	18,858	19,894	17,839
Change in provision attributable to prior years	(112)	170	(172)
Total claims and claims expense	18,746	20,064	17,667
Claim payments			
Claims and claims expense attributable to current year	11,905	12,658	10,933
Claims and claims expense attributable to prior years	6,995	6,884	6,684
Total payments	18,900	19,542	17,617
Net reserve for property-liability claims and claims expense, end of year as shown on the Loss Reserve Reestimates table[(1)]	$ 17,028	$ 17,182	$ 16,660

---

(1) Reserves for claims and claims expense are net of reinsurance of $2.14 billion, $2.27 billion and $2.21 billion

at December 31, 2009, 2008 and 2007, respectively.

The year-end 2009 gross reserves of $19.17 billion for property-liability insurance claims and claims expense, as determined under GAAP, were $3.34 billion more than the net reserve balance of $15.83 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 $2.14 billion that reduce reserves for statutory reporting but are recorded as assets for GAAP reporting, and a liability for the reserves of the Canadian subsidiaries for $0.94 billion. Remaining differences are due to variations in requirements between GAAP and statutory reporting.

As the tables above illustrate, Allstate's net reserve for property-liability insurance claims and claims expense at the end of 2008 decreased in 2009 by $112 million, compared to reestimates of the gross reserves of an increase of $50 million. Net reserve reestimates in 2009, 2008 and 2007 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 parentheses.

n ions)	Loss Reserve Reestimates December 31,										
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	200
ss erves Unpaid ms and ms ense	$ 17,814	$ 16,859	$ 16,500	$ 16,690	$ 17,714	$ 19,338	$ 22,117	$ 18,866	$ 18,865	$ 19,456	$19,
nsurance overable	1,653	1,634	1,667	1,672	1,734	2,577	3,186	2,256	2,205	2,274	2,
erve Unpaid ms and ms ense	16,161	15,225	14,833	15,018	15,980	16,761	18,931	16,610	16,660	17,182	17,(
nulative) f:											
e year r	5,973	6,748	6,874	6,275	6,073	6,665	7,952	6,684	6,884	6,995	
o years r	9,055	10,066	9,931	9,241	9,098	9,587	11,293	9,957	9,852		
ee rs later	11,118	11,889	11,730	11,165	10,936	11,455	13,431	11,837			
r years r	12,197	12,967	12,949	12,304	12,088	12,678	14,608				
e years r	12,842	13,768	13,648	13,032	12,866	13,374					
years r	13,434	14,255	14,135	13,583	13,326						
en rs later	13,800	14,617	14,558	13,928							
ht rs later	14,085	14,945	14,829								
e years r	14,358	15,157									
years r	14,543										

erve stimated f:											
l of r	16,161	15,225	14,833	15,018	15,980	16,761	18,931	16,610	16,660	17,182	17,0
e year r	15,439	15,567	15,518	15,419	15,750	16,293	17,960	16,438	16,830	17,070	
o years r	15,330	15,900	16,175	15,757	15,677	16,033	17,876	16,633	17,174		
ee rs later	15,583	16,625	16,696	15,949	15,721	16,213	18,162	17,135			
r years r	16,317	17,249	16,937	16,051	15,915	16,337	18,805				
e years r	17,033	17,501	17,041	16,234	16,027	16,895					
years r	17,302	17,633	17,207	16,351	16,496						
en rs later	17,436	17,804	17,321	16,778							
ht rs later	17,595	17,885	17,701								
e years r	17,665	18,205									
years r	17,935										
al rve in ess of s than) timated rve:											
ount of stimate	(1,774)	(2,980)	(2,868)	(1,760)	(516)	(134)	126	(525)	(514)	112	
cent	(11.0)%	(19.6)%	(19.3)%	(11.7)%	(3.2)%	(0.8)%	0.7%	(3.2)%	(3.1)%	0.7%	
ss stimated bility-Latest	21,241	21,503	20,974	20,038	19,573	20,218	22,556	19,793	19,683	19,506	
stimated overable-Latest	3,306	3,298	3,273	3,260	3,077	3,323	3,751	2,658	2,509	2,436	
stimated bility-Latest	17,935	18,205	17,701	16,778	16,496	16,895	18,805	17,135	17,174	17,070	
ss nulative stimate rease) rease	$ (3,427)	$ (4,644)	$ (4,474)	$ (3,348)	$ (1,859)	$ (880)	$ (439)	$ (927)	$ (818)	$ (50)	

7

($ in millions)	Amount of Reestimates for Each Segment December 31,									
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Net Discontinued Lines and Coverages Reestimate	$(1,863)	$(1,854)	$(1,828)	$(1,597)	$(1,023)	$(388)	$(221)	$ (89)	$ (42)	$ (24)
Net Allstate Protection Reestimate	89	(1,126)	(1,040)	(163)	507	254	347	(436)	(472)	136
Amount of Reestimate (Net)	$(1,774)	$(2,980)	$(2,868)	$(1,760)	$ (516)	$(134)	$ 126	$(525)	$(514)	$ 112

As shown in the above table, the subsequent cumulative increase in the net reserves established from December 31, 1999 to December 31, 2003 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. Since December 31, 2003 the subsequent cumulative changes in total have generally been favorable other than 2007 which was adversely impacted due to litigation filed in conjunction with a Louisiana deadline for filing suits related to Hurricane Katrina.

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, 2009. The total of each column details the amount of reserve reestimates made in the indicated calendar year and shows the accident years to which the reestimates are applicable. The amounts in the total accident year column on the far right represent the cumulative reserve reestimates for the indicated accident year(s). Favorable reserve reestimates are shown in this table in parentheses.

($ in millions)	Effect of Net Reserve Reestimates on Calendar Year Operations										
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	TOTAL
BY ACCIDENT YEAR											
1999 & PRIOR	$ (722)	$ (109)	$ 253	$ 734	$ 716	$ 269	$ 134	$ 159	$ 69	$ 271	$ 1,774
2000		451	80	(9)	(92)	(17)	(2)	12	11	49	483
2001			352	(68)	(103)	(11)	(28)	(5)	33	59	229
2002				(256)	(183)	(49)	(2)	18	3	47	(422)
2003					(568)	(265)	(58)	11	(4)	43	(841)
2004						(395)	(304)	(14)	12	90	(611)
2005							(711)	(264)	162	84	(729)
2006								(89)	(91)	(141)	(321)
2007									(25)	(158)	(183)
2008										(456)	(456)
TOTAL	$ (722)	$ 342	$ 685	$ 401	$ (230)	$ (468)	$ (971)	$ (172)	$ 170	$ (112)	$ (1,077)

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

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

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

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

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

In 2002, unfavorable prior year reserve reestimates 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, unfavorable prior year reserve reestimates were 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 2000 were the result of favorable severity trends in each year 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, corporate governance, 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 increased federal regulation of insurance, including the federal chartering of insurance companies, has been proposed. Moreover, as part of an effort to strengthen the regulation of the financial services market, the federal government has proposed a set of regulatory reforms, including the establishment of an Office of National Insurance within the Treasury Department. The reforms could increase the regulation of large insurance conglomerates whose failure could pose a systemic risk to the financial system. In addition, state legislators and insurance regulators continue to examine the appropriate nature and scope of state insurance regulation. The federal government has also issued a set of principles for reforming the U.S. and international regulatory capital framework for banking firms. 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 or financial services businesses or what effect any such measures would have on Allstate.

We are working for changes in the regulatory environment, including recognizing the need for and improving appropriate risk based pricing and promoting the creation of government sponsored, privately funded solutions for mega-catastrophes. 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.

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

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

Insurance Holding Company Regulation. The Allstate Corporation and Allstate Insurance Company are insurance holding companies subject to regulation in the jurisdictions in which their insurance subsidiaries do business. In the U.S., these subsidiaries are organized under the insurance codes of Florida, Illinois, Massachusetts, Nebraska, New York, and Texas, and some of these subsidiaries are considered commercially domiciled in California, Florida, and Utah. Generally, the insurance codes in these states provide that the acquisition or change of "control" of a domestic or commercially domiciled insurer or of any person that controls such an insurer cannot be consummated without the prior approval of the relevant insurance regulator. In general, a presumption of "control" arises from the ownership, control, possession with the power to vote, or possession of proxies with respect to, ten percent or more of the voting securities of an insurer or of a person that controls an insurer. In addition, certain state insurance laws require pre-acquisition notification to state agencies of a change in control with respect to a non-domestic insurance company licensed to do business in that state. While such pre-acquisition notification statutes do not authorize the state agency to disapprove the change of control, such statutes do authorize certain remedies, including the issuance of a cease and desist order with respect to the non-domestic insurer if certain conditions exist, such as undue market concentration. Thus, any transaction involving the acquisition of ten percent or more of The Allstate Corporation's common stock would generally require prior approval by the state insurance departments in California, Illinois, Massachusetts, Nebraska, New York, Texas, and Utah. 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. Eighteen 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 has been the subject of challenges and investigations by regulators, legislators, and special interest groups. The result could be legislation or regulation that adversely affects the profitability of the Allstate Protection segment. We cannot predict the impact on our business of possible future legislative and regulatory measures regarding 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 carrier in the National Flood Insurance Program ("NFIP"). The NFIP is administered and regulated by the Federal Emergency Management Agency. We operate as a fiscal agent of the federal government in the selling and administering of the Standard Flood Insurance Policy. This involves the collection of premiums belonging to the federal government and the paying of covered claims by directly drawing on funds of the United States Treasury. We receive expense allowances from the NFIP for underwriting administration, claims management, commissions and adjuster fees.

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

Exiting Geographic Markets; Canceling and Non-Renewing Policies. Most states regulate an insurer's ability to exit a market. For example, states 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 and Registered Fixed Annuities. The sale and administration of variable life insurance and registered fixed annuities with market value adjustment features are subject to extensive regulatory oversight at the federal and state level, including regulation and supervision by the Securities and Exchange Commission and the Financial Industry Regulatory Authority ("FINRA").

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

Banking. The Allstate Corporation is a diversified unitary 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 ("OTS"). We are subject to OTS regulation, examination, supervision, and reporting requirements and its enforcement authority. Among other things, this permits the OTS to restrict or prohibit activities that are determined to be a serious risk to the financial safety, soundness, and stability of Allstate Bank. 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 many states require financial institutions to protect the security and confidentiality of customer information and to notify customers about their policies and practices relating to collection and disclosure of customer information and their policies relating to protecting the security and confidentiality of that information. Federal law and the laws of many states also regulate disclosures of customer information. Congress, state legislatures, and regulatory authorities are expected to consider additional regulation relating to privacy and other aspects of customer information.

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

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

Separately, in 2009, the National Association of Insurance Commissioners ("NAIC") adopted a model rule that, if adopted by the states, would require insurance companies with annual premiums of at least $500,000,000 to complete an annual survey regarding climate change risks. We expect most states to require the survey beginning in May 2010. The responses will be made available to the public through the NAIC.

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, 2009, Allstate had approximately 36,000 full-time employees and 800 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.

"Allstate" is one of the most recognized brand names in the United States. We use the names "Allstate," "Encompass," and "Lincoln Benefit Life" extensively in our business, along with related service marks, logos, and slogans, such as "Good Hands." Our rights in the United States to these names, service marks, logos, and slogans continue so long as we continue to use them in commerce. 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 through continued use.

Executive Officers

The following table sets forth the names of our executive officers, their ages as of February 1, 2010, 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
Thomas J. Wilson	52	Chairman of the Board, President, and Chief Executive Officer of The Allstate Corporation; also Chairman of the Board, President, and Chief Executive Officer of AIC.	1995
Catherine S. Brune	56	Senior Vice President of AIC (Chief Information Officer).	1999
Don Civgin	48	Senior Vice President and Chief Financial Officer of The Allstate Corporation; Senior Vice President and Chief Financial Officer of AIC.	2008
Frederick F. Cripe	52	Senior Vice President of AIC.	2000
James D. DeVries	46	Senior Vice President of AIC (Human Resources).	2008
Judith P. Greffin	49	Senior Vice President and Chief Investment Officer of AIC.	2002
Joseph P. Lacher, Jr.	40	President Allstate Protection Senior Vice President of AIC.	2009
Mark R. LaNeve	50	Senior Vice President and Chief Marketing Officer of AIC	2009
Michele C. Mayes	60	Senior Vice President and General Counsel of The Allstate Corporation; Senior Vice President, General Counsel, and Assistant Secretary of AIC (Chief Legal Officer).	2007
Samuel H. Pilch	63	Controller of The Allstate Corporation; Group Vice President and Controller of AIC.	1995
Joseph J. Richardson	49	Senior Vice President of AIC (Allstate Protection Distribution).	1999
Michael J. Roche	58	Senior Vice President of AIC (Claims).	2003
Steven P. Sorenson	45	Senior Vice President of AIC (Allstate Protection Product Operations).	2000
Joan H. Walker	62	Senior Vice President of AIC (Corporate Relations).	2005
Matthew E. Winter	53	President and Chief Executive Officer Allstate Financial Senior Vice President of AIC.	2009

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

With the exception of Messrs. Civgin, DeVries, Lacher, LaNeve, and Winter, Ms. Mayes 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 2008, Mr. Civgin was Executive Vice President and Chief Financial Officer of OfficeMax, Incorporated and served in that position since 2005. From 2002 to 2005, he served as Senior Vice President and Chief Financial Officer of General Binding Corporation.

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

Prior to joining Allstate in 2009, Mr. Lacher served in various executive officer positions for The Travelers Companies, Inc. since 2002.

Prior to joining Allstate in 2009, Mr. LaNeve served as Vice President of Sales, Service and Marketing of General Motors Corporation since 2004.

Prior to joining Allstate in 2009, Mr. Winter served as Vice Chairman of American International Group ("AIG") in 2009, President and Chief Executive Officer of AIG American General Domestic Life Companies since 2006, and Executive Vice President of Massachusetts Mutual Life Insurance Company since 1996.

Prior to joining Allstate in 2007, Ms. Mayes served as Senior Vice President and General Counsel of Pitney Bowes since 2003.

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.

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, investment results, regulatory approvals, market position, expenses, financial results, litigation and reserves. We believe that these statements are based on reasonable estimates, assumptions and plans. However, if the estimates, assumptions or plans underlying the forward-looking statements prove inaccurate or if other risks or uncertainties arise, actual results could differ materially from those communicated in these forward-looking statements.

In addition to the normal risks of business, we are subject to significant risks and uncertainties, including those listed below, which apply to us as an insurer and a provider of other 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.

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 incur catastrophe losses in our auto and property business in excess of: (1) those experienced in prior years (2) those that we project would be incurred based on hurricane and earthquake losses which have a one percent probability of occurring on an annual aggregate countrywide basis (3) those that external modeling firms estimate would be incurred based on other levels of probability (4) the average expected level used in pricing or (5) our current reinsurance coverage limits. Despite our catastrophe management programs, we are exposed to catastrophes that could have a material adverse effect on operating results and financial condition. For example, our historical catastrophe experience includes losses relating to Hurricane Katrina in 2005 totaling $3.6 billion, the Northridge earthquake of 1994 totaling $2.1 billion and Hurricane Andrew in 1992 totaling $2.3 billion. We are also exposed to assessments from the California Earthquake Authority and various state-created 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 subject to claims arising from weather events such as winter storms, rain, hail and high winds. The incidence and severity of weather conditions are largely unpredictable. There is generally an increase in the frequency and severity of auto and property claims when severe weather conditions occur.

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

Along with others in the industry, we use models developed by third party vendors in assessing our property exposure to catastrophe losses. These models assume various conditions and probability scenarios. Such models do not necessarily accurately predict future losses or accurately measure losses currently incurred. Catastrophe models, which have been evolving since the early 1990s, use historical information about hurricanes and earthquakes and also utilize detailed information about our in-force business. While we use this information in connection with our pricing and risk management activities, there are limitations with respect to its usefulness in predicting losses in any reporting period. 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

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

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

Changes in the severity or frequency of claims may affect the profitability of our Allstate Protection segment. Changes in bodily injury claim severity are driven primarily by inflation in the medical sector of the economy and litigation. Changes in auto physical damage claim severity are driven primarily by inflation in auto repair costs, auto parts prices and used car prices. Changes in homeowners claim severity are driven by inflation in the construction industry, in building materials and in home furnishings, and by other economic and environmental factors, including increased demand for services and supplies in areas affected by catastrophes. However, changes in the level of the severity of claims are not limited to the effects of inflation and demand surge in these various sectors of the economy. Increases in claim severity can arise from unexpected events that are inherently difficult to predict. Examples of such events include a decision in 2001 by the Georgia Supreme Court which held 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 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 may experience volatility in claim frequency from time to time, and short-term trends may not continue over the longer term. A spike in gas prices and a significant decline in miles driven, both of which occurred in 2008, are examples of factors contributing to a short-term frequency change. A significant increase in claim frequency could have an adverse effect on our operating results and financial condition.

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

Recorded claim reserves in the Property-Liability business are based on our best estimates of losses, both reported and 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, environmental and other discontinued lines is inherently uncertain and may have a material adverse effect on our operating results and financial condition

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

Regulation limiting rate increases and requiring us to underwrite business and participate in loss sharing arrangements may adversely effect our operating results and financial condition

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

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

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

We believe that pricing sophistication 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 sophisticated pricing models similar to those we use and because other competitors may follow suit, our competitive advantage could decline or be lost. Further, the use of insurance scoring from information that is obtained from credit reports as a factor in underwriting and pricing has at times been challenged by regulators, legislators, litigants and special interest groups in various states. Competitive pressures could also force us to modify our pricing sophistication model. Furthermore, we cannot be assured that these pricing sophistication models will accurately reflect the level of losses that we will ultimately incur.

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

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

Risks Relating to the Allstate Financial Segment

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

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

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

Changes in reserve estimates may adversely affect our operating results

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

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

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

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

DAC related to interest-sensitive life, fixed annuities and other investment contracts is amortized in proportion to actual historical gross profits and estimated future gross profits ("EGP") over the estimated lives of the contracts. The principal assumptions for determining the amount of EGP are investment returns, including capital gains and losses on assets supporting contract liabilities, interest crediting rates to contractholders, and the effects of persistency, mortality, expenses, and hedges if applicable. Updates to these assumptions (commonly referred to as "DAC unlocking") could adversely affect our profitability and financial condition. In 2009, DAC unlocking resulted in increased amortization of DAC of $277 million. In addition in periods when actual gross profits are negative, recapitalization ("negative amortization") of DAC is only recorded when determined to be recoverable based on specific facts and circumstances.

Examples of such situations include the world wide financial crisis, which resulted in an unprecedented level of realized capital losses. A principal assumption change impacting EGP and the related DAC amortization was an increase in the level of expected realized capital losses in 2009 and 2010. This resulted in the majority of the market value adjusted annuity DAC balance being reduced to zero since the products in force were estimated to have no gross profits. Market value adjusted annuity DAC will not be recapitalized while there are no estimated gross profits. Facts and circumstances may lead to other situations where DAC is not recapitalized. Accordingly, judgments regarding the recognition of Allstate Financial's DAC amortization may adversely affect profitability and financial condition.

Narrowing the focus of our product offerings and reducing our concentration in fixed annuities and funding agreements may adversely affect reported results

We have been pursuing strategies to narrow our product offerings and reduce our concentration in fixed annuities and funding agreements. Lower new sales of these products, as well as our ongoing risk mitigation and return optimization programs, could negatively impact investment portfolio levels and DAC amortization, complicate settlement of expiring contracts including forced sales of assets with unrealized capital losses, and affect goodwill impairment testing and insurance reserves deficiency testing.

A loss of key product distribution relationships could materially affect sales and results of operations

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 or market conditions that make it difficult to achieve our target return on certain products, resulting in relatively uncompetitive pricing, could have a detrimental effect on the sales of Allstate Financial and its results of operations.

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

Under current federal and state income tax law, certain products we offer, primarily life insurance and annuities, receive favorable tax treatment. This favorable treatment may give certain of our products a competitive advantage over noninsurance products. Congress 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 profitability and financial condition or ability to sell such products and could result in the surrender of some existing contracts and policies. In addition, changes in the federal estate tax laws could negatively affect the demand for the types of life insurance used in estate planning.

Risks Relating to Investments

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

Although we continually reevaluate our risk mitigation and return optimization programs, we remain subject to the risk that we will incur losses due to adverse changes in interest rates, credit spreads, equity prices, commodity prices or foreign currency exchange rates. Our primary market risk exposures are to changes in interest rates, credit spreads and equity prices and, to a lesser degree, changes in foreign currency exchange rates and commodity prices. We are subject to potential declines in credit quality related to specific issuers or specific industries or related to a general weakening in the economy, which are typically reflected through credit spreads. Credit spread is the additional yield on fixed income securities above the risk-free rate (typically defined as the yield on U.S. Treasury securities) that market participants require to compensate them for assuming credit, liquidity and/or prepayment risks. Credit spreads vary (i.e. increase or decrease) in response to the market's perception of risk and liquidity in a specific issuer or specific sector. Although we use derivative financial instruments to manage these risks, the effectiveness of such instruments is subject to the same risks.

A decline in market interest rates or credit spreads could have an adverse effect on our investment income as we invest cash in new investments that may earn less than the portfolio's average yield. In a declining interest rate environment, borrowers may prepay or redeem securities more quickly than expected as they seek to refinance at lower rates. A decline could also lead us to purchase longer-term or riskier assets in order to obtain adequate investment yields resulting in a duration gap when compared to the duration of liabilities. An increase in market interest rates or credit spreads could have an adverse effect on the value of our investment portfolio by decreasing the fair values of the

fixed income securities that comprise a substantial majority of our investment portfolio. A declining equity market could also cause the investments in our pension plans to decrease or decreasing interest rates could cause the funding target and the projected benefit obligation of our pension plans or the accumulated benefit obligation of our other postretirement benefit plans to increase, either or both resulting in a decrease in the funded status of the plans and a reduction of shareholders' equity, increases in pension and other postretirement benefit 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 equity and derivative strategies.

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

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

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

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

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

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

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

The determination of the amount of realized capital losses recorded for impairments vary by investment type and is based upon our periodic evaluation and assessment of known and inherent risks associated with the respective asset class. Such evaluations and assessments are revised as conditions change and new information becomes available. We update evaluations regularly and reflect changes in realized capital gains and losses from impairments in operating results if such changes are determined to be other than temporary. The assessment of whether impairments have occurred is based on our case-by-case evaluation of the underlying reasons for the decline in fair value. The amortized cost or cost of our fixed income and equity securities is adjusted for impairments in value deemed to be other than temporary in the period in which the determination is made and recorded in earnings as such evaluations are revised. There can be no assurance that we have accurately assessed the level of or amounts recorded for impairments taken in our financial statements. Furthermore, additional impairments may need to be recorded in the future. Historical trends may not be indicative of future impairments. For example, the amortized cost or cost of our fixed income and equity securities is adjusted for impairments in value deemed to be other than temporary in the period in which the determination is made and recorded in earnings. The assessment of whether impairments have occurred is based on our case-by-case evaluation of the underlying reasons for the decline in fair value.

The determination of the fair value of our fixed income and equity securities results in unrealized net capital gains and losses and is highly subjective and could materially impact our operating results and financial condition

In determining fair values we generally utilize market transaction data for the same or similar instruments. The degree of management judgment involved in determining fair values is inversely related to the availability of market observable information. The fair value of assets and liabilities may differ from the actual amount received upon sale of an asset or the actual amount paid to transfer a liability in an orderly transaction between market participants at the measurement date. Moreover, the use of different valuation assumptions may have a material effect on the assets' and liabilities' fair values. The difference between amortized cost or cost and fair value, net of deferred income taxes, certain

life and annuity DAC, certain deferred sales inducement costs ("DSI"), and certain reserves for life-contingent contract benefits, is reflected as a component of accumulated other comprehensive income in shareholders' equity. Changing market conditions could materially effect the determination of the fair value of securities and unrealized net capital gains and losses could vary significantly. Determining fair value is highly subjective and could materially impact our operating results and financial condition.

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 some of our products include a savings or investment component, securities firms, investment advisers, mutual funds, banks and other financial institutions. Many of our competitors have well-established national reputations and market similar products. 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. Furthermore, certain competitors operate using a mutual insurance company structure and therefore may have dissimilar profitability and return targets. Our ability to successfully operate may also be impaired if we are not effective in filling critical leadership positions, in developing the talent and skills of our human resources, in assimilating new executive talent into our organization, or in deploying human resource talent consistently with our business goals.

Difficult conditions in the economy generally could adversely affect our business and operating results

Some economists continue to project significant negative macroeconomic trends, including relatively high and sustained unemployment, reduced consumer spending, lower home prices, and substantial increases in delinquencies on consumer debt, including defaults on home mortgages. Moreover, recent disruptions in the financial markets, particularly the reduced availability of credit and tightened lending requirements, have impacted the ability of borrowers to refinance loans at more affordable rates. As with most businesses, we believe difficult conditions in the economy could have an adverse effect on our business and operating results.

General economic conditions could adversely affect us in the form of consumer behavior and pressure investment results. Consumer behavior could include decreased demand for our products. For example, as consumers purchase fewer automobiles, our sales of auto insurance may decline. Also, as consumers become more cost conscious, they may choose lower levels of auto and homeowners insurance. In 2009, declining new car sales and continued weakness in the housing market contributed to lower policies in force. In addition, holders of some of our life insurance and annuity products may engage in an elevated level of discretionary withdrawals of contractholder funds. Our investment results could be adversely affected as deteriorating financial and business conditions affecting the issuers of the securities in our investment portfolio.

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

In response to the financial crises affecting the banking system, the financial markets and the broader economy over the past two years, the U.S. federal government, the Federal Reserve and other governmental and regulatory bodies have taken actions to address such conditions including, among other things, purchasing mortgage-backed and other securities from financial institutions, investing directly in banks, thrifts and bank and savings and loan holding companies and increasing federal spending to stimulate the economy. While it appears the economy is pulling out of recession, stabilization has been uneven and a sluggish recovery is expected. There can be no assurance as to the long term impact such actions will have on the financial markets or on economic conditions, including potential inflationary affects. Continued volatility and any further economic deterioration could materially and adversely affect our business, financial condition and results of operations.

Losses from litigation may be material to our operating results or cash flows and financial condition

As is typical for a large company, we are involved in various legal actions, including class action litigation challenging a range of company practices and coverage provided by our insurance products. 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 and to our financial condition.

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 FINRA, 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'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 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.

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

The federal government has released a set of proposed regulatory reforms with respect to financial services entities. As part of a larger effort to strengthen the regulation of the financial services market, the proposal outlines certain reforms applicable to the insurance industry, including the establishment of an Office of National Insurance within the Treasury Department. The reforms could also increase the regulation of large insurance conglomerates whose failure could pose a systemic risk to the financial system. In addition, the federal government has issued a set of principles for reforming the U.S. and international regulatory capital framework for banking firms.

We are a diversified unitary 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 unitary savings and loan holding company activities and the bank is the Office of Thrift Supervision ("OTS"). We are subject to OTS regulation, examination, supervision and reporting requirements and its enforcement authority. Among other things, this permits the OTS to restrict or prohibit activities that are determined to be a serious risk to the financial safety, soundness and stability of Allstate Bank.

Any additional legislation or regulatory requirements imposed upon us in connection with the federal government proposed regulatory reforms or arising from the principles for reforming the U.S. and international regulatory capital framework for banking firms, and any more stringent enforcement of existing regulations by federal authorities, may make it more expensive for us to conduct our business.

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

Our personal lines catastrophe reinsurance program was designed, utilizing our risk management methodology, to address our exposure to catastrophes nationwide. Market conditions beyond our control impact the availability and cost of the reinsurance we purchase. No assurances can be made that reinsurance will remain continuously available to us to the same extent and on the same terms and rates as is currently available. For example, our ability to afford reinsurance to reduce our catastrophe risk in designated areas may be dependent upon our ability to adjust premium rates for its cost, and there are no assurances that the terms and rates for our current reinsurance program will continue to be available next year. 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, which could have a material adverse effect on our operating results and financial condition

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

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

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

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

Financial strength ratings are important factors in establishing the competitive position of insurance companies and generally have an effect on an insurance company's business. On an ongoing basis, rating agencies review 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 current insurance financial strength ratings of Allstate Insurance Company are A+, AA- and Aa3 from A.M. Best, Standard & Poor's and Moody's, respectively. The current insurance financial strength ratings of Allstate Life Insurance Company are A+, AA- and A1 from A.M. Best, Standard & Poor's and Moody's, respectively. The Allstate Corporation currently maintains a senior debt rating of a-, A- and A3 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 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.

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

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

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

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

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

We have disclosed our estimate of net unrecognized tax benefits and the reasonably possible increase or decrease in its balance during the next 12 months in Note 14 of the consolidated financial statements. However, actual results may differ from our estimate for reasons such as changes in our position on specific issues, developments with respect to the governments' interpretations of income tax laws or changes in judgment resulting from new information obtained in audits or the appeals process.

The realization of deferred tax assets is subject to uncertainty

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

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 or a support failure from external providers during a disaster 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 or a support failure from external providers 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.

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

Allstate recognizes the scientific view that the world is getting warmer. Climate change, to the extent it produces rising temperatures and changes in weather patterns, could impact the frequency or severity of weather events and wildfires, the affordability and availability of homeowners insurance, and the results for our Allstate Protection segment. To the extent that climate change impacts mortality rates and those changes do not match the long-term mortality assumptions in our product pricing, the results for our Allstate Financial segment would be impacted.

Loss of key vendor relationships could affect our operations

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

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Our home office complex is located in Northbrook, Illinois. As of December 31, 2009, the Home Office complex consists of several buildings totaling 2.3 million square feet of office space on a 250-acre site.

We also operate from approximately 1,500 administrative, data processing, claims handling and other support facilities in North America. In addition to Home Office, 2.3 million square feet are owned and 6.6 million square feet are leased. Outside North America, we lease three properties as lessee in Northern Ireland comprising 118,700 square feet. We also have one lease in London for 3,700 square feet. Generally, only major Allstate facilities are owned. In a majority of cases, new lease terms and renewals are for five years or less.

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

Item 3. Legal Proceedings

Information required for Item 3 is incorporated by reference to the discussion under the heading "Regulation and Compliance" and under the heading "Legal and regulatory proceedings and inquiries" in Note 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 February 1, 2010, there were 113,533 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 2009 and 2008.

	High	Low	Close	Dividends Declared
2009				
First quarter	33.50	13.77	19.15	.20
Second quarter	28.73	18.50	24.40	.20
Third quarter	31.74	22.82	30.62	.20
Fourth quarter	32.23	27.52	30.04	.20
2008				
First quarter	52.90	44.56	48.06	.41
Second quarter	52.16	45.49	45.59	.41
Third quarter	48.00	41.37	46.12	.41
Fourth quarter	47.00	17.72	32.76	.41

The payment of dividends by Allstate Insurance Company ("AIC") to The Allstate Corporation is limited by Illinois insurance law to formula amounts based on statutory net income and statutory surplus, as well as the timing and amount of dividends paid in the preceding twelve months. AIC did not pay any dividends in 2009. Based on the greater of 2009 statutory net income or 10% of statutory surplus, the maximum amount of dividends that AIC will be able to pay without prior Illinois Department of Insurance approval at a given point in time in 2010 is $1.50 billion, less dividends paid during the preceding twelve months measured at that point in time. Notification and approval of intercompany lending activities is also required by the Illinois Department of Insurance for those transactions that exceed formula amounts based on statutory admitted assets and statutory surplus.

Issuer Purchases of Equity Securities

Period	Total number of shares (or units) purchased [(1)]	Average price paid per share (or unit)	Total number of shares (or units) purchased as part of publicly announced plans or programs [(2)]	Maximum number (or approximate dollar value) of shares (or units) that may yet be purchased under the plans or programs [(3)]
October 1, 2009 - October 31, 2009	116	$ 28.9612		$
November 1, 2009 - November 30, 2009	3,697	$ 28.5716		
December 1, 2009 - December 31, 2009		$		
Total	3,813	$ 28.5835		

(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: 116
November: 3,697
December: none

(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.

None

(3)
Our $2.00 billion share repurchase program was suspended in October 2008 and ended on March 31, 2009. A new share repurchase program has not been authorized.

Item 6. Selected Financial Data

5-YEAR SUMMARY OF SELECTED FINANCIAL DATA

($ in millions, except per share data and ratios)	2009	2008	2007	2006	2005
Consolidated Operating Results					
Insurance premiums and contract charges	$ 28,152	$ 28,862	$ 29,099	$ 29,333	$ 29,088
Net investment income	4,444	5,622	6,435	6,177	5,746
Realized capital gains and losses	(583)	(5,090)	1,235	286	549
Total revenues	32,013	29,394	36,769	35,796	35,383
Net income (loss)	854	(1,679)	4,636	4,993	1,765
Net income (loss) per share:					
Net income (loss) per share basic [1]	1.58	(3.06)	7.80	7.88	2.67
Net income (loss) per share diluted [1]	1.58	(3.06)	7.76	7.83	2.65
Cash dividends declared per share	0.80	1.64	1.52	1.40	1.28
Consolidated Financial Position					
Investments	$ 99,833	$ 95,998	$ 118,980	$ 119,757	$ 118,297
Total assets	132,652	134,798	156,408	157,554	156,072
Reserves for claims and claims expense, life-contingent contract benefits and contractholder funds	84,659	90,750	94,052	93,683	94,639
Short-term debt				12	413
Long-term debt	5,910	5,659	5,640	4,650	4,887
Shareholders' equity	16,692	12,641	21,851	21,846	20,186
Shareholders' equity per diluted share [1]	30.84	23.47	38.54	34.80	31.01
Equity	16,721	12,673	21,902	21,937	20,186
Property-Liability Operations					
Premiums earned	$ 26,194	$ 26,967	$ 27,233	$ 27,369	$ 27,039
Net investment income	1,328	1,674	1,972	1,854	1,791
Net income	1,543	228	4,258	4,614	1,431
Operating ratios [2]					
Claims and claims expense ("loss") ratio	71.6	74.4	64.9	58.5	78.3
Expense ratio	24.6	25.0	24.9	25.1	24.1
Combined ratio	96.2	99.4	89.8	83.6	102.4
Allstate Financial Operations					
Premiums and contract charges	$ 1,958	$ 1,895	$ 1,866	$ 1,964	$ 2,049
Net investment income	3,064	3,811	4,297	4,173	3,830
Net (loss) income	(483)	(1,721)	465	464	416
Investments	62,216	61,449	74,256	75,951	75,233

---

(1) As a result of the adoption of new accounting guidance related to determining whether instruments granted in share-based payment transactions are participating securities in the first quarter of 2009, prior period amounts have been restated.

(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

	Page
Overview	28
2009 Highlights	28
Consolidated Net Income (Loss)	29
Application of Critical Accounting Estimates	29
Property-Liability 2009 Highlights	42
Property-Liability Operations	43
Allstate Protection Segment	45
Discontinued Lines and Coverages Segment	56
Property-Liability Investment Results	57
Property-Liability Claims and Claims Expense Reserves	58
Allstate Financial 2009 Highlights	69
Allstate Financial Segment	69
Investments 2009 Highlights	80
Investments	80
Fair Value of Assets and Liabilities	102
Market Risk	102
Pension Plans	106
Deferred Taxes	108
Capital Resources and Liquidity 2009 Highlights	109
Capital Resources and Liquidity	110
Enterprise Risk and Return Management	117
Regulation and Legal Proceedings	118
Pending Accounting Standards	118

OVERVIEW

The following discussion highlights significant factors influencing the consolidated financial position and results of operations of The Allstate Corporation (referred to in this document as "we", "our", "us", the "Company" or "Allstate"). It should be read in conjunction with the 5-year summary of selected financial data, consolidated financial statements and related notes found under Part II, Item 6 and Item 8 contained herein. Further analysis of our insurance segments is provided in the Property-Liability Operations (which includes the Allstate Protection and the Discontinued Lines and Coverages segments) and in the Allstate Financial Segment sections of Management's Discussion and Analysis ("MD&A"). The segments are consistent with the way in which we use financial information to evaluate business performance and to determine the allocation of resources.

Allstate is focused on three priorities in 2010: improve customer loyalty, reinvent protection and retirement for the consumer and grow our businesses.

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

For Allstate Protection: premium written, the number of policies in force ("PIF"), retention, price changes, claim frequency (rate of claim occurrence per policy in force) and severity (average cost per claim), catastrophes, loss ratio, expenses, underwriting results and sales of all products and services;

For Allstate Financial: benefit and investment spread, amortization of deferred policy acquisition costs, expenses, operating income, net income, invested assets, premiums and deposits and new business returns;

For Investments: credit quality/experience, realized capital gains and losses, investment income, unrealized capital gains and losses, stability of long-term returns, total returns, cash flows, and asset and liability duration; and

For financial condition: liquidity, parent holding company level deployable invested assets, financial strength ratings, operating leverage, debt leverage, book value per share, and return on equity.

2009 HIGHLIGHTS

Consolidated net income was $854 million in 2009 compared to a net loss of $1.68 billion in 2008. Net income per diluted share was $1.58 in 2009 compared to net loss per diluted share of $3.06 in 2008.

Property-Liability net income was $1.54 billion in 2009 compared to $228 million in 2008.

The Property-Liability combined ratio was 96.2 in 2009 compared to 99.4 in 2008.

Allstate Financial had a net loss of $483 million in 2009 compared to a net loss of $1.72 billion in 2008.

Total revenues were $32.01 billion in 2009 compared to $29.39 billion in 2008.

Property-Liability premiums earned in 2009 totaled $26.19 billion, a decrease of 2.9% from $26.97 billion in 2008.

Net realized capital losses were $583 million in 2009 compared to net realized capital losses of $5.09 billion in 2008.

Investments as of December 31, 2009 totaled $99.83 billion, an increase of 4.0% from $96.00 billion as of December 31, 2008. Net investment income in 2009 was $4.44 billion, a decrease of 21.0% from $5.62 billion in 2008.

Book value per diluted share (ratio of shareholders' equity to total shares outstanding and dilutive potential shares outstanding) was $30.84 as of December 31, 2009, an increase of 31.4% from $23.47 as of December 31, 2008.

For the twelve months ended December 31, 2009, return on the average of beginning and ending period shareholders' equity was 5.8%, an increase of 15.5 points from (9.7)% for the twelve months ended December 31, 2008.

At December 31, 2009, we had $16.69 billion in capital. This total included $3.07 billion in deployable invested assets at the parent holding company level.

CONSOLIDATED NET INCOME (LOSS)

($ in millions)	For the years ended December 31, 2009	2008	2007
Revenues			
Property-liability insurance premiums	$ 26,194	$ 26,967	$ 27,233
Life and annuity premiums and contract charges	1,958	1,895	1,866
Net investment income	4,444	5,622	6,435
Realized capital gains and losses:			
Total other-than-temporary impairment losses	(2,376)	(3,735)	(310)
Portion of loss recognized in other comprehensive income	457		
Net other-than-temporary impairment losses recognized in earnings	(1,919)	(3,735)	(310)
Sales and other realized capital gains and losses	1,336	(1,355)	1,545
Total realized capital gains and losses	(583)	(5,090)	1,235
Total revenues	32,013	29,394	36,769
Costs and expenses			
Property-liability insurance claims and claims expense	(18,746)	(20,064)	(17,667)
Life and annuity contract benefits	(1,617)	(1,612)	(1,589)
Interest credited to contractholder funds	(2,126)	(2,411)	(2,681)
Amortization of deferred policy acquisition costs	(4,754)	(4,679)	(4,704)
Operating costs and expenses	(3,007)	(3,273)	(3,103)
Restructuring and related charges	(130)	(23)	(29)
Interest expense	(392)	(351)	(333)
Total costs and expenses	(30,772)	(32,413)	(30,106)
Gain (loss) on disposition of operations	7	(6)	(10)
Income tax (expense) benefit	(394)	1,346	(2,017)
Net income (loss)	$ 854	$ (1,679)	$ 4,636
Property-Liability	$ 1,543	$ 228	$ 4,258
Allstate Financial	(483)	(1,721)	465
Corporate and Other	(206)	(186)	(87)
Net income (loss)	$ 854	$ (1,679)	$ 4,636

APPLICATION OF CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to adopt accounting policies and make estimates and assumptions that affect amounts reported in the consolidated financial statements. The most critical estimates include those used in determining:

Fair value of financial assets

Impairment of fixed income and equity securities

Deferred policy acquisition costs ("DAC") amortization

Reserve for Property-Liability insurance claims and claims expense estimation

Reserve for life-contingent contract benefits estimation

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

A brief summary of each of these critical accounting estimates follows. For a more detailed discussion of the effect of these estimates on our consolidated financial statements, and the judgments and assumptions related to these

estimates, see the referenced sections of this document. For a complete summary of our significant accounting policies, see Note 2 of the consolidated financial statements.

Fair value of financial assets Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. We categorize our financial assets measured at fair value into a three-level hierarchy based on the observability of inputs to the valuation techniques as follows:

Level 1: Financial asset values are based on unadjusted quoted prices for identical assets in an active market that we can access.

Level 2: Financial asset values are based on the following:
(a) Quoted prices for similar assets in active markets;
(b) Quoted prices for identical or similar assets in markets that are not active; or
(c) Valuation models whose inputs are observable, directly or indirectly, for substantially the full term of the asset.

Level 3: Financial asset values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. Unobservable inputs reflect our estimates of the assumptions that market participants would use in valuing the financial assets.

Observable inputs are inputs that reflect the assumptions market participants would use in valuing financial assets that are developed based on market data obtained from independent sources. In the absence of sufficient observable inputs, unobservable inputs reflect our estimates of the assumptions market participants would use in valuing financial assets and are developed based on the best information available in the circumstances. The degree of management judgment involved in determining fair values is inversely related to the availability of market observable information. If valuation inputs used to measure fair value fall into different levels of the fair value hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement in its entirety.

We are responsible for the determination of fair value of financial assets and the supporting assumptions and methodologies. We gain assurance on the overall reasonableness and consistent application of valuation input assumptions, valuation methodologies and compliance with accounting standards for fair value determination through the execution of various processes and controls designed to ensure that our financial assets are appropriately valued. We monitor fair values received from third parties and those derived internally on an ongoing basis.

We employ independent third-party valuation service providers, broker quotes and internal pricing methods to determine fair values, which provide a single quote or price for each financial instrument. We obtain or calculate only one quote or price per instrument.

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

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

The fair value of certain financial assets, including privately placed corporate securities, Auction Rate Securities ("ARS") backed by student loans, equity-indexed notes, and certain free-standing derivatives, where our valuation service providers or brokers do not provide fair value determinations, is determined using valuation methods and models widely accepted in the financial services industry. Internally developed valuation models, which include inputs that may not be market observable and as such involve some degree of judgment, are considered appropriate for each class of security to which they are applied.

Our internal pricing methods are primarily based on models using discounted cash flow methodologies that develop a single best estimate of fair value. Our models generally incorporate inputs that we believe are representative of inputs other market participants would use to determine fair value of the same instruments, including yield curves, quoted market prices of comparable securities, published credit spreads, and other applicable market data. Additional inputs that are used to model fair value include internally-derived assumptions such as liquidity premium and credit ratings, as well as instrument-specific characteristics that include, but are not limited to, coupon rate, expected cash flows, sector of issuer, and call provisions. Internally assigned credit ratings are generally consistent with external ratings published by the National Association of Insurance Commissioners ("NAIC"); however, they are developed at a more finite level. For example, an NAIC rating of 1 includes securities rated triple, double and single A by at least one nationally recognized statistical rating organization ("NRSRO"). We believe our internal ratings provide for a more reliable estimate of fair value since we can more precisely match these ratings to other market observable valuation inputs, such as credit and sector spreads, when performing these valuations. Due to the existence of non-market observable inputs, such as liquidity premiums, judgment is required in developing these fair values. As a result, the fair value of these financial assets may differ from the amount actually received to sell an asset in an orderly transaction between market participants at the measurement date. Moreover, the use of different valuation assumptions may have a material effect on the financial assets' fair values.

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

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

The following table displays the sensitivity of reasonably likely changes in the assumption about the anticipated date liquidity will return to the ARS backed by student loans market as of December 31, 2009. The selection of these hypothetical scenarios represents an illustration of the estimated potential proportional effect of alternate assumptions and should not be construed as either a prediction of future events or an indication that it would be reasonably likely that all securities would be similarly affected.

($ in millions)		
ARS backed by student loans at fair value	$	1,643
Percentage change in fair value resulting from:		
Decrease in assumption by four months for the anticipated date liquidity will return to this market		0.7%
Increase in assumption by four months for the anticipated date liquidity will return to this market		(0.7)%

We believe our most significant exposure to changes in fair value is due to market risk. Our exposure to changes in market conditions is discussed fully in the Market Risk section of the MD&A.

We employ specific control processes to determine the reasonableness of the fair values of our financial assets. Our processes are designed to ensure that the values received or internally estimated are accurately recorded and that the data inputs and the valuation techniques utilized are appropriate, consistently applied, and that the assumptions are reasonable and consistent with the objective of determining fair value. For example, on a continuing basis, we assess the reasonableness of individual security values received from valuation service providers and those derived from internal models that exceed certain thresholds as compared to previous values received from those valuation service providers or derived from internal models. In addition, we may validate the reasonableness of fair values by comparing information obtained from our valuation service providers to other third party valuation sources for selected securities.

For internal pricing models, we have implemented price validation procedures such as back-testing of actual sales, which corroborates the various model inputs to market observable data. When fair value determinations are expected to be more variable, we validate them through reviews by members of management who have relevant expertise and who are independent of those charged with executing investment transactions.

We also perform an analysis to determine whether there has been a significant decrease in the volume and level of activity for the asset when compared to normal market activity, and if so, whether transactions may not be orderly. Among the indicators we consider in determining whether a significant decrease in the volume and level of market activity for a specific asset has occurred include the level of new issuances in the primary market, trading volume in the secondary market, level of credit spreads over historical levels, bid-ask spread, and price consensuses among market participants and sources. If evidence indicates that prices are based on transactions that are not orderly, we place little, if any, weight on the transaction price and will estimate fair value using an internal pricing model. As of December 31, 2009 and 2008, we did not alter fair values provided by our valuation service providers or brokers or substitute them with an internal pricing model.

The following table identifies fixed income and equity securities and short-term investments as of December 31, 2009 by source of value determination:

($ in millions)	**Fair value**	**Percent to total**
Fair value based on internal sources	$ 9,304	10.7%
Fair value based on external sources [(1)]	77,542	89.3
Total	$ 86,846	100.0%

(1) Includes $2.64 billion that are valued using broker quotes.

For more detailed information on our accounting policy for the fair value of financial assets and the financial assets by level in the fair value hierarchy, see Notes 2 and 5 of the consolidated financial statements.

Impairment of fixed income and equity securities For investments classified as available for sale, the difference between fair value and amortized cost for fixed income securities and cost for equity securities, net of certain other items and deferred income taxes (as disclosed in Note 4), 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 the decline in fair value is deemed other than temporary. We have a comprehensive portfolio monitoring process to identify and evaluate each fixed income and equity security whose carrying value may be other-than-temporarily impaired.

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

If we have not made the decision to sell the fixed income security and it is not more likely than not we will be required to sell the fixed income security before recovery of its amortized cost basis, we evaluate whether we expect to receive cash flows sufficient to recover the entire amortized cost basis of the security. We use our best estimate of future cash flows expected to be collected from the fixed income security discounted at the security's original or current effective rate, as appropriate, to calculate a recovery value and determine whether a credit loss exists. The determination of cash flow estimates is inherently subjective and methodologies may vary depending on facts and circumstances specific to the security. All reasonably available information relevant to the collectability of the security, including past events, current conditions, and reasonable and supportable assumptions and forecasts, are considered when developing the estimate of cash flows expected to be collected. That information generally includes, but is not limited to, the remaining payment terms of the security, prepayment speeds, foreign exchange rates, the financial condition of the issue or issuer(s), expected defaults, expected recoveries, the value of underlying collateral and current subordination levels, vintage, geographic concentration, available reserves or escrows, third party guarantees and other credit enhancements. Additionally, other information, such as industry analyst reports and forecasts, sector credit ratings, financial condition of the bond insurer for insured fixed income securities, and other market data relevant to the realizability of contractual cash flows, may also be considered. The estimated fair value of collateral may be used to estimate recovery value if we determine that the security is dependent on the liquidation of collateral for ultimate

settlement. If the estimated recovery value is less than the amortized cost of the security, a credit loss exists and an other-than-temporary impairment for the difference between the estimated recovery value and amortized cost is recorded in earnings. The unrealized loss deemed to be related to factors other than credit remains classified in other comprehensive income. If we determine that the fixed income security does not have sufficient cash flow or other information to determine a recovery value for the security, we may conclude that the entire decline in fair value is deemed to be credit related and is recorded in earnings.

There are a number of assumptions and estimates inherent in evaluating impairments of equity securities and determining if they are other than temporary, including: 1) our ability and intent to hold the investment for a period of time sufficient to allow for an anticipated recovery in value; 2) the length of time and extent to which the fair value has been less than cost; 3) the financial condition, near-term and long-term prospects of the issue or issuer, including relevant industry specific market conditions and trends, geographic location and implications of rating agency actions and offering prices; and 4) the specific reasons that a security is in a significant unrealized loss position, including overall market conditions which could affect liquidity.

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

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

Fixed income securities subject to other-than-temporary impairment write-downs continue to earn investment income when future expected payments are reasonably estimable, and any discount or premium is recognized using the effective yield method over the expected life of the security; otherwise income recognition is discontinued.

For additional detail on investment impairments, see Note 4 of the consolidated financial statements.

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

DAC related to property-liability contracts is amortized into income as premiums are earned, typically over periods of six 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 returns, as well as mortality, persistency and expenses to administer the business are established at the time the policy is issued and are generally not revised during the life of the policy. The assumptions for determining the timing and amount of DAC amortization are consistent with the assumptions used to calculate the reserve for life-contingent contract benefits. Any deviations from projected business in force resulting from actual policy terminations differing from expected levels and any estimated premium deficiencies may result in a change to the rate of amortization in the period such events occur. Generally, the amortization periods for these policies approximates the estimated lives of the policies. The recovery of DAC is dependent upon the future profitability of the business. We periodically review the adequacy of reserves and recoverability of DAC for these policies on an aggregate basis using

actual experience. We aggregate all traditional life insurance products and immediate annuities with life contingencies in the analysis. In the event actual experience is significantly adverse compared to the original assumptions, a premium deficiency is deemed to exist and any remaining unamortized DAC balance must be expensed to the extent not recoverable and a premium deficiency reserve may be required if the remaining DAC balance is insufficient to absorb the deficiency. In 2009 and 2007, our reviews concluded that no premium deficiency adjustments were necessary, primarily due to projected profit from traditional life insurance more than offsetting the projected losses in immediate annuities with life contingencies. In 2008, for traditional life insurance and immediate annuities with life contingencies, an aggregate premium deficiency of $336 million pre-tax ($219 million after-tax) resulted primarily from a study indicating that the annuitants on certain life-contingent contracts are projected to live longer than we anticipated when the contracts were issued and, to a lesser degree, a reduction in the related investment portfolio yield. The deficiency was recorded through a reduction in DAC.

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

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

Each reporting period, DAC amortization is recognized in proportion to AGP for that period adjusted for interest on the prior period DAC balance. This amortization process includes an assessment of AGP compared to EGP, the actual amount of business remaining in-force and realized capital gains and losses on investments supporting the product liability. The impact of realized capital gains and losses on amortization of DAC depends upon which product liability is supported by the assets that give rise to the gain or loss. If the AGP is greater than EGP in the period, but the total EGP is unchanged, the amount of DAC amortization will generally increase, resulting in a current period decrease to earnings. The opposite result generally occurs when the AGP is less than the EGP in the period, but the total EGP is unchanged. However, when DAC amortization or a component of gross profits for a quarterly period is potentially negative (which would result in an increase of the DAC balance) as a result of negative AGP, the specific facts and circumstances surrounding the potential negative amortization are considered to determine whether it is appropriate for recognition in the consolidated financial statements. Negative amortization is only recorded when the increased DAC balance is determined to be recoverable based on facts and circumstances. Negative amortization was not recorded for certain fixed annuities during 2009 and 2008 periods in which significant capital losses were realized on their related investment portfolio. For products exposed to investment credit losses in excess of our expectations that may cause periodic AGP to become temporarily negative, EGP and AGP utilized in DAC amortization may be modified to exclude the higher credit losses.

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

Over the past three years, our most significant DAC assumption updates that resulted in a change to EGP and the amortization of DAC have been revisions to expected future investment returns, primarily realized capital losses,

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

($ in millions)		**2009**		**2008**		**2007**
Investment margin	$	(399)	$	(303)	$	11
Benefit margin		129		35		34
Expense margin		(7)		(59)		(31)
Net (acceleration) deceleration	$	(277)	$	(327)	$	14

DAC amortization acceleration related to changes in the EGP component of investment margin in the first quarter of 2009 was primarily due to an increase in the level of expected realized capital losses in 2009 and 2010. The deceleration related to benefit margin was due to more favorable projected life insurance mortality. The acceleration related to expense margin resulted from current and expected expense levels higher than previously projected. DAC amortization acceleration related to changes in the EGP component of investment margin in 2008 was primarily due to the level of realized capital losses impacting actual gross profits in 2008 and the impact of realized capital losses on expected gross profits in 2009. The deceleration related to benefit margin was due to more favorable projected life insurance mortality. The acceleration related to expense margin resulted from current and expected expense levels higher than previously projected. DAC amortization deceleration related to changes in the EGP component of investment margin in 2007 was due to higher yields from repositioning of the investment portfolio and reduced interest crediting rates on annuities. The deceleration related to benefit margin was due to more favorable projected life insurance mortality. The acceleration related to expense margin was a result of expenses being higher than expected.

The following table displays the sensitivity of reasonably likely changes in assumptions included in the gross profit components of investment margin or benefit margin to amortization of the DAC balance as of December 31, 2009.

($ in millions)		**December 31, 2009 Increase/(reduction) in DAC**
Increase in future investment margins of 25 basis points	$	52
Decrease in future investment margins of 25 basis points	$	(57)
Decrease in future life mortality by 1%	$	27
Increase in future life mortality by 1%	$	(28)

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

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

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

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

Reserves are the difference between the estimated ultimate cost of losses incurred and the amount of paid losses as of the reporting date. Reserves are estimated for both reported and unreported claims, and include estimates of all expenses associated with processing and settling all incurred claims. We update the majority of our reserve estimates quarterly and as new information becomes available or as events emerge that may affect the resolution of unsettled

claims. Changes in prior year reserve estimates (reserve reestimates), which may be material, are determined by comparing updated estimates of ultimate losses to prior estimates, and the differences are recorded as property-liability insurance claims and claims expense in the Consolidated Statements of Operations in the period such changes are determined. Estimating the ultimate cost of claims and claims expenses is an inherently uncertain and complex process involving a high degree of judgment and is subject to the evaluation of numerous variables.

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

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

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

Reserves are reestimated quarterly, by combining historical results with current actual results to calculate new development factors. This process incorporates the historic and latest actual trends, and other underlying changes in the data elements used to calculate reserve estimates. New development factors are likely to differ from previous development factors used in prior reserve estimates because actual results (claims reported or settled, losses paid, or changes to case reserves) occur differently than the implied assumptions contained in the previous development factor

calculations. If claims reported, paid losses, or case reserve changes are greater or less than the levels estimated by previous development factors, reserve reestimates increase or decrease. When actual development of these data elements is different than the historical development pattern used in a prior period reserve estimate, a new reserve is determined. The difference between indicated reserves based on new reserve estimates and recorded reserves (the previous estimate) is the amount of reserve reestimate and is recognized as an increase or decrease in property-liability insurance claims and claims expense in the Consolidated Statements of Operations. Total Property-liability reserve reestimates, after-tax, as a percent of net income in 2009, 2008 and 2007 were 8.5%, (6.6)% and 2.4%, respectively. For Property-Liability, the 3-year average of reserve reestimates as a percentage of total reserves was a favorable 0.2%, for Allstate Protection, the 3-year average of reserve estimates was a favorable 0.5% and for Discontinued Lines and Coverages, the 3-year average of reserve reestimates was an unfavorable 1.4%, each of these results being consistent within a reasonable actuarial tolerance for our respective businesses. Allstate Protection reserve reestimates were primarily the result of auto claim severity development that was better than expected, 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 this document.

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

($ in millions)	2009	2008	2007
Allstate Protection			
Auto	$ 10,606	$ 10,220	$ 10,175
Homeowners	2,399	2,824	2,279
Other lines	2,145	2,207	2,131
Total Allstate Protection	15,150	15,251	14,585
Discontinued Lines and Coverages			
Asbestos	1,180	1,228	1,302
Environmental	198	195	232
Other discontinued lines	500	508	541
Total Discontinued Lines and Coverages	1,878	1,931	2,075
Total Property-Liability	$ 17,028	$ 17,182	$ 16,660

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 on that specific estimate. Another example would be when a change in economic conditions is expected to affect the cost of repairs to damaged autos or property for a particular line, coverage, or state, actuarial judgment is applied to determine appropriate development factors to use in the reserve estimate that will most accurately reflect the expected impacts on severity development.

As claims are reported, for certain liability claims of sufficient size and complexity, the field adjusting staff establishes case reserve estimates of ultimate cost, based on their assessment of facts and circumstances related to each individual claim. For other claims which occur in large volumes and settle in a relatively short time frame, it is not practical or efficient to set case reserves for each claim, and a statistical case reserve is set for these claims based on estimation techniques previously described. In the normal course of business, we may also supplement our claims processes by utilizing third party adjusters, appraisers, engineers, inspectors, and other professionals and information sources to assess and settle catastrophe and non-catastrophe related claims.

Historically, the case reserves set by the field adjusting staff have not proven to be an entirely accurate estimate of the ultimate cost of claims. To provide for this, a development reserve is estimated using 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 and Equipment price index. We believe our claim settlement initiatives, such as improvements to the claim review and settlement process, the use of special investigative units to detect fraud and handle suspect claims, litigation management and defense strategies, as well as various other loss management initiatives underway, contribute to the mitigation of injury and physical damage severity trends.

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

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

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

Causes of reserve estimate uncertainty Since reserves are estimates of 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 medical care for injuries from accidents. During the first year after the end of an accident year, a large portion of the total losses for that accident year are settled. When accident year losses paid through the end of the first year following the initial accident year are incorporated into updated actuarial estimates, the trends inherent in the settlement of claims emerge more clearly. Consequently, this is the point in time at which we tend to make our largest reestimates of losses for an accident year. After the second year, the losses that we pay for an accident year typically relate to claims that are more difficult to settle, such as those involving serious injuries or litigation. Private passenger auto insurance provides a good illustration of the uncertainty of future loss estimates: our typical annual percentage payout of reserves for an accident year is approximately 50% in the first year after the end of the accident year, 20% in the second year, 15% in the third year, 5% in the fourth year, and the remaining 10% thereafter.

Reserves for catastrophe losses Property-Liability claims and claims expense reserves also include reserves for catastrophe losses. Catastrophe losses are an inherent risk of the property-liability insurance industry that have contributed, and will continue to contribute, to potentially material year-to-year fluctuations in our results of operations and financial position. We define a "catastrophe" as an event that produces pre-tax losses before reinsurance in excess of $1 million and involves multiple first party policyholders, or an event that produces a number of claims in excess of a

preset, per-event threshold of average claims in a specific area, occurring within a certain amount of time following the event. Catastrophes are caused by various natural events including high winds, winter storms, tornadoes, hailstorms, wildfires, tropical storms, hurricanes, earthquakes and volcanoes. We are also exposed to man-made catastrophic events, such as certain 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 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 losses from a catastrophe. As an example, in 2005 to complete an estimate for certain areas affected by Hurricane Katrina and not yet inspected by our claims adjusting staff, or where we believed our historical loss development factors were not predictive, we relied on analysis of actual claim notices received compared to total PIF, as well as visual, governmental and third party information, including aerial photos, area observations, and data on wind speed and flood depth to the extent available.

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

To develop a statistical indication of potential reserve variability within reasonably likely possible outcomes, an actuarial technique (stochastic modeling) is applied to the countrywide consolidated data elements for paid losses and paid losses combined with case reserves separately for injury losses, auto physical damage losses, and homeowners losses excluding catastrophe losses. Based on the combined historical variability of the development factors calculated for these data elements, an estimate of the standard error or standard deviation around these reserve estimates is calculated within each accident year for the last 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, excluding reserves for catastrophe losses, 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 this document.

Adequacy of reserve estimates We believe our net claims and claims expense reserves are appropriately established based on available methodology, facts, technology, laws and regulations. We calculate and record a single best reserve estimate, in conformance with generally accepted actuarial standards, for each line of insurance, its components (coverages and perils) and state, for reported losses and for IBNR losses, and as a result we believe that no

other estimate is better than our recorded amount. Due to the uncertainties involved, the ultimate cost of losses may vary materially from recorded amounts, which are based on our best estimates.

Discontinued Lines and Coverages reserve estimates

Characteristics of Discontinued Lines exposure 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 U.S. companies, and from direct excess insurance written from 1972 through 1985, including substantial excess general liability coverages on large U.S. companies. Additional exposure stems from direct primary commercial insurance written during the 1960s through the mid-1980s. 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 to evaluate and establish asbestos, environmental and other discontinued lines reserves. Changes to reserves are recorded in the reporting period in which they are determined. Using established industry and actuarial best practices and assuming no change in the regulatory or economic environment, this detailed and comprehensive "grounds up" methodology determines asbestos reserves based on assessments of the characteristics of exposure (i.e. claim activity, potential liability, jurisdiction, products versus non-products exposure) presented by individual policyholders, and determines environmental reserves based on assessments of the characteristics of exposure (i.e. environmental damages, respective shares of liability of potentially responsible parties, appropriateness and cost of remediation) to pollution and related clean-up costs. The number and cost of these claims is affected by intense advertising by trial lawyers seeking asbestos plaintiffs, and entities with asbestos exposure seeking bankruptcy protection as a result of asbestos liabilities, initially causing a delay in the reporting of claims, often followed by an acceleration and an increase in claims and claims expenses as settlements occur.

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

Evaluation of both the insureds' estimated liabilities and our exposure to the insureds depends heavily on an analysis of the relevant legal issues and litigation environment. This analysis is conducted by our specialized claims

adjusting staff and legal counsel. Based on these evaluations, case reserves are established by claims adjusting staff and actuarial analysis is employed to develop an IBNR reserve, which includes estimated potential reserve development and claims that have occurred but have not been reported. As of December 31, 2009 and 2008, IBNR was 62.3% and 63.8%, respectively, 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 The following table shows reserves for other discontinued lines which provide for remaining loss and loss expense liabilities related to business no longer written by us, other than asbestos and environmental, as of December 31.

($ in millions)	**2009**	**2008**	**2007**
Other mass torts	$ 201	$ 177	$ 189
Workers' compensation	122	130	133
Commercial and other	177	201	219
Other discontinued lines	$ 500	$ 508	$ 541

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 collectability of recoveries from reinsurance; retrospectively determined premiums and other contractual agreements; estimates of the extent and timing of any contractual liability; the impact of bankruptcy protection sought by various asbestos producers and other asbestos defendants; and other uncertainties. There are also complex legal issues concerning the interpretation of various insurance policy provisions and whether those losses are covered, or were ever intended to be covered, and could be recoverable through retrospectively determined premium, reinsurance or other contractual agreements. Courts have reached different and sometimes inconsistent conclusions as to when losses are deemed to have occurred and which policies provide coverage; what types of losses are covered; whether there is an insurer obligation to defend; how policy limits are determined; how policy exclusions and conditions are applied and interpreted; and whether clean-up costs represent insured property damage. Our reserves for asbestos and environmental exposures could be affected by tort reform, class action litigation, and other potential legislation and judicial decisions. Environmental exposures could also be affected by a change in the existing federal Superfund law and similar state statutes. There can be no assurance that any reform legislation will be enacted or that any such legislation will provide for a fair, effective and cost-efficient system for settlement of asbestos or environmental claims. We believe these issues are not likely to be resolved in the near future, and the ultimate costs may vary materially from the amounts currently recorded resulting in material changes in loss reserves. Historical variability of reserve estimates is demonstrated in the Property-Liability Claims and Claims Expense Reserves section of this document.

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

Further discussion of reserve estimates For further discussion of these estimates and quantification of the impact of reserve estimates, reserve reestimates and assumptions, see Notes 7 and 13 to the consolidated financial statements and the Property-Liability Claims and Claims Expense Reserves section of this document.

Reserve for life-contingent contract benefits estimation Due to the long term nature of these policies, benefits are payable over many years; accordingly, the reserves are calculated as the present value of future expected benefits to be paid, reduced by the present value of future expected net premiums. Long-term actuarial assumptions of future investment yields, mortality, morbidity, policy terminations and expenses are used when establishing the reserve for life-contingent contract benefits payable under insurance policies including traditional life insurance, life-contingent immediate annuities and voluntary health products. These assumptions, which for traditional life insurance are applied using the net level premium method, include provisions for adverse deviation and generally vary by characteristics such as type of coverage, year of issue and policy duration. Future investment yield assumptions are determined based upon prevailing investment yields as well as estimated reinvestment yields. Mortality, morbidity and policy termination assumptions are based on our experience and industry experience. Expense assumptions include the estimated effects of inflation and expenses to be incurred beyond the premium-paying period. These assumptions are established at the time the policy is issued, are consistent with assumptions for determining DAC amortization for these policies, and are generally not changed during the policy coverage period. However, if actual experience emerges in a manner that is significantly adverse relative to the original assumptions, adjustments to DAC or reserves may be required resulting in a charge to earnings which could have a material adverse effect on our operating results and financial condition. We periodically review the adequacy of reserves and recoverability of DAC for these policies on an aggregate basis using actual experience. In the event actual experience is significantly adverse compared to the original assumptions, a premium deficiency is deemed to exist and any remaining unamortized DAC balance must be expensed to the extent not recoverable and the establishment of a premium deficiency reserve may be required. In 2009 and 2007, our reviews concluded that no premium deficiency adjustments were necessary, primarily due to profit from traditional life insurance more than offsetting the projected losses in immediate annuities with life contingencies. In 2008, for traditional life insurance and immediate annuities with life contingencies, an aggregate premium deficiency of $336 million pre-tax ($219 million after-tax) resulted primarily from a study indicating that the annuitants on certain life-contingent contracts are projected to live longer than we anticipated when the contracts were issued and, to a lesser degree, a reduction in the related investment portfolio yield. The deficiency was recorded through a reduction in DAC. We will continue to monitor the experience of our traditional life insurance and immediate annuities. We anticipate that mortality, investment and reinvestment yields, and policy terminations are the factors that would be most likely to require premium deficiency adjustments to these reserves or related DAC.

For further detail on the reserve for life-contingent contract benefits, see Note 8 of the consolidated financial statements.

PROPERTY-LIABILITY 2009 HIGHLIGHTS

Premiums written, an operating measure that is defined and reconciled to premiums earned in the Property-Liability Operations section of the MD&A, decreased 2.3% to $25.97 billion in 2009 from $26.58 billion in 2008. Allstate brand standard auto premiums written decreased 1.0% to $15.76 billion in 2009 from $15.92 billion in 2008. Allstate brand homeowners premiums written were $5.64 billion in 2009 and were comparable to 2008.

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

- 1.0% decrease in PIF as of December 31, 2009 compared to December 31, 2008
- the six month renewal ratio was 88.9% in 2009 and was comparable to 2008
- 1.6% increase in the six month policy term average gross premium before reinsurance to $434 in 2009 from $427 in 2008
- 12.3% increase in new issued applications in 2009 compared to 2008

Premium operating measures and statistics contributing to overall Allstate brand homeowners premiums written were the following:

- 3.9% decrease in PIF as of December 31, 2009 compared to December 31, 2008
- 1.1 point increase in the twelve month renewal ratio to 88.1% in 2009 compared to 87.0% in 2008
- 2.6% increase in the twelve month policy term average gross premium before reinsurance to $883 in 2009 from $861 in 2008
- 6.4% decrease in new issued applications in 2009 compared to 2008
- $96 million decrease in catastrophe reinsurance costs to $561 million in 2009 from $657 million in 2008

Factors contributing to the Allstate brand standard auto loss ratio increase of 1.2 points to 69.3 in 2009 from 68.1 in 2008 were the following:

6.2% increase in standard auto claim frequency for property damage in 2009 compared to 2008

13.1% increase in standard auto claim frequency for bodily injury in 2009 compared to 2008

0.7% decrease in auto claim severities for bodily injury in 2009 compared to 2008

0.7% decrease in auto claim severities for property damage in 2009 compared to 2008

Factors contributing to the Allstate brand homeowners loss ratio, which includes catastrophes, decrease of 16.7 points to 79.6 in 2009 from 96.3 in 2008 were the following:

- 17.5 percentage point decrease in the effect of catastrophe losses to 29.0 points in 2009 compared to 46.5 points in 2008
- 9.0% increase in homeowner claim frequency, excluding catastrophes, in 2009 compared to 2008
- 3.0% increase in claim severity, excluding catastrophes, in 2009 compared to 2008

Factors contributing to the $1.27 billion decrease in catastrophe losses to $2.07 billion in 2009 compared to $3.34 billion in 2008 were the following:

- $169 million of favorable reserve reestimates in 2009 compared to $125 million unfavorable reserve reestimates in 2008
- 82 events with $2.24 billion of losses in 2009 compared to 123 events with losses of $3.22 billion in 2008
- 2008 losses included $966 million and $342 million related to Hurricanes Ike and Gustav, respectively

Factors contributing to prior year reserve reestimates of $112 million favorable in 2009 compared to $170 million unfavorable in 2008 included:

- Prior year reserve reestimates related to auto, homeowners and other personal lines in 2009 contributed $57 million favorable, $168 million favorable and $89 million unfavorable, respectively, compared to prior year reserve reestimates in 2008 of $27 million favorable, $124 million unfavorable and $55 million unfavorable, respectively
- prior year reserve reestimates in 2009 and 2008 are largely attributable to prior year catastrophes and a $45 million IBNR reclassification from auto to other personal lines that occurred in 2008

Property-Liability underwriting income of $995 million in 2009 compared to $164 million in 2008 included the following primary contributing factors:

- Allstate brand standard auto loss ratio increased 1.2 points to 69.3 in 2009 from 68.1 in 2008
- Allstate brand homeowners loss ratio, which includes catastrophes, decreased 16.7 points to 79.6 in 2009 from 96.3 in 2008

Underwriting income, a measure not based on GAAP, is defined below.

Property-Liability investments as of December 31, 2009 were $34.53 billion, an increase of 12.0% from $30.84 billion as of December 31, 2008. Net investment income was $1.33 billion in 2009, a decrease of 20.7% from $1.67 billion in 2008.

Net realized capital losses were $168 million in 2009 compared to $1.86 billion in 2008.

PROPERTY-LIABILITY OPERATIONS

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

Underwriting income, a measure that is not based on GAAP and is reconciled to net income below, is calculated as premiums earned, less claims and claims expense ("losses"), amortization of DAC, operating costs and expenses and restructuring and related charges, as determined using GAAP. We use this measure in our evaluation of results of operations to analyze the profitability of the Property-Liability insurance operations separately from investment results. It is also an integral component of incentive compensation. It is useful for investors to evaluate the components of income separately and in the aggregate when reviewing performance. Net income is the GAAP measure most directly comparable to underwriting income. Underwriting income should not be considered as a substitute for net income and does not reflect the overall profitability of the business.

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

- Claims and claims expense ("loss") ratio the ratio of claims and claims expense to premiums earned. Loss ratios include the impact of catastrophe losses.
- Expense ratio the ratio of amortization of DAC, operating costs and expenses, and restructuring and related charges to premiums earned.
- Combined ratio the ratio of claims and claims expense, amortization of DAC, operating costs and expenses, and restructuring and related charges to premiums earned. The combined ratio is the sum of the loss ratio and the

expense ratio. The difference between 100% and the combined ratio represents underwriting income as a percentage of premiums earned.

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

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

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

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

Effect of Discontinued Lines and Coverages on combined ratio the ratio of claims and claims expense and other costs and expenses in the Discontinued Lines and Coverages segment to Property-Liability premiums earned. The sum of the effect of Discontinued Lines and Coverages on the combined ratio and the Allstate Protection combined ratio is equal to the Property-Liability combined ratio.

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

($ in millions, except ratios)	**2009**	**2008**	**2007**
Premiums written	$ 25,971	$ 26,584	$ 27,183
Revenues			
Premiums earned	$ 26,194	$ 26,967	$ 27,233
Net investment income	1,328	1,674	1,972
Realized capital gains and losses	(168)	(1,858)	1,416
Total revenues	27,354	26,783	30,621
Costs and expenses			
Claims and claims expense	(18,746)	(20,064)	(17,667)
Amortization of DAC	(3,789)	(3,975)	(4,121)
Operating costs and expenses	(2,559)	(2,742)	(2,634)
Restructuring and related charges	(105)	(22)	(27)
Total costs and expenses	(25,199)	(26,803)	(24,449)
Income tax (expense) benefit	(612)	248	(1,914)
Net income	$ 1,543	$ 228	$ 4,258
Underwriting income	$ 995	$ 164	$ 2,784
Net investment income	1,328	1,674	1,972
Income tax expense on operations	(558)	(401)	(1,413)
Realized capital gains and losses, after-tax	(222)	(1,209)	915
Net income	$ 1,543	$ 228	$ 4,258
Catastrophe losses [(1)]	$ 2,069	$ 3,342	$ 1,409
GAAP operating ratios			
Claims and claims expense ratio	71.6	74.4	64.9
Expense ratio	24.6	25.0	24.9
Combined ratio	96.2	99.4	89.8

Effect of catastrophe losses on combined ratio [1]	7.9	12.4	5.2
Effect of prior year reserve reestimates on combined ratio [1]	(0.4)	0.7	(0.6)
Effect of restructuring and related charges on combined ratio	0.4	0.1	0.1
Effect of Discontinued Lines and Coverages on combined ratio	0.1	0.1	0.2

---

(1) Prior year reserve reestimates included in catastrophe losses totaled $169 million favorable in 2009, $125 million unfavorable in 2008 and $127 million unfavorable in 2007.

ALLSTATE PROTECTION SEGMENT

Overview and strategy The Allstate Protection segment sells primarily private passenger auto and homeowners insurance to individuals through Allstate Exclusive Agencies and directly through call centers and the internet under the Allstate brand. We also sell auto and homeowners insurance through independent agencies under both the Allstate brand and the Encompass brand.

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

- Improving customer loyalty and retention
- Broadening customer product relationships
- Improving competitive position through pricing sophistication, claims efficiency and expense management
- Investing in the effectiveness and reach of our multiple distribution channels
- Maintaining a strong capital foundation through risk management and effective resource allocation

Our customer-focused strategy for the Allstate brand aligns targeted marketing, product innovation, distribution effectiveness, and pricing toward acquiring and retaining an increased share of high lifetime value customers.

The Allstate brand will utilize targeted marketing delivered to high lifetime value prospects to promote our strategic priorities, with messaging that continues to communicate affordability and the ease of switching to and doing business with Allstate, as well as highlighting our comprehensive product and coverage options.

At Allstate we differentiate ourselves from competitors by offering a comprehensive range of product options as well as product customization, including Allstate Your Choice Auto® ("YCA") with options such as safe driving deductibles and a safe driving bonus. We will continue to focus on developing and introducing products and services that further differentiate Allstate and enhance the customer experience. We will broaden customer relationships by identifying the greatest cross sell opportunities such as auto sales to our 3 million monoline property customers and expanding sales of our Emerging Business and Allstate Financial products.

Within our multiple distribution channels we are undergoing a focused effort to enhance our capabilities by implementing uniform processes and standards to elevate the level and consistency of the customer experience.

We continue to enhance technology to integrate our distribution channels, improve customer service, facilitate the introduction of new products and services and reduce infrastructure costs related to supporting agencies and handling claims. These actions and others are designed to optimize the effectiveness of our distribution and service channels by increasing the productivity of the Allstate brand's exclusive agencies and our direct channel.

Our pricing and underwriting are designed to enhance both our competitive position and our profit potential. We will provide and continue to enhance a range of discounts to attract more high lifetime value customer segments. For example, we implemented a new auto discount (the Preferred Package Discount), which was available in 42 states by the end of 2009, for the high lifetime value customer segment. We also increased the discount our homeowners customers receive if they insure their automobiles with Allstate.

Pricing sophistication, which underlies our Strategic Risk Management program, uses a number of risk evaluation factors including insurance scoring, to the extent permissible by regulations, based on information that is obtained from credit reports. For Allstate brand auto and homeowners business, we continue to improve our mix of customers towards those who we consider high lifetime value that generally are homeowners that insure multiple autos with us, have better retention and more favorable loss experience.

Our strategy for the Encompass brand includes enhancing our Premier Package Policy (a product providing customers with the ability to simplify their insurance needs by consolidating their coverage into one policy, one bill, one premium and one renewal date), increasing distribution effectiveness and improving agency technology interfaces to become the package carrier of choice for aligned agencies and generate stable, consistent earnings growth.

The Allstate Protection segment also includes a separate organization called Emerging Businesses which is comprised of Business Insurance (commercial products for small business owners), Consumer Household (specialty products including motorcycles, boats, renters and condominium insurance policies), Allstate Dealer Services (insurance and non-insurance products sold primarily to auto dealers), Allstate

Roadside Services (retail and wholesale roadside assistance products) and Ivantage (insurance agency). Premiums written by Emerging Businesses, through all channels including the Direct Channel, were $2.44 billion in 2009. We expect to accelerate profitable growth in Emerging Businesses during 2010.

We continue to manage our property catastrophe exposure in order 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. Our property business includes personal homeowners, commercial property and other property lines. At December 31, 2009, we continue to be within our goal to have no more than a 1% likelihood of exceeding our expected annual aggregate catastrophe losses by $2 billion, net of reinsurance, from hurricanes and earthquakes, based on modeled assumptions and applications currently available. The use of different assumptions and updates to industry models could materially change the projected loss.

Property catastrophe exposure management includes purchasing reinsurance in areas that have known exposure to hurricanes, earthquakes, wildfires, fires following earthquakes and other catastrophes. We are working for changes in the regulatory environment, including recognizing the need for and improving appropriate risk based pricing and promoting the creation of government sponsored, privately funded solutions for mega-catastrophes. 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. Additionally, property products are more capital intensive than other personal lines products.

Allstate Protection outlook

- Allstate Protection will emphasize attracting and retaining high lifetime value customers while maintaining pricing discipline.
- We expect that volatility in the level of catastrophes we experience will contribute to variation in our underwriting results; however, this volatility will be mitigated due to our catastrophe management actions, including the purchase of reinsurance.
- We will continue to study the efficiencies of our operations and cost structure for additional areas where costs may be reduced.

Premiums written, 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, and the Encompass standard auto and homeowners policy periods are typically 12 months and non-standard auto policy periods are typically 6 months, rate changes will generally be recognized in premiums earned over a period of 6 to 24 months.

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)			**% earned after**			
	2009	**2008**	**90 days**	**180 days**	**270 days**	**360 days**
Allstate brand:						
Standard auto	$ 4,060	$ 4,002	73.4%	98.2%	99.6%	100.0%
Non-standard auto	250	259	71.3%	96.9%	99.3%	100.0%
Homeowners	3,193	3,182	43.6%	75.7%	94.3%	100.0%
Other personal lines [1]	1,295	1,385	39.9%	69.5%	87.6%	94.5%
Total Allstate brand	8,798	8,828	57.7%	85.9%	95.9%	99.2%
Encompass brand:						
Standard auto	399	506	44.6%	76.3%	94.4%	100.0%
Non-standard auto	4	9	78.3%	100.0%	100.0%	100.0%
Homeowners	233	269	44.5%	76.4%	94.5%	100.0%
Other personal lines [1]	52	60	44.3%	76.1%	94.4%	100.0%
Total Encompass brand	688	844	44.7%	76.4%	94.5%	100.0%
Allstate Protection unearned premiums	$ 9,486	$ 9,672	56.7%	85.2%	95.8%	99.3%

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

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

($ in millions)	2009	2008	2007
Premiums written:			
Allstate Protection	$ 25,972	$ 26,584	$ 27,183
Discontinued Lines and Coverages	(1)		
Property-Liability premiums written	25,971	26,584	27,183
Decrease in unearned premiums	200	383	17
Other	23		33
Property-Liability premiums earned	$ 26,194	$ 26,967	$ 27,233
Premiums earned:			
Allstate Protection	$ 26,195	$ 26,967	$ 27,232
Discontinued Lines and Coverages	(1)		1
Property-Liability	$ 26,194	$ 26,967	$ 27,233

Premiums written by brand are shown in the following tables.

($ in millions)	Allstate brand			Encompass brand			Allstate Protection		
	2009	2008	2007	2009	2008	2007	2009	2008	2007
Standard auto [(1)]	$ 15,763	$ 15,918	$ 16,035	$ 800	$ 1,025	$ 1,125	$ 16,563	$ 16,943	$ 17,160
Non-standard auto [(1)]	927	1,018	1,179	22	40	68	949	1,058	1,247
Homeowners	5,635	5,639	5,711	408	471	538	6,043	6,110	6,249
Other personal lines	2,317	2,358	2,397	100	115	130	2,417	2,473	2,527
Total	$ 24,642	$ 24,933	$ 25,322	$ 1,330	$ 1,651	$ 1,861	$ 25,972	$ 26,584	$ 27,183

---

(1) 2007 includes the impact from the fourth quarter 2007 discontinuation and reinstatement of mandatory personal injury protection in the state of Florida.

Allstate brand premiums written, excluding Allstate Canada, by the direct channel increased 25.4% to $622 million in 2009 from $496 million in 2008, following a 24.6% increase from $398 million in 2007. The direct channel includes call centers and the internet.

Premiums earned by brand are shown in the following tables.

($ in millions)	Allstate brand			Encompass brand			Allstate Protection		
	2009	2008	2007	2009	2008	2007	2009	2008	2007
Standard auto	$ 15,735	$ 15,957	$ 15,952	$ 907	$ 1,091	$ 1,127	$ 16,642	$ 17,048	$ 17,079
Non-standard auto	939	1,055	1,232	27	45	76	966	1,100	1,308
Homeowners	5,633	5,758	5,732	444	503	551	6,077	6,261	6,283
Other personal lines	2,402	2,434	2,426	108	124	136	2,510	2,558	2,562
Total	$ 24,709	$ 25,204	$ 25,342	$ 1,486	$ 1,763	$ 1,890	$ 26,195	$ 26,967	$ 27,232

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

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

Average premium-gross written: Gross premiums written divided by issued item count. Gross premiums written include the impacts from discounts and surcharges; and exclude the impacts from mid-term premium adjustments, ceded reinsurance premiums, or premium refund accruals. Allstate brand average gross premiums represent the appropriate policy term for each line, which is 6 months for standard and non-standard auto and 12 months for homeowners. Encompass brand average gross premiums represent the appropriate policy term for each line, which is 12 months for standard auto and homeowners and 6 months for non-standard auto.

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

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

Standard auto premiums written totaled $16.56 billion in 2009, a decrease of 2.2% from $16.94 billion in 2008, following a 1.3% decrease from $17.16 billion in 2007.

	Allstate brand			Encompass brand		
Standard Auto	**2009**	**2008**	**2007**	**2009**	**2008**	**2007**
PIF (thousands)	17,744	17,924	18,256	859	1,090	1,103
Average premium-gross written [(1)]	$ 434	$ 427	$ 422	$ 972	$ 961	$ 969
Renewal ratio (%) [(1)]	88.9	88.9	89.5	69.6	73.9	75.0

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

Allstate brand standard auto premiums written totaled $15.76 billion in 2009, a decrease of 1.0% from $15.92 billion in 2008, following a 0.7% decrease in 2008 from $16.04 billion in 2007. Contributing to the Allstate brand standard auto premiums written decrease in 2009 compared to 2008 were the following:

- decrease in PIF as of December 31, 2009 compared to December 31, 2008, due to fewer policies available to renew
- 12.3% increase in new issued applications on a countrywide basis to 2,029 thousand in 2009 from 1,807 thousand in 2008
- increase in average gross premium in 2009 compared to 2008, primarily due to rate changes, partially offset by customers electing to change coverage levels of their policy

Allstate brand standard auto premiums written decreased in 2008 compared to 2007. Contributing to the Allstate brand standard auto premiums written decrease in 2008 compared to 2007 were the following:

- decrease in PIF as of December 31, 2008 compared to December 31, 2007 due to a lower renewal ratio and lower new business production
- 7.5% decrease in new issued applications on a countrywide basis to 1,807 thousand in 2008 from 1,954 thousand in 2007
- increase in average gross premium in 2008 compared to 2007, primarily due to rate changes, partially offset by deductible changes
- decline in the renewal ratio in 2008 compared to 2007

In late 2008 through 2009, we took actions designed to improve Encompass brand profitability, which will continue through 2010. Some of the actions contributing to the Encompass brand standard auto premiums written decrease in 2009 compared to 2008 were the following:

- Implemented rate increases where indicated
- Strengthened underwriting guidelines
- Revised renewal down payment requirements
- Terminated relationships with certain independent agencies
- Non-renewal of underperforming business segments

Discontinued writing the Special Value product (middle market auto product focused on segment auto) in certain states

Rate increases that are indicated based on loss trend analysis to achieve a targeted return will continue to be pursued. The following table shows the rate changes that were approved for standard auto during 2009 and 2008. These rate changes do not reflect initial rates filed for insurance subsidiaries initially writing business in a state. The following table does not include rating plan enhancements, including the introduction of discounts and surcharges, that result in no change in the overall rate level in the state.

	# of States		**Countrywide(%) [1]**		**State Specific(%) [2][3]**	
	2009	**2008**	**2009**	**2008 [4]**	**2009**	**2008 [4]**
Allstate brand	36 [5]	32	4.6	1.3	7.2	2.1
Encompass brand	36	33	7.3	2.5	9.3	4.8

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

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

(3) Based on historical premiums written in those states, rate changes approved for standard auto totaled $784 million in 2009 compared to $223 million in 2008.

(4) Excluding the impact of a 15.9% rate reduction in California related to an order effective in April 2008, the Allstate brand standard auto rate change is 6.0% on a state specific basis and 3.0% on a countrywide basis in 2008.

(5) Includes Washington D.C.

Non-standard auto premiums written totaled $949 million in 2009, a decrease of 10.3% from $1.06 billion in 2008, following a 15.2% decrease in 2008 from $1.25 billion in 2007.

	Allstate brand			**Encompass brand**		
Non-Standard Auto	**2009**	**2008**	**2007**	**2009**	**2008**	**2007**
PIF (thousands)	719	745	829	20	39	56
Average premium-gross written	$ 616	$ 624	$ 616	$ 476	$ 479	$ 526
Renewal ratio (%)	72.5	73.7	76.1	67.1	68.3	65.0

Allstate brand non-standard auto premiums written totaled $927 million in 2009, a decrease of 8.9% from $1.02 billion in 2008, following a 13.7% decrease in 2008 from $1.18 billion in 2007. Contributing to the Allstate brand non-standard auto premiums written decrease in 2009 compared to 2008 were the following:

- decrease in PIF as of December 31, 2009 compared to December 31, 2008, due to new business production that was insufficient to offset declines in the renewal ratio and polices available to renew
- 10.7% increase in new issued applications to 363 thousand in 2009 from 328 thousand in 2008
- decrease in average gross premium in 2009 compared to 2008
- decrease in the renewal ratio in 2009 compared to 2008

Allstate brand non-standard auto premiums written decreased in 2008 compared to 2007. Contributing to the Allstate brand non-standard auto premiums written decrease in 2008 compared to 2007 were the following:

- decrease in PIF as of December 31, 2008 compared to December 31, 2007 due to new business production that was insufficient to offset declines in the renewal ratio and polices available to renew
- 10.1% increase in new issued applications to 328 thousand in 2008 from 298 thousand in 2007 due to the continued rollout and momentum of our Allstate Blue® product
- increase in average gross premium in 2008 compared to 2007 due to changes in the mix of customer segments resulting from the implementation of Allstate Blue
- decrease in the renewal ratio in 2008 compared to 2007

Rate increases that are indicated based on loss trend analysis to achieve a targeted return will continue to be pursued. The following table shows the rate changes that were approved for non-standard auto during 2009 and 2008. These rate changes do not reflect initial rates filed for insurance subsidiaries initially writing business in a state. The following table does not include rating plan enhancements, including the introduction of discounts and surcharges, that result in no change in the overall rate level in the state.

	# of States	**Countrywide(%)** [1]	**State Specific(%)** [2][3]

	2009	2008	2009	2008	2009	2008
Allstate brand	11	11 (4)	2.6		6.5	
Encompass brand	1	4	0.9	4.8	31.7	23.2

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

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

(3) Based on historical premiums written in those states, rate changes approved for non-standard auto totaled $25 million in 2009 compared to $3 million in 2008.

(4) Includes Washington D.C.

Homeowners premiums written totaled $6.04 billion in 2009, a decrease of 1.1% from $6.11 billion in 2008, following a 2.2% decrease in 2008 from $6.25 billion in 2007. Excluding the cost of catastrophe reinsurance, premiums written

declined 2.4% in 2009 compared to 2008. 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			Encompass brand		
Homeowners	**2009**	**2008**	**2007**	**2009**	**2008**	**2007**
PIF (thousands)	6,973	7,255	7,570	371	446	484
Average premium-gross written (12 months)	$ 883	$ 861	$ 850	$ 1,265	$ 1,206	$ 1,181
Renewal ratio (%)	88.1	87.0	86.5	78.9	80.6	80.0

Allstate brand homeowners premiums written totaled $5.64 billion in 2009 and were comparable to 2008, following a 1.3% decrease in 2008 from $5.71 billion in 2007. Contributing to the Allstate brand homeowners premiums written in 2009 compared to 2008 were the following:

- decrease in PIF of 3.9% as of December 31, 2009 compared to December 31, 2008, following a 4.2% decrease as of December 31, 2008 compared to December 31, 2007, due to fewer policies available to renew and fewer new issued applications
- 6.4% decrease in new issued applications to 556 thousand in 2009 from 594 thousand in 2008
- increase in average gross premium in 2009 compared to 2008, primarily due to rate increases, partially offset by the impact of reduced PIF in catastrophe management areas with higher average gross premiums and a state insurance department initiated rate reduction in California
- increase in the renewal ratio in 2009 compared to 2008 in part driven by less non-renewal activity in coastal states that are more susceptible to major catastrophes
- decrease in the net cost of our catastrophe reinsurance program

Actions taken to manage our catastrophe exposure in areas with known exposure to hurricanes, earthquakes, wildfires, fires following earthquakes and other catastrophes have had an impact on our new business writings and retention for homeowners insurance, and this impact will continue in 2010, although to a lesser degree. For a more detailed discussion on exposure management actions, see the Catastrophe Management section of the MD&A.

Allstate brand homeowners premiums written decreased in 2008 compared to 2007. Contributing to the Allstate brand homeowners premiums written decrease in 2008 compared to 2007 were the following:

- decrease in PIF due to lower new issued applications and policies available to renew
- 26.0% decrease in new issued applications to 594 thousand in 2008 from 803 thousand in 2007
- increase in average gross premium in 2008 compared to 2007, primarily due to higher average renewal premiums related to increases in insured value and approved rate changes, including those taken for our net cost of reinsurance, partially offset by a shift in geographic mix as our catastrophe management actions reduce premiums written in areas with generally higher average gross premiums and state insurance department initiated rate decreases in California and Texas
- increase in the renewal ratio in 2008 compared to 2007
- decrease in the net cost of our catastrophe reinsurance program

Rate increases that are indicated based on loss trend analysis to achieve a targeted return will continue to be pursued. The following table shows the rate changes that were approved for homeowners during 2009 and 2008, including rate changes approved based on our net cost of reinsurance. The following table does not include rating plan enhancements, including the introduction of discounts and surcharges, that result in no change in the overall rate level in the state.

# of States	Countrywide(%) [1]	State Specific(%) [2][3]

	2009	2008	2009	2008	2009	2008
Allstate brand [4][5]	40	35	8.4	(0.9)	10.7	(1.3)
Encompass brand [4]	36	26	4.4	4.2	5.9	7.0

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

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

(3) Based on historical premiums written in those states, rate changes approved for homeowners totaled $534 million in 2009 compared to $(32) million in 2008.

(4) Includes Washington D.C.

(5) Excluding the impact of a 3.0% rate reduction in Texas and a 28.5% rate reduction in California related to resolutions reached in 2008, the Allstate brand homeowners rate change is 5.8% on a state specific basis and 3.2% on a countrywide basis in 2008.

Underwriting results are shown in the following table.

($ in millions)	2009	2008	2007
Premiums written	$ 25,972	$ 26,584	$ 27,183
Premiums earned	$ 26,195	$ 26,967	$ 27,232
Claims and claims expense	(18,722)	(20,046)	(17,620)
Amortization of DAC	(3,789)	(3,975)	(4,121)
Other costs and expenses	(2,552)	(2,735)	(2,626)
Restructuring and related charges	(105)	(22)	(27)
Underwriting income	$ 1,027	$ 189	$ 2,838
Catastrophe losses	$ 2,069	$ 3,342	$ 1,409
Underwriting income (loss) by line of business			
Standard auto [(1)]	$ 987	$ 1,247	$ 1,665
Non-standard auto	76	136	264
Homeowners	(125)	(1,175)	571
Other personal lines [(1)]	89	(19)	338
Underwriting income	$ 1,027	$ 189	$ 2,838
Underwriting income (loss) by brand			
Allstate brand	$ 1,022	$ 220	$ 2,634
Encompass brand	5	(31)	204
Underwriting income	$ 1,027	$ 189	$ 2,838

(1) During 2008, $45 million of IBNR losses were reclassified from standard auto to other personal lines to be consistent with the recording of excess liability policies' premiums and losses.

Allstate Protection experienced underwriting income of $1.03 billion during 2009 compared to $189 million in 2008 primarily due to decreases in homeowners underwriting loss, partially offset by decreases in standard auto underwriting income. Homeowners underwriting loss decreased 89.4% to an underwriting loss of $125 million in 2009 from an underwriting loss of $1.18 billion in 2008, primarily due to lower catastrophes losses, partially offset by increases in homeowner claim frequency and claim severities excluding catastrophes. Standard auto underwriting income decreased 20.9% to $987 million in 2009 from $1.25 billion in 2008, primarily due to increases in auto claim frequency and lower premiums earned. Current year claim severity expectations continue to be consistent with relevant indices for the bodily injury coverages while physical damage coverages were generally lower than the relevant indices.

Allstate Protection experienced underwriting income of $189 million during 2008 compared to $2.84 billion in 2007. The decrease was primarily due to increased catastrophe losses, increases in auto severities, increases in homeowners loss frequencies and unfavorable prior year reserve reestimates in the current year compared to favorable prior year reserve reestimates in 2007, partially offset by favorable auto loss frequencies and higher standard auto average premium. For further discussion and quantification of the impact of reserve estimates and assumptions, see the Application of Critical Accounting Estimates and Property-Liability Claims and Claims Expense Reserves sections of the MD&A.

Catastrophe losses in 2009 were $2.07 billion as detailed in the table below. This compares to catastrophe losses in 2008 of $3.34 billion.

We define a "catastrophe" as an event that produces pre-tax losses before reinsurance in excess of $1 million and involves multiple first party policyholders, or an event that produces a number of claims in excess of a preset, per-event threshold of average claims in a specific area, occurring within a certain amount of time following the event. Catastrophes are caused by various natural events including high winds, winter storms, tornadoes, hailstorms, wildfires, tropical storms, hurricanes, earthquakes and volcanoes. We are also exposed to man-made catastrophic events, such as certain acts of terrorism or industrial accidents. The nature and level of catastrophes in any future period cannot be reliably predicted.

51

Catastrophe losses related to events that occurred by the size of the event are shown in the following table.

($ in millions)	2009					
	Number of events		Claims and claims expense		Combined ratio impact	Average catastrophe loss per event
Size of catastrophe						
$100 million to $250 million	3	3.7%	$ 442	21.4%	1.7	$ 147
$50 million to $100 million	11	13.4	825	39.9	3.1	75
Less than $50 million	68	82.9	971	46.9	3.7	14
Total	82	100.0%	$ 2,238	108.2	8.5	27
Prior year reserve reestimates			(169)	(8.2)	(0.6)	
Total catastrophe losses			$ 2,069	100.0%	7.9	

In the years 1995 through 2009, we incurred catastrophe losses of $23.70 billion related to 994 events. Of these total losses, 36.5% related to 10 events with losses greater than $250 million per event, 10.5% related to 16 events with losses between $100 million and $250 million per event, 13.7% related to 46 events with losses between $50 million and $100 million per event, and 39.3% related to 922 events with losses less than $50 million per event. Catastrophe losses in the period 2003 through 2009 amounted to $17.26 billion or 72.8% of the total losses. Catastrophe losses greater than $50 million in the period 2003 through 2009 amounted to 51 events and $12.35 billion or 52.1% of the total losses.

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

($ in millions)	2009		2008		2007	
		Number of events		Number of events		Number of events
Hurricanes/Tropical storms	$ 48	1	$ 1,381	5	$ 9	3
Tornadoes	384	4	628	19	258	16
Wind/Hail	1,561	67	960	81	542	60
Wildfires	83	5	169	9	350	3
Other events	162	5	79	9	123	9
Prior year reserve reestimates	(169)		125		127	
Total catastrophe losses	$ 2,069	82	$ 3,342	123	$ 1,409	91

Combined ratio 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 in the Property-Liability Operations section of the MD&A.

	Loss ratio [2]			Effect of catastrophe losses on the loss ratio			Effect of pre-tax reserves reestimates on the combined ratio		
	2009	**2008**	**2007**	**2009**	**2008**	**2007**	**2009**	**2008**	**2007**
Allstate brand loss ratio:									
Standard auto	69.3	68.1	65.8	1.2	1.5	0.6	(0.3)	0.1	(1.1)
Non-standard auto	67.1	62.3	54.9	0.7	0.9	0.2	(1.6)	(0.1)	(7.1)
Homeowners	79.6	96.3	66.5	29.0	46.5	19.5	(2.6)	2.1	2.2
Other personal lines	67.3	69.3	60.4	7.0	10.6	5.0	3.5	0.6	(0.9)
Total Allstate brand loss ratio	71.4	74.4	64.9	8.1	12.6	5.3	(0.5)	0.6	(0.7)
Allstate brand expense ratio	24.5	24.7	24.7						
Allstate brand combined ratio	95.9	99.1	89.6						
Encompass brand loss ratio:									
Standard auto [1]	75.4	66.3	64.2	0.3	0.9	0.4	0.7	(4.2)	(3.4)
Non-standard auto	74.1	88.9	75.0				(11.1)		(6.6)
Homeowners	66.0	76.4	54.6	14.6	27.8	12.0	(4.3)	0.4	(1.6)
Other personal lines [1]	75.9	112.9	61.8	1.9	8.9	2.2	5.6	33.1	
Total Encompass brand loss ratio	72.6	73.0	61.6	4.7	9.1	3.9	(0.7)	(0.2)	(2.8)
Encompass brand expense ratio	27.1	28.8	27.6						
Encompass brand combined ratio	99.7	101.8	89.2						
Allstate Protection loss ratio	71.5	74.3	64.7	7.9	12.4	5.2	(0.5)	0.6	(0.8)
Allstate Protection expense ratio	24.6	25.0	24.9						
Allstate Protection combined ratio	96.1	99.3	89.6						

---

(1) During 2008, $45 million of IBNR losses were reclassified from standard auto to other personal lines to be consistent with the recording of excess liability policies' premiums and losses.

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

Standard auto loss ratio for the Allstate brand increased 1.2 points in 2009 compared to 2008 due to higher claim frequencies. In 2009, claim frequencies in the physical damage and bodily injury coverages have returned to historical norms following exceptionally low levels in 2008. Bodily injury severity results increased in line with historical Consumer Price Index ("CPI") trends. Claims severity decreased in 2009 for the physical damage coverages, partially offsetting the increased frequencies. Standard auto loss ratio for the Allstate brand increased 2.3 points in 2008 compared to 2007 due to increased catastrophe losses, unfavorable reserve reestimates in the current year compared to favorable reserve reestimates in the prior year and higher claim severities, partially offset by lower claim frequencies. Excluding catastrophes, the 2008 underlying inflationary increase in severity was in part offset by declines in frequency, reflecting a continuation of a long-term decline in frequency and a decrease in miles driven.

Non-standard auto loss ratio for the Allstate brand increased 4.8 points in 2009 compared to 2008 due to higher claim frequencies. Claim frequencies increased for both physical damage and casualty coverages in 2009 compared to 2008. Bodily injury severity results increased in line with historical CPI trends. Claims severity decreased in 2009 for the physical damage coverages, partially offsetting the increased frequencies. Non-standard auto loss ratio for the Allstate brand increased 7.4 points in 2008 compared to 2007 due to lower favorable reserve reestimates related to prior years, increased catastrophe losses and higher claim severities, partially offset by lower claim frequencies.

Homeowners loss ratio for the Allstate brand decreased 16.7 points to 79.6 in 2009 from 96.3 in 2008 due to lower catastrophe losses, partially offset by higher frequencies excluding catastrophes and severities. Frequencies excluding catastrophes increased in 2009 compared to 2008, in part, due to inclement weather in 2009, including an increase in freeze related claims, driven by winter weather in the first quarter of 2009. Theft claims also drove part of the increase in frequencies in 2009 compared to 2008. In 2009, homeowner claims severity, excluding catastrophes, increased compared to 2008. Homeowners loss ratio for the Allstate brand increased 29.8 points to 96.3 in 2008 from 66.5 in 2007 due to higher catastrophe losses.

Expense ratio for Allstate Protection decreased 0.4 points in 2009 compared to 2008. Restructuring costs increased 0.3 points over prior year, driven by claim office consolidations, reorganization of Business Insurance and technology prioritization and efficiency efforts. Excluding restructuring, the expense ratio for Allstate Protection decreased 0.7 points in 2009 compared to 2008. The impact of lower earned premium was offset by improved operational efficiencies and more focused spending, particularly on technology, and decreases in the net cost of benefits due to favorable investment results. The expense ratio for Allstate Protection increased 0.1 points in 2008 compared to 2007 primarily due to lower earned premiums, increases in the net cost of benefits due to unfavorable investment results, and charges for the write-off of capitalized computer software.

The impact of specific costs and expenses on the expense ratio are included in the following tables.

	Allstate brand			Encompass brand			Allstate Protection		
	2009	2008	2007	2009	2008	2007	2009	2008	2007
Amortization of DAC	14.2	14.4	14.8	18.5	19.9	20.1	14.5	14.7	15.1
Other costs and expenses	9.9	10.2	9.8	8.3	8.9	7.5	9.7	10.2	9.7
Restructuring and related charges	0.4	0.1	0.1	0.3			0.4	0.1	0.1
Total expense ratio	24.5	24.7	24.7	27.1	28.8	27.6	24.6	25.0	24.9

The expense ratio for the standard auto and homeowners businesses generally approximates the total Allstate Protection expense ratio. 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.

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 costs and direct mail solicitation expenses. For the Allstate Protection business, DAC is amortized to income over the period in which premiums are earned. The balance of DAC for each product type at December 31, is included in the following table.

($ in millions)	Allstate brand		Encompass brand		Allstate Protection	
	2009	2008	2009	2008	2009	2008
Standard auto	$ 542	$ 544	$ 68	$ 87	$ 610	$ 631
Non-standard auto	35	36		1	35	37
Homeowners	426	420	42	49	468	469
Other personal lines	290	307	7	9	297	316
Total DAC	$ 1,293	$ 1,307	$ 117	$ 146	$ 1,410	$ 1,453

Catastrophe management

Historical catastrophe experience Since the beginning of 1992, the average annual impact of catastrophes on our Property-Liability loss ratio was 7.5 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, 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"), the Florida Hurricane Catastrophe Fund ("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 6.3 points since the beginning of 1992.

Comparatively, the average annual impact of catastrophes on the homeowners loss ratio for the years 1992 through 2009 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
Florida	99.7	48.2
Other hurricane exposure states	28.4	28.2

Total hurricane exposure states	34.4	29.9
All other	22.9	17.8
Total	29.1	24.3

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 to participating insurers for certain qualifying Florida hurricane losses; and other state facilities, such as wind pools. However, the impact of these actions may be diminished by the growth in insured values, and the effect of state insurance laws and regulations. In addition, in various states we are required to participate in assigned risk plans, reinsurance facilities and joint underwriting associations that provide insurance coverage to individuals or entities that otherwise are unable to purchase such coverage from private insurers. Because of our participation in these and other state facilities such as wind pools, we may be exposed to losses that surpass the capitalization of these facilities and/or to assessments from these facilities.

We continue to take actions to maintain an appropriate level of exposure to catastrophic events, including the following:

- We have increased our utilization of wind storm pools. For example, in Texas we are ceding significant wind exposure related to insured property located in wind pool eligible areas along the coast including the Galveston Islands.
- We have ceased writing new homeowners business in California. We will continue to renew current policyholders and have a renewal ratio of approximately 92% in California.
- Encompass Floridian Insurance Company and Encompass Floridian Indemnity Company filed a formal notification with the Florida Office of Insurance Regulation to discontinue providing property insurance in the State of Florida.
- We ceased offering renewals on certain homeowners insurance policies in New York in certain down-state geographical locations. The level of non-renewals in New York is limited by state statute.

Hurricanes

We consider the greatest areas of potential catastrophe losses due to hurricanes generally to be major metropolitan centers in counties along the eastern and gulf coasts of the United States. Usually, the average premium on a property policy near these coasts is greater than in other areas. However, average premiums are not considered commensurate with the inherent risk of loss. In addition and as explained in Note 13 of the consolidated financial statements, in various states Allstate is subject to assessments from assigned risk plans, reinsurance facilities and joint underwriting associations providing insurance for wind related property losses.

We have addressed our risk of hurricane loss by, among other actions, purchasing reinsurance for specific states and on a countrywide basis for our personal lines property insurance in areas most exposed to hurricanes (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; and not offering continuing coverage on certain policies in coastal counties in certain states. Our actions are expected to continue during 2010 in northeastern and certain other hurricane prone states.

Earthquakes

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

We expect to retain approximately 40,000 PIF with earthquake coverage due to regulatory and other reasons. We also will continue to have exposure to earthquake risk on certain policies that do not specifically exclude coverage for earthquake losses, including our auto policies, and to fires following earthquakes. Allstate policyholders in the state of California are offered coverage through the CEA, a privately-financed, publicly-managed state agency created to provide insurance coverage for earthquake damage. Allstate is subject to assessments from the CEA under certain circumstances as explained in Note 13 of the consolidated financial statements.

Fires Following Earthquakes

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

Wildfires

Actions we are taking to reduce our risk of loss from wildfires include changing homeowners underwriting requirements in certain states and including California wildfire losses in our aggregate excess reinsurance agreement and in our state specific California program. Catastrophe losses related to the Southern California wildfires that occurred during 2009, 2008 and 2007 totaled $76 million, $166 million and $350 million, respectively.

Reinsurance

A description of our current catastrophe reinsurance program and program changes as of June 1, 2010 appears in the catastrophe reinsurance section of this document.

DISCONTINUED LINES AND COVERAGES SEGMENT

Overview The Discontinued Lines and Coverages segment includes results from insurance coverage that we no longer write and results for certain commercial and other businesses in run-off. Our exposure to asbestos, environmental and other discontinued lines claims is reported in this segment. We have assigned management of this segment to a designated group of professionals with expertise in claims handling, policy coverage interpretation, exposure identification and reinsurance collection. As part of its responsibilities, this group 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)	2009	2008	2007
Premiums written	$ (1)	$	$
Premiums earned	$ (1)	$	$ 1
Claims and claims expense	(24)	(18)	(47)
Operating costs and expenses	(7)	(7)	(8)
Underwriting loss	$ (32)	$ (25)	$ (54)

Underwriting losses of $32 million in 2009 were primarily related to a $13 million unfavorable reestimate of environmental reserves and a $28 million unfavorable reestimate of other reserves, partially offset by an $8 million favorable reestimate of asbestos reserves, primarily as a result of our annual third quarter 2009 review using established industry and actuarial "grounds up" best practices. Additionally, the allowance for future uncollectible reinsurance decreased $23 million, primarily as a result of significant commutation activity related to three reinsurers. The cost of administering claims settlements totaled $13 million for both the years ended December 31, 2009 and 2008 and $14 million for the year ended December 31, 2007.

Underwriting losses of $25 million in 2008 primarily related to an $8 million unfavorable reestimate of asbestos reserves and a $13 million unfavorable reestimate of other reserves as a result of the annual third quarter 2008 grounds up reserve review, partially offset by a $16 million reduction of our allowance for future uncollectible reinsurance.

Underwriting loss of $54 million in 2007 primarily related to a $63 million unfavorable reestimate of environmental reserves and a $6 million unfavorable reestimate of asbestos reserves as a result of the annual third quarter 2007 grounds up reserve review, partially offset by a $46 million reduction in the allowance for uncollectible reinsurance related to Equitas Limited's improved financial position as a result of its reinsurance coverage with National Indemnity Company.

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

Discontinued Lines and Coverages outlook

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

56

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

PROPERTY-LIABILITY INVESTMENT RESULTS

Net investment income decreased 20.7% or $346 million to $1.33 billion in 2009 compared to $1.67 billion in 2008, after decreasing 15.1% in 2008 compared to 2007. The 2009 decrease was primarily due to reduced portfolio yields, actions to shorten duration and maintain additional liquidity in the portfolio, lower average investment balances and capital contributions to Allstate Life Insurance Company ("ALIC"). The 2008 decrease was due to decreased partnership income and lower average asset balances reflecting dividends paid by Allstate Insurance Company ("AIC") to its parent, The Allstate Corporation (the "Corporation") and capital contributions to ALIC and reduced portfolio yields.

The following table presents the average pre-tax investment yields for the year ended December 31.

	2009 (1)(2)	**2008** (1)(2)	**2007** (1)(2)
Fixed income securities: tax-exempt	5.1%	5.1%	5.1%
Fixed income securities: tax-exempt equivalent	7.4	7.4	7.4
Fixed income securities: taxable	4.1	5.6	5.5
Equity securities	2.1	3.0	2.7
Mortgage loans	4.7	6.1	5.6
Limited partnership interests (3)	0.6	2.3	16.0
Total portfolio	4.1	4.8	5.4

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

(2) Amortized cost basis is used to calculate the average investment balance for fixed income securities and mortgage loans. Cost is used for equity securities. Cost or the equity method of accounting basis is used for limited partnership interests.

(3) Beginning in the fourth quarter of 2008, income from limited partnerships accounted for on the equity method of accounting ("EMA LP") is reported in realized capital gains and losses and is therefore excluded from the determination of pre-tax investment yields on limited partnership interests. EMA LP income for periods prior to the fourth quarter of 2008 is reported in net investment income and included in the determination of pre-tax investment yields on limited partnership interests.

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

($ in millions)	**2009**	**2008**	**2007**
Impairment write-downs	$ (534)	$ (638)	$ (44)
Change in intent write-downs	(89)	(501)	(54)
Net other-than-temporary impairment losses recognized in earnings	(623)	(1,139)	(98)
Sales	611	(635)	1,396
Valuation of derivative instruments	52	(296)	(15)
Settlements of derivative instruments	(203)	289	133
EMA LP income	(5)	(77)	
Realized capital gains and losses, pre-tax	(168)	(1,858)	1,416
Income tax (expense) benefit (1)	(54)	649	(501)
Realized capital gains and losses, after-tax	$ (222)	$ (1,209)	$ 915

(1) Income tax expense for the year ended December 31, 2009 includes expense of $112 million attributable to an increase in the valuation allowance relating to the deferred tax asset on capital losses recorded in the first quarter of 2009. This valuation allowance was released in connection with the adoption of accounting guidance for the recognition of other-than-temporary impairments of fixed income securities ("new OTTI accounting guidance") on April 1, 2009; however, the release was recorded as an increase to retained income and therefore did not reverse the amount recorded in income tax expense. For a further discussion of changes in this valuation allowance, see the Deferred Taxes section of the MD&A.

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

PROPERTY-LIABILITY CLAIMS AND CLAIMS EXPENSE RESERVES

Property-Liability underwriting results are significantly influenced by estimates of property-liability claims and claims expense reserves. For a description of our reserve process, see Note 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 quarterly reestimates of reserves relate to revisions to the development factors used to predict how losses are likely to develop from the end of a reporting period until all claims have been paid. Reestimates occur because actual losses are likely different than that predicted by the estimated development factors used in prior reserve estimates. At December 31, 2009, the impact of a reserve reestimation corresponding to a one percent increase or decrease in net reserves would be a decrease or increase of approximately $110 million in net income.

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

($ in millions)	2009	2008	2007
Allstate brand	$ 14,123	$ 14,118	$ 13,456
Encompass brand	1,027	1,133	1,129
Total Allstate Protection	15,150	15,251	14,585
Discontinued Lines and Coverages	1,878	1,931	2,075
Total Property-Liability	$ 17,028	$ 17,182	$ 16,660

The tables below shows reserves, net of reinsurance, representing the estimated cost of outstanding claims as they were recorded at the beginning of years 2009, 2008 and 2007, and the effect of reestimates in each year.

($ in millions)	January 1 reserves		
	2009	2008	2007
Allstate brand	$ 14,118	$ 13,456	$ 13,220
Encompass brand	1,133	1,129	1,236
Total Allstate Protection	15,251	14,585	14,456
Discontinued Lines and Coverages	1,931	2,075	2,154
Total Property-Liability	$ 17,182	$ 16,660	$ 16,610

($ in millions, except ratios)	2009		2008		2007	
	Reserve reestimate [1]	Effect on combined ratio	Reserve reestimate [1]	Effect on combined ratio	Reserve reestimate [1]	Effect on combined ratio
Allstate brand	$ (126)	(0.5)	$ 155	0.6	$ (167)	(0.6)
Encompass brand	(10)		(3)		(52)	(0.2)
Total Allstate Protection	(136)	(0.5)	152	0.6	(219)	(0.8)
Discontinued Lines and Coverages	24	0.1	18	0.1	47	0.2
Total Property-Liability	$ (112)	(0.4)	$ 170	0.7	$ (172)	(0.6)
Reserve reestimates, after-tax	$ (73)		$ 111		$ (112)	
Net income (loss)	$ 854		$ (1,679)		$ 4,636	

Reserve reestimates as a % of net income (loss)	8.5%	(6.6)%	2.4%

(1) Favorable reserve reestimates are shown in parentheses.

Allstate Protection

The tables below shows Allstate Protection net reserves representing the estimated cost of outstanding claims as they were recorded at the beginning of years 2009, 2008 and 2007, and the effect of reestimates in each year.

($ in millions)	January 1 reserves		
	2009	2008	2007
Auto	$ 10,220	$ 10,175	$ 9,995
Homeowners	2,824	2,279	2,226
Other personal lines	2,207	2,131	2,235
Total Allstate Protection	$ 15,251	$ 14,585	$ 14,456

($ in millions, except ratios)	2009		2008		2007	
	Reserve reestimate [1]	Effect on combined ratio	Reserve reestimate [1]	Effect on combined ratio	Reserve reestimate [1]	Effect on combined ratio
Auto	$ (57)	(0.2)	$ (27)	(0.1)	$ (311)	(1.1)
Homeowners	(168)	(0.6)	124	0.5	115	0.4
Other personal lines	89	0.3	55	0.2	(23)	(0.1)
Total Allstate Protection	$ (136)	(0.5)	$ 152	0.6	$ (219)	(0.8)
Underwriting income	$ 1,027		$ 189		$ 2,838	
Reserve reestimates as a % of underwriting income	13.2%		(80.4)%		7.7%	

(1) Favorable reserve reestimates are shown in parentheses.

Auto reserve reestimates in 2009 were primarily the result of auto severity development that was better than expected. Auto reserve reestimates in 2008 were primarily the result of a $45 million reclassification of IBNR losses from standard auto to other personal lines to be consistent with the recording of excess liability policies' premiums and losses. Auto reserve reestimates in 2007 were primarily the result of auto severity development that was better than expected.

Favorable homeowners reserve reestimates in 2009 were primarily due to favorable reserve reestimates from Hurricanes Ike and Gustav and a catastrophe related subrogation recovery. Unfavorable homeowners reserve reestimates in 2008 were primarily due to litigation filed in conjunction with a Louisiana deadline for filing suits related to Hurricane Katrina. Unfavorable homeowners reserve reestimates in 2007 were primarily due to catastrophe reserve reestimates attributable to increased claim expense reserves primarily for 2005 events and increased loss reserves including reopened claims arising from litigation filed in conjunction with a Louisiana deadline for filing suits related to Hurricane Katrina.

Other personal lines reserve reestimates in 2009 were primarily the result of loss development different than anticipated in previous estimates. Other personal lines reserve reestimates in 2008 were primarily the result of a $45 million reclassification of IBNR losses from standard auto to other personal lines to be consistent with the recording of excess liability policies' premiums and losses. Other personal lines reserve reestimates in 2007 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	**2009**	**2008**	**2007**
Auto			
Pending, beginning of year	566,394	551,598	522,544
New	5,482,941	5,323,072	5,450,438
Total closed	(5,508,911)	(5,308,276)	(5,421,384)
Pending, end of year	540,424	566,394	551,598
Homeowners			
Pending, beginning of year	74,772	80,229	72,988
New	997,954	1,242,007	805,461
Total closed	(1,013,041)	(1,247,464)	(798,220)
Pending, end of year	59,685	74,772	80,229
Other personal lines			
Pending, beginning of year	41,001	39,951	42,254
New	278,978	301,363	270,962
Total closed	(283,442)	(300,313)	(273,265)
Pending, end of year	36,537	41,001	39,951
Total Allstate Protection			
Pending, beginning of year	682,167	671,778	637,786
New	6,759,873	6,866,442	6,526,861
Total closed	(6,805,394)	(6,856,053)	(6,492,869)
Pending, end of year	636,646	682,167	671,778

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.

2009 Prior year reserve reestimates

($ in millions)	**1999 & prior**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**Total**
Allstate brand	$ 247	$ 46	$ 58	$ 44	$ 37	$ 85	$ 74	$ (149)	$ (151)	$ (417)	$ (126)
Encompass brand		3	1	3	6	5	10	8	(7)	(39)	(10)
Total Allstate Protection	247	49	59	47	43	90	84	(141)	(158)	(456)	(136)
Discontinued Lines and Coverages	24										24
Total Property-Liability	$ 271	$ 49	$ 59	$ 47	$ 43	$ 90	$ 84	$ (141)	$ (158)	$ (456)	$ (112)

2008 Prior year reserve reestimates

($ in millions)	**1998 & prior**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**Total**
Allstate brand	$ 56	$ (7)	$ 9	$ 34	$ 1	$ (5)	$ 13	$ 152	$ (71)	$ (27)	$ 155
Encompass brand	2		2	(1)	2	1	(1)	10	(20)	2	(3)

Total Allstate Protection	58	(7)	11	33	3	(4)	12	162	(91)	(25)	152
Discontinued Lines and Coverages	18										18
Total Property-Liability	$ 76	$ (7)	$ 11	$ 33	$ 3	$ (4)	$ 12	$ 162	$ (91)	$ (25)	$ 170

2007 Prior year reserve reestimates

($ in millions)	1997 & prior	1998	1999	2000	2001	2002	2003	2004	2005	2006	Total
Allstate brand	$ 103	$	$ 10	$ 16	$ (5)	$ 15	$ 5	$ (10)	$ (225)	$ (76)	$ (167)
Encompass brand			(1)	(4)		3	6	(4)	(39)	(13)	(52)
Total Allstate Protection	103		9	12	(5)	18	11	(14)	(264)	(89)	(219)
Discontinued Lines and Coverages	47										47
Total Property-Liability	$ 150	$	$ 9	$ 12	$ (5)	$ 18	$ 11	$ (14)	$ (264)	$ (89)	$ (172)

Allstate brand prior year reserve reestimates were $126 million favorable in 2009, $155 million unfavorable in 2008 and $167 million favorable in 2007, respectively. In 2009, this was primarily due to favorable reserve reestimates from Hurricanes Ike and Gustav and a catastrophe related subrogation recovery. The shift of reserves to older accident years is attributable to a reallocation of reserves related to employee postretirement benefits to more accident years, and a reclassification of injury and 2008 non-injury reserves to older years. In 2008, this was primarily due to litigation filed in conjunction with a Louisiana deadline for filing suits related to Hurricane Katrina. In 2007, this was primarily due to auto severity development that was better than expected, partially offset by unfavorable reserve reestimates of catastrophe losses.

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 is shown in the table below.

($ in millions)	2009	2008	2007
Reserve reestimates [1]	$ (126)	$ 155	$ (167)
Allstate brand underwriting income	1,022	220	2,634
Reserve reestimates as a % of underwriting income	12.3%	(70.5)%	6.3%

(1) Favorable reserve reestimates are shown in parentheses.

Encompass brand Reserve reestimates in 2009, 2008 and 2007 were related to lower than anticipated claim settlement costs.

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

($ in millions)	2009	2008	2007
Reserve reestimates [1]	$ (10)	$ (3)	$ (52)
Encompass brand underwriting income (loss)	5	(31)	204
Reserve reestimates as a % of underwriting income (loss)	200.0%	9.7%	25.5%

(1) Favorable reserve reestimates are shown in parentheses.

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 grounds 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 policyholders.

Reserve reestimates for the Discontinued Lines and Coverages, as shown in the table below, were increased primarily for other discontinued lines in both 2009 and 2008, and environmental in 2007.

($ in millions)	2009		2008		2007	
	January 1 reserves	Reserve reestimate (1)	January 1 reserves	Reserve reestimate (1)	January 1 reserves	Reserve reestimate (1)
Asbestos Claims	$ 1,228	$ (8)	$ 1,302	$ 8	$ 1,375	$ 17
Environmental Claims	195	13	232		194	63
Other Discontinued Lines	508	19	541	10	585	(33)
Total Discontinued Lines and coverages	$ 1,931	$ 24	$ 2,075	$ 18	$ 2,154	$ 47
Underwriting loss		$ (32)		$ (25)		$ (54)
Reserve reestimates as a % of underwriting loss		(75.0)%		(72.0)%		(87.0)%

(1) Favorable reserve reestimates are shown in parentheses.

Asbestos reserves reestimates in 2009 were $8 million favorable. Reserve additions for asbestos in 2008 and 2007, totaling $8 million and $17 million, respectively, were primarily for products-related coverage. For 2008 and 2007, they were essentially a result of a continuing level of increased claim activity being reported by excess and primary 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. Higher 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 and bankruptcy actions. The 2007 asbestos reserve addition also includes the write-off of uncollectible reinsurance for a single foreign reinsurer.

The reserve additions for environmental in 2009 were primarily related to site-specific remediations where the clean-up cost estimates and responsibility for the clean-up were more fully determined. Normal environmental claim activity resulted in essentially no change in estimated reserves for 2008. The reserve additions for environmental in 2007 were for increased claim activity related to site-specific remediations where the clean-up cost estimates and responsibility for the clean-up have been more fully determined. This increased claim activity over prior estimates has also resulted in an increased estimate for future claims reported. IBNR now represents 65% of total net environmental reserves, 2 points higher than at December 31, 2008.

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

($ in millions, except ratios)	2009		2008		2007	
	Gross	Net	Gross	Net	Gross	Net
Asbestos claims						
Beginning reserves	$ 1,933	$ 1,228	$ 2,053	$ 1,302	$ 2,198	$ 1,375
Incurred claims and claims expense	(3)	(8)	4	8	12	17
Claims and claims expense paid	(150)	(40)	(124)	(82)	(157)	(90)
Ending reserves	$ 1,780	$ 1,180	$ 1,933	$ 1,228	$ 2,053	$ 1,302
Annual survival ratio	11.9	11.5	15.4	15.1	13.1	14.5
3-year survival ratio	12.4	12.9	13.4	14.4	8.5	9.7
Environmental claims						
Beginning reserves	$ 250	$ 195	$ 340	$ 232	$ 249	$ 194
Incurred claims and claims expense	16	13	(34)		120	63
Claims and claims expense paid	(19)	(10)	(56)	(37)	(29)	(25)
Ending reserves	$ 247	$ 198	$ 250	$ 195	$ 340	$ 232
Annual survival ratio	12.7	12.1	4.5	5.2	11.7	9.4
3-year survival ratio	7.1	7.5	6.8	7.0	11.8	9.3
Combined environmental and asbestos claims						
Annual survival ratio	12.0	11.6	12.1	12.0	12.9	13.4
3-year survival ratio	11.4	11.7	12.1	12.6	8.8	9.6
Percentage of IBNR in ending reserves		62.3%		63.8%		63.2%

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. The 2009 net survival ratios in the table above have been adjusted to remove the claims and claims expense paid of $63 million for asbestos and $7 million for environmental attributable to recent commutation activity related to three reinsurers.

In 2009, the asbestos net 3-year survival ratio decreased due to lower reserve levels as the result of loss settlements. In 2008, the asbestos net 3-year survival ratio increased due to lower average annual payments. In 2009, the environmental net 3-year survival ratio increased due to lower average annual payments. In 2008, the environmental net 3-year survival ratio declined due to continuing claim payments.

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

($ in millions)	December 31, 2009			December 31, 2008			December 31, 2007		
	Active policy-holders	Net reserves	% of reserves	Active policy-holders	Net reserves	% of reserves	Active policy-holders	Net reserves	% of reserves
Direct policyholders:									
Primary	51	$ 19	1%	54	$ 21	2%	52	$ 23	2%
Excess	318	256	22	330	216	17	346	222	17
Total	369	275	23%	384	237	19%	398	245	19%
Assumed reinsurance		176	15		205	17		216	16
IBNR		729	62		786	64		841	65
Total net reserves		$ 1,180	100%		$ 1,228	100%		$ 1,302	100%
Total reserve additions		$ (8)			$ 8			$ 17	

During the last three years, 61 direct primary and excess policyholders reported new claims, and claims of 79 policyholders were closed, decreasing the number of active policyholders by 18 during the period. The 18 decrease comprised (15) from 2009, (9) from 2008 and 6 from 2007. The decrease of 15 from 2009 included 20 new policyholders reporting new claims and the closing of 35 policyholders' claims.

IBNR net reserves decreased by $57 million. At December 31, 2009 IBNR represented 62% of total net asbestos reserves, 2 points lower than at December 31, 2008. IBNR provides for reserve development of known claims and future reporting of additional unknown claims from current and new policyholders and ceding companies.

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

Number of claims	2009	2008	2007
Asbestos			
Pending, beginning of year	8,780	9,256	9,175
New	814	601	876
Total closed	(1,342)	(1,077)	(795)
Pending, end of year	8,252	8,780	9,256
Closed without payment	469	800	364
Environmental			
Pending, beginning of year	4,603	4,747	4,771
New	389	291	603
Total closed	(878)	(435)	(627)
Pending, end of year	4,114	4,603	4,747
Closed without payment	416	307	370

Property-Liability reinsurance ceded For Allstate Protection, we utilize reinsurance to reduce exposure to catastrophe risk and manage capital, and to support the required statutory surplus and the insurance financial strength ratings of certain subsidiaries such as Castle Key Insurance Company, formerly known as Allstate Floridian Insurance Company, 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 market participants, and have historically purchased reinsurance to mitigate long-tail liability lines, including environmental, asbestos and other discontinued lines exposures. We retain primary liability as a direct insurer for all risks ceded to reinsurers.

The impacts of reinsurance on our reserve for claims and claims expense at December 31 are summarized in the following table, net of allowances we have established for uncollectible amounts.

($ in millions)	Reserve for Property-Liability insurance claims and claims expense		Reinsurance recoverables, net	
	2009	2008	2009	2008
Industry pools and facilities	$ 2,000	$ 2,012	$ 1,408	$ 1,442
Asbestos and environmental	2,027	2,183	683	795
Other including allowance for future uncollectible reinsurance recoverables	15,140	15,261	121	116
Total Property-Liability	$ 19,167	$ 19,456	$ 2,212	$ 2,353

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 is also an inherently uncertain process involving estimates. Changes in estimates could result in additional changes to the Consolidated Statements of Operations.

The allowance for uncollectible reinsurance relates to Discontinued Lines and Coverages reinsurance recoverables and was $142 million and $168 million at December 31, 2009 and 2008, respectively. These amounts represent 16.2% and 16.9%, 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 collectability of reinsurance recoverables in the future.

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

($ in millions)	A.M. Best financial strength rating [1]	Reinsurance recoverable on paid and unpaid claims, net	
		2009	2008
Industry pools and facilities			
Michigan Catastrophic Claim Association ("MCCA")	N/A	$ 1,173	$ 1,108
New Jersey Unsatisfied Claim and Judgment Fund	N/A	66	84
North Carolina Reinsurance Facility	N/A	60	63
FHCF	N/A	53	36
National Flood Insurance Program ("NFIP")	N/A	43	138
Other		13	13
Total		1,408	1,442
Asbestos, Environmental and Other			
Lloyd's of London ("Lloyd's")	A	190	227
Westport Insurance Corporation (formerly Employers Reinsurance Corporation)	A	77	81
New England Reinsurance Corporation	NR	37	21
Clearwater Insurance Company	A-	34	39
R&Q Reinsurance Company	NR	28	17
Other, including allowance for future uncollectible reinsurance recoverables		438	526
Total		804	911
Total Property-Liability		$ 2,212	$ 2,353

(1) N/A and NR reflect not applicable and not rated, respectively.

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)	2009	2008	2007
Ceded property-liability premiums earned	$ 1,056	$ 1,139	$ 1,356
Ceded property-liability claims and claims expense			
Industry pool and facilities			

FHCF	$ 47	$ 28	$ 22
NFIP	111	344	65
MCCA	133	148	60
Other	59	60	72
Subtotal industry pools and facilities	350	580	219
Asbestos, Environmental and Other	65	40	151
Ceded property-liability claims and claims expense	$ 415	$ 620	$ 370

For the years ended December 31, 2009 and 2008, ceded property-liability premiums earned decreased $83 million and $217 million, respectively, when compared to prior years, primarily as a result of favorable market conditions which were reflected in our catastrophe reinsurance pricing.

Ceded property-liability claims and claims expense decreased in 2009 primarily due to amounts ceded to NFIP. Ceded property-liability claims and claims expense increased in 2008 primarily due to amounts ceded to NFIP and

MCCA. For further discussion, see the Discontinued Lines and Coverages Segment and Property-Liability Claims and Claims Expense Reserves sections of the MD&A.

For a detailed description of the MCCA, FHCF and Lloyd's, see Note 9 of the consolidated financial statements. At December 31, 2009, 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 $26 million.

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

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, 2009 and 2008, ATL had $32 million and $66 million, respectively, of reinsurance recoverable primarily related to losses incurred from Hurricane Ike which occurred in 2008.

Catastrophe reinsurance

Our personal lines catastrophe reinsurance program was designed, utilizing our risk management methodology, to address our exposure to catastrophes nationwide. Our program provides reinsurance protection for catastrophes including storms named or numbered by the National Weather Service, fires following earthquakes, earthquakes and wildfires including California wildfires. These reinsurance agreements are part of our catastrophe management strategy, which is intended to provide our shareholders an acceptable return on the risks assumed in our property business and to reduce variability of earnings, while providing protection to our customers.

A description of our catastrophe reinsurance treaties, most of which are placed on a multi-year basis, that reinsure Allstate Protection personal lines property excess catastrophe losses in geographic regions or single states and provide reinsurance for specific perils follows:

Aggregate excess agreement comprising three contracts (two contracts effective June 1, 2008 to May 31, 2010 and one contract effective June 1, 2009 to May 31, 2011) providing coverage for Allstate Protection personal lines auto and property business countrywide, except for Florida. The contracts cover losses from storms named or numbered by the National Weather Service, fires following earthquakes, and California wildfires in excess of $2.00 billion in aggregated losses per contract year. The contract expiring May 31, 2011 represents 47.5% of the placement with the Company retaining the option in 2010 to place up to the entire $2.00 billion limit of this contract. For the contract term June 1, 2009 to May 31, 2010, the Company retains 5% of the $2.00 billion reinsurance limit.

For the June 1, 2009 to May 31, 2011 term, the Company's multi-peril, South-East, North-East, Texas, California fires following earthquakes and Kentucky agreements are deemed in place, and losses recoverable under these agreements, if any, are excluded when determining coverage under this agreement.

Effective June 1, 2010, the two contracts expiring May 31, 2010 will be combined into one contract and renewed with a two year term contract effective June 1, 2010 to May 31, 2012 providing coverage for Allstate Protection personal lines auto and property business countrywide, except for Florida. The two contracts effective June 1, 2010 provide a $2.00 billion limit in excess of $2.00 billion in aggregated losses per contract year for losses from storms named or numbered by the National Weather Service, fires following earthquakes and California wildfires. For the term June 1, 2010 to May 31, 2011, the Company retains 5% of the $2.00 billion reinsurance limit.

For the June 1, 2010 to May 31, 2012 contract, the Company's multi-peril, California fires following earthquakes, Texas, Kentucky, Gulf States and Atlantic States agreements are deemed in place, and losses recoverable under these agreements, if any, are excluded when determining coverage under this agreement.

Multi-year reinsurance treaties that cover Allstate-brand personal lines property excess catastrophe losses for multiple perils in Connecticut, Rhode Island, New Jersey, New York, Pennsylvania, North Carolina and Texas effective June 1, 2008 to May 31, 2012.

Effective June 1, 2010, with the exception of the Texas agreement, the following agreements will be renewed.

Connecticut and Rhode Island The current agreement provides a $200 million limit in excess of a $200 million retention and is 80% placed. One contract providing one-third of the limit expires May 31, 2010 and will be

replaced with a three year term contract effective June 1, 2010 to May 31, 2013. The two remaining contracts will continue in effect and expire May 31, 2011 and May 31, 2012, respectively. The limit for the contract effective June 1, 2010 will be $250 million. In addition, the placement will be increased to 95% to replace coverage previously provided by the North-East contract which expires June 8, 2010 and will not be replaced.

New Jersey The current agreement provides a $300 million limit in excess of a $200 million retention and is 95% placed. One contract providing one-third of the coverage expires May 31, 2010 and will be replaced with a three year term contract effective June 1, 2010 to May 31, 2013. The two remaining contracts will continue in effect and expire May 31, 2011 and May 31, 2012, respectively. The agreement effective June 1, 2010 to May 31, 2013 provides a $300 million limit in excess of a $200 million retention. For the term June 1, 2010 to May 31, 2011 the Company retains 5% of the $300 million reinsurance limit.

New Jersey Excess The current agreement provides a $200 million limit in excess of a $500 million retention and is 80% placed. The contract expiring May 31, 2010 will be replaced with a three year term contract effective June 1, 2010 to May 31, 2013. The remaining two contracts will continue in effect and expire May 31, 2011 and May 31, 2012, respectively. The agreement effective June 1, 2010 to May 31, 2013 provides a $200 million limit in excess of a $500 million retention. The June 1, 2010 placement will be increased to 95% to replace coverage previously provided by the North-East contract which expires June 8, 2010 and will not be replaced.

New York The current agreement provides a $1.00 billion limit in excess of a $750 million retention and is 80% placed. The contract expiring May 31, 2010 will be replaced with a three year term contract effective June 1, 2010 to May 31, 2013. The remaining two contracts will continue in effect and expire May 31, 2011 and May 31, 2012, respectively. The limit for the agreement effective June 1, 2010 will be $1.00 billion. The retention for the new contract effective June 1, 2010 will be $600 million. The June 1, 2010 placement will be increased to 95% to replace coverage previously provided by the North-East contract which expires June 8, 2010 and will not be replaced.

Pennsylvania The Pennsylvania agreement provides coverage for Allstate Protection personal lines property excess catastrophe losses for multi-perils and is effective June 1, 2009 through May 31, 2012. The current agreement provides a $100 million limit in excess of a $100 million retention and is 95% placed.

North Carolina The North Carolina agreement effective July 1, 2009 to June 30, 2010 provides a $150 million limit in excess of a $150 million retention for losses to Allstate Protection personal lines property excess catastrophe losses for multi-perils and is 95% placed. Upon its expiration, this agreement will not be replaced as its coverage will be included in the Atlantic States reinsurance contract discussed below.

Texas Effective May 31, 2010 the multi-peril Texas agreement will be cancelled as Texas will be included in a new Gulf States reinsurance agreement discussed below.

South-East The current South-East agreement provides coverage for Allstate Protection personal lines property excess catastrophe losses for storms named or numbered by the National Weather Service in nine Atlantic and Gulf states (Georgia, South Carolina, North Carolina, Virginia, Maryland, Delaware, Louisiana, Mississippi and Alabama) and the District of Columbia. Effective June 1, 2010, the South-East agreement will be replaced with two new multi-year agreements.

Gulf States A new excess catastrophe reinsurance program will be placed effective June 1, 2010, providing coverage for storms named or numbered by the National Weather Service in the states of Texas, Louisiana, Mississippi and Alabama. The Gulf States program will provide a $500 million limit in excess of a $500 million retention with one-third of the coverage expiring May 31, 2011, May 31, 2012 and May 31, 2013, respectively. For the June 1, 2010 to May 31, 2011 term, the Company will retain 5% of the $500 million reinsurance limit.

Atlantic States A new excess catastrophe reinsurance program will be placed effective June 1, 2010, providing coverage for storms named or numbered by the National Weather Service in the states of Georgia, South Carolina, North Carolina, Virginia, Maryland and Delaware and the District of Columbia. The Atlantic States program will provide a $500 million limit in excess of a $500 million retention with one-third of the coverage expiring May 31, 2011, May 31, 2012 and May 31, 2013, respectively. For the June 1, 2010 to May 31, 2011 term, the Company will retain 5% of the $500 million reinsurance limit.

North-East The North-East agreement provides additional hurricane coverage in the states of New York, New Jersey and Connecticut for Allstate Protection personal lines property and automobile excess catastrophe losses effective June 15, 2007

to June 8, 2010. Upon its expiration, the North-East agreement will not be replaced.

Texas The Texas agreement provides additional hurricane coverage for Allstate Protection personal lines property excess catastrophe losses in the state of Texas effective June 18, 2008 to June 17, 2011.

California Fires Following Earthquakes This agreement provides coverage for Allstate Protection personal lines property excess catastrophe losses for fires following earthquakes in California and is effective June 1, 2009 to May 31, 2012. The current agreement provides a $750 million limit in excess of a $750 million retention and is 95% placed. One contract providing one-third of the coverage expires May 31, 2010 and will be replaced with a new contract effective June 1, 2010 to May 31, 2013. The new contract will provide multi-peril coverage as opposed to fires following earthquake only coverage, with a $500 million limit in excess of a $500 million retention. The two remaining contracts will continue in effect and expire May 31, 2011 and May 31, 2012, respectively.

Kentucky The Kentucky agreement provides coverage for Allstate Protection personal lines property excess catastrophe losses in the state for earthquakes and fires following earthquakes and is effective June 1, 2008 to May 31, 2011. The current agreement provides a $40 million limit in excess of a $10 million limit and is 95% placed.

Reinsurance treaties providing coverage for our separately capitalized legal entities in the State of Florida.

Florida Five separate agreements are in place providing coverage for Castle Key Insurance Company and its subsidiaries ("Castle Key"), for personal lines property excess catastrophe losses in Florida. The agreements coordinate coverage with our participation in the FHCF and are effective June 1, 2009 to May 31, 2010. We expect to complete our Florida placement in the second quarter 2010.

We estimate that the total annualized cost of all catastrophe reinsurance programs for the year beginning June 1, 2010 will be approximately $580 million or $145 million per quarter, compared to $640 million annualized cost for the year beginning June 1, 2009. The total cost of our reinsurance programs during 2009 was $158 million in the first quarter, $156 million in the second quarter, $162 million in the third quarter and $153 million in the fourth quarter. We continue to attempt to capture our reinsurance cost in premium rates as allowed by state regulatory authorities.

ALLSTATE FINANCIAL 2009 HIGHLIGHTS

Net loss was $483 million in 2009 compared to $1.72 billion in 2008.

Net realized capital losses totaled $431 million in 2009 compared to $3.13 billion in 2008.

During 2009 and 2008, we recorded $315 million and $397 million, respectively, in accelerated DAC and deferred sales inducement costs ("DSI") amortization related to fixed annuities and interest-sensitive life insurance due to changes in assumptions (which resulted in changes to total EGP). Additional amortization of DAC totaling $336 million was recorded in 2008 in connection with a premium deficiency assessment for traditional life insurance and immediate annuities with life contingencies primarily due to revised annuity mortality assumptions. There was no similar charge in 2009.

Investments as of December 31, 2009 totaled $62.22 billion, reflecting an increase in carrying value of $717 million from $61.50 billion as of December 31, 2008. Net investment income decreased 19.6% to $3.06 billion in 2009 from $3.81 billion in 2008.

Contractholder fund deposits of $4.58 billion for 2009 relate solely to individual products compared to deposits on individual and institutional products of $6.24 billion and $4.16 billion, respectively, for 2008.

Maturities and retirements of institutional products totaled $4.77 billion and $8.60 billion in 2009 and 2008, respectively.

Restructuring charges of $25 million in 2009 were recorded in connection with our initiative to lower operating expenses, with targeted annual savings of $90 million relative to 2008 levels beginning in 2011.

ALLSTATE FINANCIAL SEGMENT

Overview and strategy The Allstate Financial segment is a major provider of life insurance, retirement and investment products, and voluntary accident and health insurance. We serve our customers through Allstate exclusive agencies, the Workplace Division and non-proprietary distribution channels. Allstate Financial's strategic vision is to reinvent protection and retirement for the consumer. We plan to offer a suite of products that are easy for middle market and emerging affluent consumers to understand, meet their protection needs and help them better prepare for retirement.

To achieve its vision and reach its financial goals, Allstate Financial's primary objectives are to deepen financial services relationships with Allstate customers, dramatically expand the workplace business and restore profitability through operational excellence and portfolio optimization. Allstate Financial plans to bring value to the Corporation in

three principal ways: through profitable growth of Allstate Financial products, improving the economics of the Protection business through increased customer loyalty and renewal rates by cross selling Allstate Financial products to existing customers, and by bringing new customers to Allstate. We plan to continue to shift our product mix by decreasing sales of our spread based products, principally fixed annuities and institutional products, and by growing sales of underwritten products having mortality or morbidity risk, principally life insurance and accident and health products. In addition to focusing on higher return markets, products, and distribution channels, Allstate Financial will continue to emphasize capital efficiency and enterprise risk and return management strategies and actions.

Allstate Financial's strategy provides a platform to profitably grow its business. Based upon Allstate's strong financial position and brand, our customers seek assistance in meeting their protection and retirement needs through trusted relationships. We have unique access to potential customers through cross-sell opportunities within the Allstate exclusive agencies and employer relationships through our Workplace Division.

Our products include fixed annuities such as deferred and immediate annuities; interest-sensitive, traditional and variable life insurance; voluntary accident and health insurance; and funding agreements backing medium-term notes. Banking products and services are also offered to customers through the Allstate Bank. Our products are sold through multiple distribution channels including Allstate exclusive agencies, which include exclusive financial specialists, independent agents (including master brokerage agencies and workplace enrolling agents), financial service firms such as banks and broker-dealers, and specialized structured settlement brokers. Allstate Bank products can also be obtained directly through 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.

Allstate Financial outlook

- We plan to tailor the focus of product offerings to better serve the needs of everyday Americans and increase the number of customers served through our proprietary and workplace distribution channels.
- We plan to improve efficiency and are targeting savings at 20% of certain operating expenses relative to 2008 levels, excluding acquisition costs, and expect to yield estimated annual savings of $90 million beginning in 2011. We anticipate a reduction of approximately 1,000 workforce positions relative to December 31, 2008, through a combination of attrition, position elimination and outsourcing.
- We will continue to focus on improving returns and reducing our concentration in spread based products resulting in lower premiums and deposits and reductions in net contractholder obligations.
- We expect improved investment spread due to repositioning of our investment portfolio.

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

($ in millions)	2009	2008	2007
Revenues			
Life and annuity premiums and contract charges	$ 1,958	$ 1,895	$ 1,866
Net investment income	3,064	3,811	4,297
Realized capital gains and losses	(431)	(3,127)	(193)
Total revenues	4,591	2,579	5,970
Costs and expenses			
Life and annuity contract benefits	(1,617)	(1,612)	(1,589)
Interest credited to contractholder funds	(2,126)	(2,411)	(2,681)
Amortization of DAC	(965)	(704)	(583)
Operating costs and expenses	(430)	(520)	(441)
Restructuring and related charges	(25)	(1)	(2)
Total costs and expenses	(5,163)	(5,248)	(5,296)
Gain (loss) on disposition of operations	7	(6)	(10)
Income tax benefit (expense)	82	954	(199)
Net (loss) income	$ (483)	$ (1,721)	$ 465

Investments at December 31	$ 62,216	$ 61,499	$ 74,256

Net loss was $483 million in 2009 compared to $1.72 billion in 2008 and net income of $465 million in 2007. The improvement of $1.24 billion in 2009 compared to 2008 was primarily due to lower net realized capital losses and, to a

lesser extent, decreased interest credited to contractholder funds and operating costs and expenses, partially offset by lower net investment income, higher amortization of DAC and a $142 million increase in the valuation allowance relating to the deferred tax asset on capital losses that was recorded in the first quarter of 2009. This valuation allowance was released in connection with our adoption of new OTTI accounting guidance on April 1, 2009; however, the release was recorded as an increase to retained income and therefore did not reverse the amount recorded in income tax expense.

The net loss in 2008 compared to net income in 2007 was primarily the result of higher net realized capital losses and, to a lesser extent, DAC and DSI amortization acceleration for changes in assumptions and additional amortization of DAC that was recorded in connection with a premium deficiency assessment for traditional life insurance and immediate annuities with life contingencies due to revised annuity mortality assumptions.

Analysis of revenues Total revenues increased 78.0% or $2.01 billion in 2009 compared to 2008 due primarily to a $2.70 billion decrease in net realized capital losses, partially offset by a $747 million decline in net investment income. Total revenues decreased 56.8% or $3.39 billion in 2008 compared to 2007 due to a $2.93 billion increase in net realized capital losses and a $486 million decrease in net investment income.

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

The following table summarizes life and annuity premiums and contract charges by product.

($ in millions)	**2009**	**2008**	**2007**
Premiums			
Traditional life insurance [1]	$ 407	$ 399	$ 286
Immediate annuities with life contingencies	102	132	204
Accident and health	460	412	380
Total premiums	969	943	870
Contract charges			
Interest-sensitive life insurance[1]	944	896	915
Fixed annuities	44	55	79
Bank and other	1	1	2
Total contract charges [2]	989	952	996
Life and annuity premiums and contract charges	$ 1,958	$ 1,895	$ 1,866

(1) Beginning in 2008, certain ceded reinsurance premiums previously included as a component of traditional life insurance premiums were reclassified prospectively to be reported as a component of interest-sensitive life insurance contract charges. In 2007, these ceded reinsurance premiums were $95 million.

(2) Total contract charges for 2009, 2008 and 2007 include contract charges related to the cost of insurance totaling $616 million, $595 million and $652 million, respectively.

Total premiums increased 2.8% in 2009 compared to 2008 due to higher sales of accident and health insurance and, to a lesser extent, increased renewal premium on traditional life insurance, partially offset by lower sales of immediate annuities with life contingencies. The increased sales of accident and health insurance reflect growth through the Allstate Workplace Division.

Total premiums increased 8.4% in 2008 compared to 2007 due to the prospective reporting reclassification for certain ceded reinsurance premiums. Excluding the impact of this reporting reclassification, total premiums decreased 2.3% in 2008 compared to 2007 as higher sales of accident and health insurance and traditional life insurance products were more than offset by lower sales of immediate annuities with life contingencies due to highly competitive market conditions and our continued focus on returns.

Total contract charges increased 3.9% in 2009 compared to 2008 due primarily to higher contract charges on interest-sensitive life insurance products resulting from increases in certain policy administration fees.

Total contract charges decreased 4.4% in 2008 compared to 2007 due to the prospective reporting reclassification for certain ceded reinsurance premiums. Excluding the impact of this reclassification, total contract charges increased 5.7% in 2008 due to higher contract charges on interest-sensitive life insurance policies resulting from increased contract charge rates and growth in business in force, partially offset by decreased contract charges on fixed annuities resulting primarily from lower contract surrenders.

Contractholder funds represent interest-bearing liabilities arising from the sale of individual and institutional products, such as interest-sensitive life insurance, fixed annuities, funding agreements and bank deposits. 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)	**2009**	**2008**	**2007**
Contractholder funds, beginning balance	$ 58,413	$ 61,975	$ 62,031
Deposits			
Fixed annuities	1,964	3,802	3,636
Institutional products (funding agreements)		4,158	3,000
Interest-sensitive life insurance	1,438	1,404	1,402
Bank and other deposits	1,178	1,038	953
Total deposits	4,580	10,402	8,991
Interest credited	2,025	2,405	2,689
Maturities, benefits, withdrawals and other adjustments			
Maturities and retirements of institutional products	(4,773)	(8,599)	(3,165)
Benefits	(1,588)	(1,710)	(1,668)
Surrenders and partial withdrawals	(5,172)	(5,313)	(5,872)
Contract charges	(918)	(870)	(801)
Net transfers from separate accounts	11	19	13
Fair value hedge adjustments for institutional products	25	(56)	34
Other adjustments [1]	(21)	160	(277)
Total maturities, benefits, withdrawals and other adjustments	(12,436)	(16,369)	(11,736)
Contractholder funds, ending balance	$ 52,582	$ 58,413	$ 61,975

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

Contractholder funds decreased 10.0%, 5.8% and 0.1% in 2009, 2008 and 2007, respectively. Average contractholder funds decreased 7.8% in 2009 compared to 2008 and 2.9% in 2008 compared to 2007.

Contractholder deposits decreased 56.0% in 2009 compared to 2008 because there were no issuances of institutional products in 2009 compared to $4.16 billion in the prior year and due to lower deposits on fixed annuities in 2009. Sales of our institutional products vary from period to period based on management's assessment of market conditions, investor demand and operational priorities such as our focus beginning in 2009 on reducing our concentration in spread based products. Deposits on fixed annuities decreased 48.3% in 2009 compared to 2008 due to pricing actions to improve returns on new business and reduce our concentration in spread based products.

Contractholder deposits increased 15.7% in 2008 compared to 2007 due primarily to higher deposits on institutional products, and to a lesser extent, higher deposits on fixed annuities and Allstate Bank products. Deposits on fixed annuities increased 4.6% in 2008 compared to 2007 due primarily to increased consumer demand as the attractiveness of fixed annuities relative to competing products improved, partially offset by pricing decisions aimed to increase new business returns.

Maturities and retirements of institutional products decreased 44.5% to $4.77 billion in 2009 from $8.60 billion in 2008. The decrease was primarily due to lower retirements of extendible institutional market obligations in 2009 compared to 2008, partially offset by the redemption in 2009 of $1.39 billion of institutional product liabilities in accordance with cash tender offers announced in May 2009 to reduce the amount of our outstanding obligations and related interest credited expense. During 2009, we retired all of our remaining outstanding extendible institutional market obligations totaling $1.45 billion. This compares to retirements of extendible institutional market obligations of $5.36 billion in 2008.

Maturities and retirements of institutional products increased $5.43 billion in 2008 compared to 2007 due to the retirement of $5.36 billion of extendible institutional market obligations for which investors had elected to non-extend their maturity date through a combination of maturities, calls, and acquisitions in the secondary market.

Surrenders and partial withdrawals on deferred fixed annuities, interest-sensitive life insurance products and Allstate Bank products (including maturities of certificates of deposit) decreased 2.7% to $5.17 billion in 2009 from $5.31 billion in 2008 due to lower surrenders and partial withdrawals on traditional fixed annuities, partially offset by higher surrenders and partial withdrawals on market value adjusted annuities and interest-sensitive life insurance.

Surrenders and partial withdrawals on deferred fixed annuities, interest-sensitive life insurance products and Allstate Bank products decreased 9.5% to $5.31 billion in 2008 from $5.87 billion in 2007 due to lower surrenders and partial withdrawals on market value adjusted annuities and traditional fixed annuities, partially offset by higher surrenders and partial withdrawals on interest-sensitive life insurance products and, to a lesser extent, increased withdrawals on Allstate Bank products.

The surrender and partial withdrawal rate on deferred fixed annuities, interest-sensitive life insurance products and Allstate Bank products, based on the beginning of period contractholder funds, was 11.8% in 2009 compared to 12.2% in 2008 and 13.3% in 2007. The surrender and partial withdrawal rate on deferred fixed annuities was 11.0% in 2009 compared to 11.8% in 2008 and 13.3% in 2007.

Net investment income decreased 19.6% or $747 million to $3.06 billion in 2009 from $3.81 billion in 2008. The decline was primarily due to lower yields, actions to shorten duration and maintain additional liquidity in the portfolio, along with reduced average investment balances resulting primarily from reduced contractholder obligations. Lower yields were particularly impacted by short-term and variable rate assets.

Net investment income decreased 11.3% in 2008 compared to 2007. The decline in 2008 was primarily due to lower investment yields on floating rate securities, increased short-term investment balances reflecting liquidity management activities, lower average investment balances and lower income from limited partnership interests.

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

($ in millions)	**2009**	**2008**	**2007**
Impairment write-downs	$ (1,021)	$ (1,256)	$ (118)
Change in intent write-downs	(268)	(1,247)	(93)
Net other-than-temporary impairment losses recognized in earnings	(1,289)	(2,503)	(211)
Sales	638	178	75
Valuation of derivative instruments	315	(985)	(63)
Settlements of derivative instruments	41	197	6
EMA LP income	(136)	(14)	
Realized capital gains and losses, pre-tax	(431)	(3,127)	(193)
Income tax benefit [1]	14	1,093	68
Realized capital gains and losses, after-tax	$ (417)	$ (2,034)	$ (125)

(1) Income tax benefit for 2009 includes expense of $142 million attributable to an increase in the valuation allowance relating to the deferred tax asset on capital losses recorded in the first quarter of 2009. This valuation allowance was released in connection with the adoption of new OTTI accounting guidance on April 1, 2009; however, the release was recorded as an increase to retained income and therefore did not

reverse the amount recorded in income tax benefit. For further discussion of changes in this valuation allowance see the Deferred Taxes section of the MD&A.

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

Analysis of costs and expenses Total costs and expenses decreased 1.6% or $85 million in 2009 compared to 2008 due primarily to lower interest credited to contractholder funds and operating costs and expenses, partially offset by higher amortization of DAC and restructuring and related charges. Total costs and expenses decreased 0.9% or $48 million in 2008 compared to 2007 due to lower interest credited to contractholder funds, partially offset by higher amortization of DAC, contract benefits and operating costs and expenses.

Life and annuity contract benefits increased 0.3% or $5 million in 2009 compared to 2008 due to higher contract benefits on life insurance products and accident and health insurance business, partially offset by lower contract benefits on annuities. The increase in contract benefits on life insurance products was primarily due to higher mortality experience on interest-sensitive life insurance products resulting from an increase in claim experience and policy growth while higher contract benefits on accident and health insurance business was proportionate to growth in premiums. The decrease in contract benefits for annuities was due to improved mortality experience and the impact of lower sales of immediate annuities with life contingencies.

Life and annuity contract benefits increased 1.5% or $23 million in 2008 compared to 2007 due primarily to higher contract benefits on life insurance products, partially offset by lower contract benefits on annuities. The increase in contract benefits on life insurance products was primarily due to unfavorable mortality experience, partially offset by the recognition in 2007 of litigation related costs in the form of additional policy benefits. The decline in contract benefits on annuities was due to the impact of lower sales of immediate annuities with life contingencies, partially offset by unfavorable mortality experience.

We analyze our mortality and morbidity results using the difference between premiums and contract charges earned for the cost of insurance and life and annuity contract benefits excluding the portion related to the implied interest on immediate annuities with life contingencies ("benefit spread"). This implied interest totaled $558 million, $552 million and $547 million in 2009, 2008 and 2007, respectively. The benefit spread by product group is disclosed in the following table.

($ in millions)	2009	2008 [1]	2007 [1]
Life insurance	$ 363	$ 363	$ 354
Accident and health	196	177	161
Annuities	(33)	(62)	(35)
Total benefit spread	$ 526	$ 478	$ 480

(1) To conform to the current year presentation, certain amounts in the prior years have been reclassified.

Benefit spread increased 10.0% or $48 million in 2009 compared to 2008 and was consistent in 2008 compared to 2007. The increase in 2009 was primarily due to improved mortality experience on annuities and higher premiums on accident and health insurance business sold through the Allstate Workplace Division.

Interest credited to contractholder funds decreased 11.8% or $285 million in 2009 compared to 2008 due primarily to lower average contractholder funds and, to a lesser extent, decreased weighted average interest crediting rates on deferred fixed annuities and institutional products, partially offset by higher amortization of DSI. Amortization of DSI in 2009 and 2008 was $129 million and $53 million, respectively. The increase primarily includes an unfavorable change in amortization relating to realized capital gains and losses of $132 million, partially offset by a $32 million decline in amortization acceleration due to changes in assumptions, which in 2009 and 2008 increased interest credited to contractholder funds by $38 million and $70 million, respectively.

Interest credited to contractholder funds decreased 10.1% or $270 million in 2008 compared to 2007 due primarily to a decline in average contractholder funds, decreased weighted average interest crediting rates on institutional products resulting from a decline in market interest rates on floating rate obligations, and a favorable change in amortization of DSI relating to realized capital gains and losses, partially offset by the acceleration of amortization of DSI due to changes in assumptions. The acceleration of amortization of DSI due to changes in assumptions increased interest credited to contractholder funds by $70 million in 2008 compared to amortization deceleration which decreased interest credited to contractholder funds by $5 million in 2007.

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

The investment spread by product group is shown in the following table.

($ in millions)	2009	2008 (1)	2007 (1)
Annuities and institutional products	$ 126	$ 460	$ 592
Life insurance	3	48	53
Bank	30	22	18
Accident and health	16	12	10
Net investment income on investments supporting capital	205	306	396
Total investment spread	$ 380	$ 848	$ 1,069

(1) To conform to the current year presentation, certain amounts in the prior years have been reclassified.

Investment spread declined 55.2% or $468 million in 2009 compared to 2008, and 20.7% or $221 million in 2008 compared to 2007. These declines reflect lower net investment income, partially offset by decreased interest credited to contractholder funds.

To further analyze investment spreads, the following table summarizes the weighted average investment yield on assets supporting product liabilities and capital, interest crediting rates and investment spreads for 2009, 2008 and 2007.

	Weighted average investment yield			Weighted average interest crediting rate			Weighted average investment spreads		
	2009	2008 (1)	2007 (1)	2009	2008 (1)	2007 (1)	2009	2008 (1)	2007 (1)
Interest-sensitive life insurance	5.5%	6.0%	6.2%	4.6%	4.6%	4.6%	0.9%	1.4%	1.6%
Deferred fixed annuities and institutional products	4.5	5.2	5.9	3.4	3.7	4.1	1.1	1.5	1.8
Immediate fixed annuities with and without life contingencies	6.3	6.8	7.1	6.5	6.5	6.5	(0.2)	0.3	0.6
Investments supporting capital, traditional life and other products	3.7	5.3	6.1	N/A	N/A	N/A	N/A	N/A	N/A

(1) To conform to the current year presentation, certain amounts in the prior years have been reclassified.

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

($ in millions)	2009	2008	2007
Immediate fixed annuities with life contingencies	$ 8,454	$ 8,355	$ 8,294
Other life contingent contracts and other	4,456	4,526	4,918
Reserve for life-contingent contract benefits	$ 12,910	$ 12,881	$ 13,212
Interest-sensitive life insurance	$ 10,276	$ 9,957	$ 9,539
Deferred fixed annuities	32,194	33,766	34,214
Immediate fixed annuities without life contingencies	3,869	3,894	3,921
Institutional products	4,370	8,974	12,983
Allstate Bank	1,085	949	832
Market value adjustments related to fair value hedges and other	788	873	486
Contractholder funds	$ 52,582	$ 58,413	$ 61,975

Amortization of DAC increased 37.1% in 2009 compared to 2008 and 20.8% in 2008 compared to 2007. The components of amortization of DAC are summarized in the following table.

($ in millions)	**2009**	**2008**	**2007**
Amortization of DAC before amortization relating to realized capital gains and losses, changes in assumptions and premium deficiency	$ (472)	$ (556)	$ (614)
(Amortization) accretion relating to realized capital gains and losses	(216)	515	17
Amortization (acceleration) deceleration for changes in assumptions ("DAC unlocking")	(277)	(327)	14
Amortization charge relating to premium deficiency		(336)	
Total amortization of DAC	$ (965)	$ (704)	$ (583)

The increase of $261 million in 2009 compared to 2008 was due primarily to an unfavorable change in amortization relating to realized capital gains and losses, partially offset by the absence of additional amortization recorded in 2008 in connection with a premium deficiency assessment, lower amortization resulting from decreased investment spread on deferred fixed annuities, and a decline in amortization acceleration due to changes in assumptions. The increase of $121 million in 2008 compared to 2007 was due primarily to amortization acceleration relating to changes in assumptions and additional amortization recorded in connection with a premium deficiency assessment for traditional life insurance and immediate annuities with life contingencies, partially offset by higher accretion of DAC relating to net realized capital losses.

The impact of realized capital gains and losses on amortization of DAC is dependent upon the relationship between the assets that give rise to the gain or loss and the product liability supported by the assets. Fluctuations result from changes in the impact of realized capital gains and losses on actual and expected gross profits. In 2009, DAC amortization relating to realized capital gains and losses resulted primarily from realized capital gains on derivatives. Additionally, DAC amortization reflects our decision in the second half of 2009 not to recapitalize DAC for credit losses on investments supporting certain fixed annuities following concerns that an increase in the level of expected realized capital losses in 2010 and 2011 may reduce EGP and adversely impact the product DAC recoverability. In 2008, DAC accretion resulted primarily from realized capital losses on derivatives and other-than-temporary impairment losses.

Despite the recent improvement in the credit markets and the overall economy, the cumulative impact of realized capital losses through December 31, 2009 has negatively impacted both the actual and expected gross profits of our fixed annuity business. In the fourth quarter of 2009, we reviewed and updated the gross profit assumptions used in substantially all of our fixed annuity DAC models to exclude excess realized capital losses when determining gross profits used for calculating DAC amortization. This is consistent with our decision not to record negative amortization related to realized capital losses for these fixed annuities, which is expected to be our practice during periods when realized capital losses are reported. This treatment results in a lower DAC amortization rate for these fixed annuities. The lower rate of amortization will be applied to a higher level of actual gross profits, as gross profits used to determine DAC amortization will exclude excess realized capital losses.

The DAC adjustment relating to unrealized capital gains and losses (disclosed in footnote 4 to the table that follows this discussion) represents the amount by which the amortization of DAC would increase or decrease if the unrealized gains or losses in the respective product portfolios were realized. The DAC adjustment balance, subject to limitations, is determined by applying the DAC amortization rate to unrealized net capital gains or losses. The fixed annuity DAC adjustment for unrealized capital gains and losses declined as of December 31, 2009 as a result of lower unrealized capital losses and the lower rate of DAC amortization used for certain fixed annuities discussed above. Changes in the DAC adjustment balance relating to unrealized capital gains and losses are reported through other comprehensive income.

Our annual comprehensive review of the profitability of our products to determine DAC balances for our interest-sensitive life, fixed annuities and other investment contracts covers assumptions for investment returns, including capital gains and losses, interest crediting rates to policyholders, the effect of any hedges, persistency, mortality and expenses in all product lines. In the first quarter of 2009, the review resulted in an acceleration of DAC amortization (charge to income) of $277 million pre-tax. $289 million related to fixed annuities, of which $210 million was attributable to market value adjusted annuities, and $18 million related to variable life insurance. Partially offsetting these amounts was amortization deceleration (credit to income) for interest-sensitive life insurance of $30 million. The principal

assumption impacting EGP and the related DAC amortization was an increase in the level of expected realized capital losses in 2009 and 2010. This resulted in the majority of the market value adjusted annuity DAC balance being reduced to zero since the products in force were estimated to have no gross profits. Market value adjusted annuity DAC on these inforce contracts will not be recapitalized while there are no estimated gross profits. Reduced EGP for traditional fixed annuities and variable life insurance resulted in accelerated DAC amortization. For our interest-sensitive life insurance products, the amortization deceleration was due to higher EGP due to a favorable change in our mortality assumptions, partially offset by increased expected capital losses.

In 2008, DAC amortization acceleration for changes in assumptions recorded in connection with comprehensive reviews of the DAC balances resulted in an increase to amortization of DAC of $327 million. The principle assumption impacting the amortization acceleration in 2008 was the level of realized capital losses impacting actual gross profits in 2008 and the impact of realized capital losses on EGP in 2009. During the fourth quarter of 2008, our assumptions for EGP were impacted by a view of higher impairments in our investment portfolio. In 2007, DAC amortization deceleration for changes in assumptions (credit to income) was $14 million.

During 2008, indicators emerged that suggested a study of mortality experience for our immediate annuities with life contingences was warranted. At the same time, the underlying profitability of the traditional life insurance business deteriorated due to lower investment returns and growth. For traditional life insurance and immediate annuities with life contingencies, an aggregate premium deficiency of $336 million, pre-tax, resulted primarily from the experience study indicating that the annuitants on certain life contingent contracts are projected to live longer than we anticipated when the contracts were issued and, to a lesser degree, a reduction in the related investment portfolio yield. The deficiency was recorded through a reduction in DAC. There was no similar charge to income recorded in 2009 or 2007.

The changes in the DAC asset are detailed in the following table.

($ in millions)	**Traditional life and accident and health**		**Interest-sensitive life insurance**		**Fixed annuities**		**Other**		**Total**	
	2009	**2008**	**2009**	**2008**	**2009**	**2008**	**2009**	**2008**	**2009**	**2008**
Beginning balance	$ 595	$ 882	$ 2,449	$ 1,911	$ 4,037	$ 1,489	$ 8	$ 9	$ 7,089	$ 4,291
Acquisition costs deferred	162	160	230	304	103	212		8	495	684
Impact of adoption of new OTTI accounting before unrealized impact (1)			(6)		(170)				(176)	
Impact of adoption of new OTTI accounting effect of unrealized capital gains and losses (2)			6		170				176	
Amortization of DAC before amortization relating to realized capital gains and losses, changes in assumptions and premium deficiency (3)	(107)	(111)	(176)	(178)	(186)	(258)	(3)	(9)	(472)	(556)
(Amortization) accretion relating to realized capital gains and losses (3)			(4)	141	(212)	374			(216)	515
Amortization (acceleration) deceleration for changes in assumptions ("DAC unlocking") (3)			12	(75)	(289)	(252)			(277)	(327)
Amortization charge relating to premium deficiency (3)		(336)								(336)
Effect of unrealized capital gains and losses (4)			(265)	346	(2,294)	2,472			(2,559)	2,818
Ending balance	$ 650	$ 595	$ 2,246	$ 2,449	$ 1,159	$ 4,037	$ 5	$ 8	$ 4,060	$ 7,089

(1) The adoption of new OTTI accounting guidance resulted in an adjustment to DAC to reverse previously recorded DAC accretion related to realized capital losses that were reclassified to other comprehensive income upon adoption on April 1, 2009. The adjustment was recorded as a reduction of the DAC balance and retained income.

(2) The adoption of new OTTI accounting guidance resulted in an adjustment to DAC due to the change in unrealized capital gains and losses that occurred upon adoption on April 1, 2009 when previously recorded realized capital losses were reclassified to other comprehensive income. The adjustment was recorded as an increase of the DAC balance and unrealized capital gains and losses.

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

(4) Represents the change in the DAC adjustment for unrealized capital gains and losses. The DAC adjustment balance was $870 million and $3.25 billion as of December 31, 2009 and 2008, respectively, and represents the amount by which the amortization of DAC would increase or decrease if the unrealized gains and losses in the respective product portfolios were realized. Recapitalization of DAC is limited to the originally deferred policy acquisition costs plus interest.

Operating costs and expenses decreased 17.3% or $90 million in 2009 compared to 2008, and increased 17.9% or $79 million in 2008 compared to 2007. The following table summarizes operating costs and expenses.

($ in millions)	2009	2008	2007
Non-deferrable acquisition costs	$ 156	$ 153	$ 167
Other operating costs and expenses	274	367	274
Total operating costs and expenses	$ 430	$ 520	$ 441
Restructuring and related charges	$ 25	$ 1	$ 2

Non-deferrable acquisition costs increased 2.0% or $3 million in 2009 compared to 2008 primarily due to higher non-deferrable commissions related to accident and health insurance business sold through the Allstate Workplace Division. Other operating costs and expenses decreased 25.3% or $93 million in 2009 compared to 2008 due primarily to our expense reduction actions, which resulted in lower employee, professional services and sales support expenses.

Non-deferrable acquisition costs decreased 8.4% or $14 million in 2008 compared to 2007 primarily due to lower non-deferrable commissions. Other operating costs and expenses increased 33.9% or $93 million in 2008 compared to 2007 due primarily to increased spending on consumer research, product development, marketing and technology related to the effort to reinvent protection and retirement for consumers as well as increases in the net cost of benefits due to unfavorable investment results. In addition, 2007 benefitted to a greater degree from a servicing fee paid by Prudential Financial Inc. ("Prudential") for our servicing of the variable annuity business that we ceded to them during a transition period beginning in 2006 which ended in May 2008.

During 2009, restructuring and related charges of $25 million were recorded in connection with our previously announced plan to improve efficiency and narrow our focus of product offerings. In accordance with this plan, among other actions, we continue to anticipate the reduction of approximately 1,000 workforce positions relative to December 31, 2008 levels through a combination of attrition, position elimination and outsourcing. This reduction reflects approximately 30% of Allstate Financial's work force at the time the plan was initiated. Reductions in workforce positions combined with other actions completed as of December 31, 2009 reflect approximately 90% of our targeted annual savings of $90 million beginning in 2011.

Income tax benefit of $82 million was recognized for 2009 compared to a benefit of $954 million for 2008 and income tax expense of $199 million for 2007. The decrease in the benefit of $872 million in 2009 was mostly attributable to the decline in the pre-tax net loss. Income tax benefit for 2009 includes expense of $142 million attributable to an increase in the valuation allowance relating to the deferred tax asset on capital losses recorded in the first quarter of 2009. This valuation allowance was released in connection with the adoption of new OTTI accounting guidance on April 1, 2009; however, the release was recorded as an increase to retained income and therefore did not reverse the amount recorded in income tax benefit. For further discussion of changes in this valuation allowance see the Deferred Taxes section of the MD&A.

The change to an income tax benefit in 2008 compared to income tax expense in 2007 reflects the shift from net pre-tax income in 2007 to a net pre-tax loss in 2008.

Reinsurance ceded We enter into reinsurance agreements with unaffiliated reinsurers to limit our risk of mortality and morbidity losses. In addition, Allstate Financial has used reinsurance to effect the acquisition or disposition of certain blocks of business. We retain primary liability as a direct insurer for all risks ceded to reinsurers.

As of both December 31, 2009 and 2008, 47% of our face amount of life insurance in force was reinsured. As of December 31, 2009 and 2008, for certain term life insurance policies, we ceded up to 90% of the mortality risk depending on the year of policy issuance. Additionally, we ceded substantially all of the risk associated with our variable annuity business and we cede 100% of the morbidity risk on substantially all of our long-term care contracts. Beginning in July 2007, for new life insurance contracts, we ceded the mortality risk associated with coverage in excess of $3 million per life for contracts issued to individuals age 70 and over, and we ceded the mortality risk associated with coverage in excess of $5 million per life for most other contracts. Also beginning in July 2007, for certain large contracts that meet specific criteria, our retention limit was increased to $10 million per life. In the period prior to July 2007, but subsequent to August 1998, we ceded the mortality risk associated with coverage in excess of $2 million per life, except in 2006 for certain instances when specific criteria were met, we ceded the mortality risk associated with coverage in excess of $5 million per life. For business sold prior to September 1998, we ceded mortality risk in excess of specific amounts up to $1 million per individual life.

Amounts recoverable from reinsurers by type of policy or contract at December 31 are summarized in the following table.

($ in millions)	Reinsurance recoverable on paid and unpaid benefits	
	2009	2008
Annuities [1]	$ 1,667	$ 1,734
Life insurance	1,535	1,475
Long-term care	851	746
Other	90	96
Total Allstate Financial	$ 4,143	$ 4,051

(1) Reinsurance recoverables as of December 31, 2009 and 2008 include $1.51 billion and $1.57 billion, respectively, for general account reserves related to reinsured variable annuities.

The estimation of reinsurance recoverables is impacted by the uncertainties involved in the establishment of reserves.

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

($ in millions)	Standard & Poor's Financial Strength Rating [3]	Reinsurance recoverable on paid and unpaid benefits	
		2009	2008
Prudential Insurance Company of America	AA-	$ 1,507	$ 1,569
Employers Reassurance Corporation	A+	745	644
Transamerica Life Group	AA-	374	341
RGA Reinsurance Company	AA-	352	342
Swiss Re Life and Health America, Inc.	A+	200	192
Paul Revere Life Insurance Company	A-	146	151
Scottish Re Group [1]	NR	137	135
Munich American Reassurance	AA-	119	113
Mutual of Omaha Insurance	AA-	101	100
Security Life of Denver	A+	91	86
Manulife Insurance Company	AA+	71	74
Lincoln National Life Insurance	AA-	65	63
Triton Insurance Company	NR	61	66
American Health & Life Insurance Co.	NR	51	53
Other [2]		123	122
Total		$ 4,143	$ 4,051

(1) The reinsurance recoverable on paid and unpaid benefits related to the Scottish Re Group as of December 31, 2009 comprised $74 million related to Scottish Re Life Corporation and $63 million related to Scottish Re (U.S.), Inc. As of December 31, 2008, the reinsurance recoverable on paid and unpaid benefits related to the Scottish Re Group comprised $73 million related to Scottish Re Life Corporation and $62 million related to Scottish Re (U.S.), Inc.

(2) As of both December 31, 2009 and 2008, the other category includes $100 million of recoverables due from reinsurers with an investment grade credit rating from Standard & Poor's ("S&P").

(3) NR reflects not rated.

Certain of our reinsurers experienced rating downgrades by one or more rating agencies in 2009. These reinsurers include Prudential Insurance Company of America, Transamerica Life Group, Swiss Re Life and Health America, Inc., Scottish Re Group, Security Life of Denver, Manulife Insurance Company and Lincoln National Life Insurance. We continuously monitor the creditworthiness of reinsurers in order to determine our risk of recoverability on an individual and aggregate basis, and a provision for uncollectible reinsurance is recorded if needed. No amounts have been deemed unrecoverable in the three-years ended December 31, 2009.

We enter into certain intercompany reinsurance transactions for the Allstate Financial operations in order to maintain underwriting control and manage insurance risk among various legal entities. These reinsurance agreements

have been approved by the appropriate regulatory authorities. All significant intercompany transactions have been eliminated in consolidation.

INVESTMENTS 2009 HIGHLIGHTS

Investments as of December 31, 2009 totaled $99.83 billion, an increase of 4.0% from $96.00 billion as of December 31, 2008.

Unrealized net capital losses totaled $2.32 billion as of December 31, 2009, an improvement from $8.81 billion as of December 31, 2008. This resulted from improving fixed income and equity portfolio valuations. The fair value of fixed income securities increased as a result of significant tightening in credit spreads that more than offset a rise in risk-free interest rates.

Net investment income was $4.44 billion in 2009, a decrease of 21.0% from $5.62 billion in 2008.

Net realized capital losses of $583 million in 2009 primarily included $1.92 billion of net realized capital losses from other-than-temporary impairments partially offset by net realized capital gains of $1.27 billion primarily from the sales of fixed income and equity securities. Net realized capital losses were $5.09 billion in 2008.

During 2009, our fixed income and mortgage loan portfolio generated cash flows totaling $11.51 billion which increased our flexibility to take advantage of market opportunities and manage liabilities.

Over the last three quarters of 2009 we deployed approximately $16.6 billion of short-term investments and cash receipts into securities, primarily fixed income and equity securities, to generate income and capital appreciation.

INVESTMENTS

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

We employ a strategic asset allocation approach which uses models that consider the nature of the liabilities and risk tolerances, as well as the risk and return parameters of the various asset classes in which we invest. This asset allocation is informed by our global economic and market outlook, as well as other inputs and constraints, including diversification effects, duration, liquidity and capital considerations. We will continue to manage risks associated with rising interest rates, equity market declines, commercial real estate and municipal bonds.

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

The Allstate Financial portfolio's investment strategy focuses on the total return of assets needed to support the underlying liabilities and to achieve an appropriate return on capital. Within the ranges set by the strategic asset allocation model, tactical investment decisions are made in consideration of prevailing market conditions.

The Corporate and Other portfolio's investment strategy balances the pursuit of competitive returns with the unique liquidity needs of the portfolio in relation to the overall corporate capital structure. The portfolio is primarily invested in high quality, liquid fixed income and short-term securities with additional investments in less liquid holdings in order to enhance overall returns.

Risk mitigation

We continue to focus our strategic risk mitigation efforts towards managing interest rate, equity, credit and real estate investment risks, while our return optimization efforts focus on investing in market opportunities to generate income and capital appreciation. As a result, during 2009 we took the following actions:

Reduced our commercial real estate exposure by 30.3% or $5.36 billion of amortized cost primarily through targeted dispositions and principal repayments from borrowers.

Sold $1.95 billion of below investment grade assets primarily corporate fixed income securities and bank loans, as a result of improved market conditions.

Reduced our municipal bond exposure by 8.0% or $1.88 billion of amortized cost primarily through targeted dispositions, refunding and scheduled maturities.

Managed our exposure to interest rate risk through macro hedging of tail risk and reductions in duration. Duration of the investment portfolio, including the effects of derivatives, declined by approximately 5% (.21 years) over the twelve month period. The decline in duration was the result of proceeds from asset

dispositions being reinvested in shorter duration assets and through the use of interest rate derivatives. Our investment portfolio duration is managed in relation to the liabilities of our business segments.

Maintained risk mitigation programs that protected our portfolios through macro hedges against interest rate and equity market risk. The appreciation in fair values for fixed income and equity securities significantly exceeded the realized losses of $201 million from derivatives used for macro hedging programs.

Investments outlook

For 2010, the economies of the U.S. and other developed countries continue to face significant resistance with expectations for limited domestic growth, but with better prospects for growth in developing or emerging economies and markets. Financial markets are anticipated to see moderate returns for fixed income and equities with periods of higher volatility throughout the year, and moderate widening of credit spreads. We also expect continued weakness in commercial real estate fundamentals. In 2010, our return optimization and risk mitigation efforts will focus on the following areas:

Optimizing our allocation of assets to reflect changes in Allstate Financial's liabilities.

Continuing to explore global investments in areas of emerging opportunity with higher prospects for growth.

Balancing our ongoing efforts to mitigate interest rate and equity risks, including continuing our macro hedge program, with near term income enhancement opportunities.

Managing our exposure to overall credit risk while managing and selectively reducing exposures to commercial real estate and municipal bonds.

As a result of these actions, market conditions, and Allstate Financial's strategic initiatives:

Invested assets are expected to decline in line with reductions in contractholder obligations.

Our portfolio will continue to generate significant cash flow from maturities, principal and interest receipts which will be available to manage liabilities and pursue market opportunities.

Portfolio composition The composition of the investment portfolios at December 31, 2009 is presented in the table below. Also see Notes 2 and 4 of the consolidated financial statements for investment accounting policies and additional information.

	Property-Liability [5]		Allstate Financial [5]		Corporate and Other [5]		Total	
($ in millions)		Percent to total		Percent to total		Percent to total		Percent to total
Fixed income securities [1]	$ 27,285	79.0%	$ 49,286	79.2%	$ 2,195	71.0%	$ 78,766	78.9%
Equity securities [2]	4,840	14.0	184	0.3			5,024	5.0
Mortgage loans	50	0.1	7,885	12.7			7,935	7.9
Limited partnership interests [3]	1,674	4.9	1,032	1.7	38	1.2	2,744	2.8
Short-term [4]	503	1.5	1,697	2.7	856	27.7	3,056	3.1
Other	174	0.5	2,132	3.4	2	0.1	2,308	2.3
Total	$ 34,526	100.0%	$ 62,216	100.0%	$ 3,091	100.0%	$ 99,833	100.0%

(1) Fixed income securities are carried at fair value. Amortized cost basis for these securities was $27.59 billion, $51.49 billion and $2.16 billion for Property-Liability, Allstate Financial and Corporate and Other, respectively.

(2) Equity securities are carried at fair value. Cost basis for these securities was $4.69 billion and $160 million for Property-Liability and Allstate Financial, respectively.

(3) We have commitments to invest in additional limited partnership interests totaling $630 million and $802 million for Property-Liability and Allstate Financial, respectively.

(4) Short-term investments are carried at fair value. Amortized cost basis for these investments was $503 million, $1.70 billion and $856 million for Property-Liability, Allstate Financial and Corporate and Other, respectively.

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

Total investments increased to $99.83 billion at December 31, 2009, from $96.00 billion at December 31, 2008, due primarily to higher valuations for fixed income and equity securities from improved market conditions and operating cash flows that more than offset net reductions in contractholder obligations of $5.83 billion. Fair values of fixed income securities increased as a result of significant tightening in credit spreads that more than offset a rise in risk-free interest rates. Credit spread is the additional yield on fixed income securities above the risk-free rate (typically defined as the yield on U.S. Treasury securities) that market participants require to compensate them for assuming credit, liquidity and/or prepayment risks. Credit spreads vary (i.e., increase or decrease) in response to the market's perception of risk and liquidity in a specific issuer or specific sector.

The Property-Liability investment portfolio increased to $34.53 billion at December 31, 2009, from $30.84 billion at December 31, 2008, primarily due to higher valuations for fixed income and equity securities from improved market conditions and operating cash flows.

The Allstate Financial investment portfolio increased to $62.22 billion at December 31, 2009, from $61.50 billion at December 31, 2008, primarily due to higher valuations for fixed income securities from improved market conditions and capital contributions of $698 million from the Corporation and AIC that was almost entirely offset by net reductions in contractholder obligations of $5.83 billion primarily from maturities and retirements of institutional products.

The Corporate and Other investment portfolio decreased to $3.09 billion at December 31, 2009, from $3.66 billion at December 31, 2008, as dividends paid to shareholders, capital contributions to ALIC and repayment of $750 million of debt more than offset the proceeds of the $1 billion of senior notes issued in May 2009 and higher valuations for fixed income securities from improved market conditions.

Fixed income securities The following table shows fixed income securities by type.

($ in millions)	Fair value at December 31, 2009	Percent to total investments	Fair value at December 31, 2008	Percent to total investments
U.S. government and agencies	$ 7,536	7.6%	$ 4,234	4.4%
Municipal	21,280	21.3	21,848	22.8
Corporate	33,115	33.2	27,627	28.8
Foreign government	3,197	3.2	2,675	2.8
Residential mortgage-backed securities ("RMBS")	7,987	8.0	6,565	6.8
Commercial mortgage-backed securities ("CMBS")	2,586	2.6	3,846	4.0
Asset-backed securities ("ABS")	3,026	3.0	1,787	1.9
Redeemable preferred stock	39		26	
Total fixed income securities	$ 78,766	78.9%	$ 68,608	71.5%

At December 31, 2009, 93.7% of the consolidated fixed income securities portfolio was rated investment grade, which is defined as a security having a rating of Aaa, Aa, A or Baa from Moody's, a rating of AAA, AA, A or BBB from S&P, Fitch, Dominion, or Realpoint, a rating of aaa, aa, a, or bbb from A.M. Best, or a comparable internal rating if an externally provided rating is not available, which is consistent with the NAIC rating. The Valuation of Securities Taskforce of the NAIC instituted a new process to be used by insurance companies during the fourth quarter of 2009 for statutory accounting, reporting and estimating risk-based capital requirements for non-agency RMBS, and as a result the NAIC ratings used for statutory reporting may differ from those shown below which are based on credit ratings. The following table summarizes the credit rating of the fixed income securities portfolio at December 31, 2009.

($ in millions)		Property-Liability		Allstate Financial		Corporate and Other		Total	
NAIC rating	Credit rating	Fair value	Percent to total	Fair value	Percent to total	Fair value	Percent to total	Fair value	Percent to total
1	Aaa/Aa/A	$ 21,714	79.6%	$ 31,676	64.3%	$ 2,183	99.5%	$ 55,573	70.6%
2	Baa	3,517	12.9	14,681	29.8	11	0.5	18,209	23.1
	Investment grade	25,231	92.5	46,357	94.1	2,194	100.0	73,782	93.7
3	Ba	849	3.1	1,635	3.3			2,484	3.1
4	B	506	1.9	571	1.1			1,077	1.4
5	Caa or lower	552	2.0	628	1.3			1,180	1.5
6	In or near default	147	0.5	95	0.2	1		243	0.3
	Below investment grade	2,054	7.5	2,929	5.9	1		4,984	6.3
	Total	$ 27,285	100.0%	$ 49,286	100.0%	$ 2,195	100.0%	$ 78,766	100.0%

The table above includes 107 securities with a fair value totaling $551 million that have not yet received an NAIC rating, for which we have assigned a comparable internal rating. Due to lags between the funding of an investment, execution of final legal documents, filing with the Securities Valuation Office ("SVO") of the NAIC, and rating by the SVO, we generally have a small number of securities that have a pending NAIC rating.

82

The following table summarizes the fair value and unrealized net capital gains and losses for fixed income securities by credit rating as of December 31, 2009.

($ in millions)	Aaa		Aa		A	
	Fair value	Unrealized gain/(loss)	Fair value	Unrealized gain/(loss)	Fair value	Unrealized gain/(loss)
U.S. government and agencies	$ 7,536	$ 203	$	$	$	$
Municipal						
Tax exempt	1,605	106	5,839	175	4,385	53
Taxable	133	1	2,003	(83)	1,481	(114)
ARS	1,350	(50)	71	(4)	85	(7)
Corporate						
Public	1,985	20	1,685	36	5,444	219
Privately placed	653	23	1,108	31	3,286	113
Hybrid			95	5	564	(92)
Foreign government	1,974	234	396	6	455	37
RMBS						
U.S. government sponsored entities ("U.S. Agency")	5,011	108				
Prime residential mortgage-backed securities ("Prime")	498	(26)	65	(12)	54	(12)
Alt-A residential mortgage-backed securities ("Alt-A")	73	(9)	34	(8)	34	(12)
Subprime residential mortgage-backed securities ("Subprime")	211	(29)	446	(198)	126	(115)
CMBS	1,368	(108)	282	(153)	268	(176)
ABS						
Collateralized debt obligations ("CDO")	48	(10)	349	(27)	449	(75)
Consumer and other asset-backed securities ("Consumer and other ABS")	662	(7)	259	(3)	235	(9)
Redeemable preferred stock					2	
Total fixed income securities	$ 23,107	$ 456	$ 12,632	$ (235)	$ 16,868	$ (190)

	Baa		Ba or lower		Total	
	Fair value	Unrealized gain/(loss)	Fair value	Unrealized gain/(loss)	Fair value	Unrealized gain/(loss)
U.S. government and agencies	$	$	$	$	$ 7,536	$ 203
Municipal						
Tax exempt	2,474	(73)	725	(102)	15,028	159
Taxable	785	(181)	163	(78)	4,565	(455)
ARS	78	(22)	103	(24)	1,687	(107)
Corporate						
Public	8,530	273	1,047	(41)	18,691	507
Privately placed	6,237	33	1,501	(77)	12,785	123

Hybrid	614	(154)	366	(44)	1,639	(285)
Foreign government	361	14	11		3,197	291
RMBS						
U.S. Agency					5,011	108
Prime	11	(7)	75	(30)	703	(87)
Alt-A	136	(38)	361	(186)	638	(253)
Subprime	115	(75)	737	(851)	1,635	(1,268)
CMBS	312	(152)	356	(336)	2,586	(925)
ABS						
CDO	234	(96)	429	(244)	1,509	(452)
Consumer and other ABS	310	(9)	51	(8)	1,517	(36)
Redeemable preferred stock	31		6		39	
Total fixed income securities	$ 20,228	$ (487)	$ 5,931	$ (2,021)	$ 78,766	$ (2,477)

U.S. government and agencies securities totaled $7.54 billion, with 100.0% rated Aaa, at December 31, 2009.

Municipal Bonds, including tax exempt, taxable and ARS securities, totaled $21.28 billion as of December 31, 2009 with an unrealized net capital loss of $403 million. Taxable municipal bonds have an unrealized net capital loss of $455 million resulting from wider credit spreads than at initial purchase, which is largely due to the macroeconomic conditions and credit market deterioration that persisted throughout 2009, as well as specific issue or issuer conditions.

ARS totaled $1.69 billion with an unrealized net capital loss of $107 million as of December 31, 2009. Our holdings primarily have a credit rating of Aaa. $1.64 billion of our holdings are collateralized by pools of student loans for which at least 85% of the collateral was insured by the U.S. Department of Education at the time we purchased the security. As of December 31, 2009, $1.09 billion of our ARS backed by student loans was 100% insured by the U.S. Department of Education, $336 million was 90% to 99% insured and $158 million was 80% to 89% insured. All of our student loan ARS holdings are experiencing failed auctions and we receive the failed auction rate or, for those which contain maximum reset rate formulas, we receive the contractual maximum rate. We anticipate that failed auctions may persist and most of our holdings will continue to pay the failed auction rate or, for those that contain maximum rate reset formulas, the maximum rate. Auctions continue to be conducted as scheduled for each of the securities. At December 31, 2009, interest on $111 million of our ARS has reset using the maximum rate reset formula.

Also, included in our municipal bond holdings at December 31, 2009 are $1.25 billion of municipal securities which are not rated by third party credit rating agencies, but are rated by the NAIC and also internally rated. These holdings include $629 million of below investment grade municipal bonds that provide the opportunity to achieve incremental returns. Our initial investment decisions and ongoing monitoring procedures for these securities are based on a thorough due diligence process which includes, but is not limited to, an assessment of the credit quality, structure, and liquidity risks of each issue.

48.2% or $10.26 billion of our municipal bond portfolio is insured by nine bond insurers and 38.2% of these securities have a credit rating of Aaa or Aa. Our practices for acquiring and monitoring municipal bonds primarily are based on the credit quality of the primary obligor. As of December 31, 2009, we believe valuations substantially reflected the decline in the value of the insurance, and further related valuation declines, if any, are not expected to be material. While the valuation of these holdings may be temporarily impacted by negative market developments, we expect to receive all of the contractual cash flows. As of December 31, 2009, 47.1% of our insured municipal bond portfolio was insured by National Public Finance Guarantee Corporation, Inc., 24.5% by Ambac Assurance Corporation, 22.0% by Financial Guaranty Assurance Corporation and 2.7% by Assured Guaranty Ltd.

Corporate bonds, including publicly traded, privately placed and hybrid securities, totaled $33.12 billion as of December 31, 2009 with an unrealized net capital gain of $345 million. Privately placed securities primarily consist of corporate issued senior debt securities that are in unregistered form or are directly negotiated with the borrower. Privately placed corporate securities are rated by the NAIC in instances when information is provided to them. 47.7% of the privately placed corporate securities in our portfolio are rated by an independent rating agency.

Our portfolio of privately placed securities are broadly diversified by issuer, industry sector and country. The portfolio is made up of 560 issuers with each issue averaging $24 million. Privately placed corporate obligations generally have higher yields and contain structural security features such as financial covenants and call protections that provide investors greater protection against credit deterioration, reinvestment risk or fluctuations in interest rates than those typically found in publicly registered debt securities. Additionally, investments in these securities are made after extensive due diligence of the issuer, typically including direct discussions with senior management and on-site visits to company facilities. Ongoing monitoring includes direct periodic dialog with senior management of the issuer and continuous monitoring of operating performance and financial position. Every issue not rated by an independent rating agency is internally rated with a formal rating affirmation approximately once a year.

The following table shows details of hybrid securities as of December 31, 2009.

($ in millions)	**Public**		**Privately placed**		**Total**	
	Fair value	**Unrealized gain/(loss)**	**Fair value**	**Unrealized gain/(loss)**	**Fair value**	**Unrealized gain/(loss)**
United Kingdom ("UK")	$ 108	$ (9)	$ 111	$ (18)	$ 219	$ (27)
Europe (non-UK)	198	(3)	345	(69)	543	(72)
Asia/Australia	16		268	(42)	284	(42)
North America	383	(86)	210	(58)	593	(144)
Total	$ 705	$ (98)	$ 934	$ (187)	$ 1,639	$ (285)

Hybrid securities have attributes most similar to those of fixed income securities such as stated interest rates, mandatory redemption dates or an interest rate step-up feature which is intended to incent the issuer to redeem the security at a specified call date. Hybrid securities include publicly-traded and privately placed securities. While hybrid securities are generally issued by investment grade-rated financial institutions, they have structural features which make them more sensitive to credit market deterioration. Specifically, features allowing deferral of payment have

significantly impacted prices as the issuers continue to be impacted by the stress in the global financial system. $1.39 billion of our hybrid securities with $272 million of unrealized net capital losses are Tier 1 securities, and $248 million with $13 million of unrealized net capital losses are Tier 2 securities. Tier 1 securities are lower in the capital structure than Tier 2 securities.

Foreign government securities totaled $3.20 billion, with 99.7% rated investment grade, at December 31, 2009. Of these securities, 36.8% are backed by the U.S. government, 19.6% are in Canadian governmental securities held in our Canadian subsidiary and the remaining 43.6% are highly diversified in other foreign governments.

RMBS, CMBS and ABS are structured securities that are primarily collateralized by residential and commercial real estate related loans and other consumer related borrowings. The cash flows are generally applied in a pre-determined order and are designed so that each security issued qualifies for a specific original rating. The security issue is typically referred to as the "class". For example, the "senior" portion or "top" of the capital structure, or rating class, which would originally qualify for a rating of Aaa typically has priority in receiving the principal repayments on the collateral. In a sequential structure, underlying collateral principal repayments are directed to the most senior rated Aaa class in the structure until paid in full, after which principal repayments are directed to the next most senior Aaa class in the structure until it is paid in full. Senior Aaa classes generally share any losses from the underlying collateral on a pro-rata basis after losses are absorbed by classes with lower original ratings and include other "junior" or "subordinate" securities. The collateral can have fixed interest rates, variable interest rates (such as adjustable rate mortgages ("ARM")) or may contain features of both fixed and variable rate mortgages.

RMBS, including U.S. Agency, Prime, Alt-A and Subprime totaled $7.99 billion, with 85.0% rated investment grade, at December 31, 2009. The RMBS portfolio is subject to interest rate risk, but unlike other fixed income securities, is additionally subject to significant prepayment risk from the underlying mortgages. The credit risk associated with our RMBS is mitigated due to the fact that 62.7% of the portfolio consists of securities that were issued by, or have underlying collateral that is guaranteed by, U.S. government agencies. The unrealized net capital loss of $1.50 billion at December 31, 2009 on our RMBS portfolio was the result of wider credit spreads than at initial purchase on non-U.S. Agency securities, which is largely due to the macroeconomic conditions and credit market deterioration, including the impact of real estate valuations, that persisted throughout 2009. The following table shows our RMBS portfolio at December 31, 2009 based upon vintage year.

($ in millions)	U.S. Agency		Prime		Alt-A		Subprime		Total RMBS	
	Fair value	Unrealized gain/(loss)	Fair value	Unrealized gain/(loss)	Fair value	Unrealized gain/(loss)	Fair value	Unrealized gain/(loss)	Fair value	Unrealized gain/(loss)
2009	$ 1,024	$ 1	$	$	$	$	$	$	$ 1,024	$ 1
2008	1,093	13							1,093	13
2007	439	8	89	(14)	114	(95)	396	(440)	1,038	(541)
2006	297	9	78	(18)	192	(53)	494	(409)	1,061	(471)
2005	551	14	147	(36)	147	(55)	398	(266)	1,243	(343)
Pre-2005	1,607	63	389	(19)	185	(50)	347	(153)	2,528	(159)
Total	$ 5,011	$ 108	$ 703	$ (87)	$ 638	$ (253)	$ 1,635	$ (1,268)	$ 7,987	$ (1,500)

Prime are collateralized by residential mortgage loans issued to prime borrowers. As of December 31, 2009, $536 million of the Prime were fixed rate and $167 million were variable rate.

Alt-A includes securities collateralized by residential mortgage loans issued to borrowers with stronger credit profiles than subprime borrowers, but who do not qualify for prime financing terms due to high loan-to-value ratios or limited supporting documentation. As of December 31, 2009, $453 million of the Alt-A were fixed rate and $185 million were variable rate.

Subprime includes securities that are collateralized by mortgage loans issued to borrowers that cannot qualify for Prime or Alt-A financing terms due in part to weak or limited credit history. It also includes securities that are collateralized by certain second lien mortgages regardless of the borrower's credit history. The Subprime portfolio consisted of $1.35 billion and $282 million of first lien and second lien securities, respectively. Subprime included $845 million of fixed rate and $790 million of variable rate securities. At December 31, 2009, $348 million or 21.3% of the total Subprime securities are insured by seven bond insurers.

CMBS totaled $2.59 billion, with 95.7% rated investment grade, at December 31, 2009. The CMBS portfolio is subject to credit risk, but unlike certain other structured securities, is generally not subject to prepayment risk due to protections within the underlying commercial mortgages whereby borrowers are effectively restricted from prepaying

85

their mortgages due to changes in interest rates. Of the CMBS investments, 90.6% are traditional conduit transactions collateralized by pools of commercial mortgages, broadly diversified across property types and geographical area. The remainder consists of non-traditional CMBS such as small balance transactions, large loan pools and single borrower transactions.

The following table shows our CMBS portfolio at December 31, 2009 based upon vintage year.

($ in millions)	Fair value	Unrealized gain/(loss)
2007	$ 740	$ (290)
2006	537	(451)
2005	373	(118)
Pre-2005	936	(66)
Total CMBS	$ 2,586	$ (925)

The unrealized net capital loss of $925 million at December 31, 2009 on our CMBS portfolio was the result of wider credit spreads than at initial purchase, which is largely due to the macroeconomic conditions and credit market deterioration, including the impact of real estate valuations, that persisted throughout 2009. While CMBS spreads tightened during 2009, credit spreads in most rating classes remain wider than at initial purchase, which is particularly evident in our 2005-2007 vintage year subordinated senior Aaa and non-traditional CMBS, as well as our 2005-2007 vintage year Aa and lower rated securities. These holdings accounted for $772 million, or 83.5%, of the unrealized net capital loss.

ABS, including CDO and Consumer and other ABS, totaled $3.03 billion, with 85.9% rated investment grade, at December 31, 2009. Credit risk is managed by monitoring the performance of the collateral. In addition, many of the securities in the ABS portfolio are credit enhanced with features such as overcollateralization, subordinated structures, reserve funds, guarantees and/or insurance. A portion of the ABS portfolio is also subject to interest rate risk since price volatility and the ultimate realized yields are affected by the rate of prepayment of the underlying assets. The unrealized net capital loss of $488 million at December 31, 2009 on our ABS portfolio was the result of wider credit spreads than at initial purchase.

CDO totaled $1.51 billion, with 71.6% rated investment grade, at December 31, 2009. CDO consist primarily of obligations secured by high yield and investment grade corporate credits including $1.15 billion of cash flow collateralized loan obligations ("CLO") and $100 million of synthetic CDO with unrealized losses of $224 million and $97 million, respectively. The remaining $255 million of securities consisted of trust preferred CDO, market value CDO, project finance CDO, CDOs that invest in CDOs, collateralized bond obligations and other CLO with unrealized losses of $131 million.

Cash flow CLO are structures where the underlying assets are primarily comprised of below investment grade senior secured corporate loans. The collateral is actively managed by external managers that monitor the collateral performance. The underlying investments are well diversified across industries and among issuers. A transaction will typically issue notes with various capital structure classes (i.e. Aaa, Aa, A, etc.) as well as equity-like tranches. In general, these securities are structured with overcollateralization ratios and performance is impacted by downgrades, defaults and recoveries of the underlying assets within the structures. Downgrades of underlying assets, along with increased defaults reduce overcollateralization ratios over time. A violation of the senior overcollateralization test could result in an event of default of the structure. This would give the controlling class, defined as the majority of the senior lenders, certain rights which could include diverting cash flows or liquidating the underlying portfolio to pay off the senior liabilities.

Synthetic CDO primarily consist of a portfolio of corporate credit default swaps ("CDS") which are collateralized by Aaa rated LIBOR-based securities (i.e. "fully funded" synthetic CDO). Our synthetic CDO collateral primarily is actively managed by external managers monitoring the CDS selection and performance.

Consumer and other ABS totaled $1.52 billion, with 96.6% rated investment grade, at December 31, 2009. Consumer and other ABS consists of $868 million of auto, $150 million of student loan, $90 million of credit card and $409 million of other securities with unrealized gains of $10 million, and unrealized losses of $6 million, $1 million and $39 million, respectively. At December 31, 2009, $437 million or 28.8% of Consumer and other ABS securities are insured by five bond insurers.

Equity securities Equity securities include common stocks, real estate investment trust equity investments and non-redeemable preferred stocks. The equity securities portfolio was $5.02 billion at December 31, 2009 compared to $2.81 billion at December 31, 2008. The increase is attributable to purchases and increased equity valuations. Net unrealized gains totaled $179 million at December 31, 2009 compared to net unrealized losses of $332 million at December 31, 2008.

Mortgage loans Our mortgage loan portfolio, which is primarily held in the Allstate Financial portfolio, totaled $7.94 billion at December 31, 2009, compared to $10.23 billion at December 31, 2008, and primarily comprised loans secured by first mortgages on developed commercial real estate. Key considerations used to manage our exposure include property type and geographic diversification. Our exposure to any metropolitan area is also highly diversified, with the largest exposure not exceeding 9.3% of the portfolio. The portfolio is diversified across several property types, with the largest concentrations of 35.3% in office and 24.2% in retail property types. Debt service coverage ratio represents the amount of cash flows from the property available to the borrower to meet principal and interest payment obligations. The average debt service coverage ratio of the portfolio as of December 31, 2009 was 1.9, and 5.8% of the mortgage loan portfolio had a debt service coverage ratio under 1.0. Mortgage loans with debt service coverage ratios below 1.0 generally have a higher level of risk, with 18.4% of these loans having valuation allowances totaling $26 million. Mortgage loans with debt service coverage below 1.0 for which valuation allowances have not been established, primarily relate to instances where the borrower has the financial capacity to fund the revenue shortfalls from the properties for the foreseeable term, the decrease in occupancy is considered temporary, or there are other risk mitigating circumstances such as additional collateral, escrow balances or borrower guarantees.

In 2009, $853 million of commercial mortgage loans were contractually due. Of these, 67% were paid as due, 23% were extended generally for less than one year, 9% were refinanced and 1% were foreclosed or in the process of foreclosure. In addition, $1.27 billion that were not contractually due in 2009 were paid in full. We also currently have four loans totaling $37 million that were not contractually due in 2009 that are in the process of foreclosure. In total we have five loans totaling $49 million that are in foreclosure. We are aggressively pursuing workout solutions for all delinquent loans that are not in the process of foreclosure, which total $72 million, including refinancing, extensions and sales.

We closely monitor our commercial mortgage loan portfolio on a loan-by-loan basis. Loans with an estimated collateral value less than the loan balance, as well as loans with other characteristics indicative of higher than normal credit risks, are reviewed at least quarterly for purposes of establishing valuation allowances and placing loans on non-accrual status as necessary. Accrual of income is suspended for mortgage loans that are in default or when full and timely collection of principal and interest payments is not probable. The underlying collateral values are based upon either discounted property cash flow projections or a commonly used valuation method that utilizes a one-year projection of expected annual income divided by a market based expected rate of return. The net carrying value of impaired loans at December 31, 2009 and 2008 was $409 million and $163 million, respectively. Total valuation allowances of $95 million and $4 million were held on impaired loans at December 31, 2009 and 2008, respectively. We recognized $97 million of realized capital losses related to increases in the valuation allowances on impaired loans for the year ended December 31, 2009 primarily due to deteriorating debt service coverage resulting from a decrease in occupancy and the risk associated with refinancing near-term maturities due to declining collateral valuations. We recognized $4 million of realized capital losses related to valuation allowances on impaired loans for the year ended December 31, 2008. Realized capital losses recognized on mortgage loans held for sale totaled $6 million and $74 million for the years ended December 31, 2009 and 2008, respectively. For further detail, see Note 4 to the consolidated financial statements.

Limited partnership interests consist of investments in private equity/debt funds, real estate funds and hedge funds. The overall limited partnership interests portfolio is well diversified across a number of characteristics including

fund sponsors, vintage years, strategies, geography (including international), and company/property types. The following table presents information about our limited partnership interests as of December 31, 2009.

($ in millions)	Private equity/debt funds	Real estate funds	Hedge funds	Total
Cost method of accounting ("Cost")	$ 769	$ 272	$ 62	$ 1,103
Equity method of accounting ("EMA")	631	288	722	1,641
Total	$ 1,400	$ 560	$ 784	$ 2,744
Number of sponsors	84	40	11	
Number of individual funds	133	88	75	
Largest exposure to single fund	$ 39	$ 36	$ 108	

Our aggregate limited partnership exposure represented 2.8% and 2.9% of total invested assets as of December 31, 2009 and December 31, 2008, respectively.

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

($ in millions)	2009				2008			
	Cost	EMA (1)	Total income	Impairment write-downs (2)	Cost	EMA (1)	Total income	Impairment write-downs (2)
Private equity/debt funds	$ 16	$ (61)	$ (45)	$ (79)	$ 28	$ 87	$ 115	$ (47)
Real estate funds	1	(181)	(180)	(223)	8	(35)	(27)	(59)
Hedge funds		101	101	(6)	1	(124)	(123)	(6)
Total	$ 17	$ (141)	$ (124)	$ (308)	$ 37	$ (72)	$ (35)	$ (112)

---

(1) Beginning in the fourth quarter of 2008, EMA LP income is reported in realized capital gains and losses. EMA LP income for periods prior to the fourth quarter of 2008 is reported in net investment income.

(2) Impairment write-downs related to Cost limited partnerships were $297 million and $83 million in years ended December 31, 2009 and 2008, respectively. Impairment write-downs related to EMA LP were $11 million and $29 million in the years ended December 31, 2009 and 2008, respectively.

Limited partnership interests, excluding impairment write-downs, produced losses of $124 million in 2009 compared to losses of $35 million in 2008. The loss from limited partnership interests in 2009 compared to 2008 is primarily related to losses from partnerships accounted for under the equity method of accounting resulting from lower net asset valuations of the real estate partnerships. Income on EMA LP is recognized on a delay due to the availability of the related financial statements. The recognition of income on hedge funds is primarily on a one-month delay and the income recognition on private equity/debt funds and real estate funds are generally on a three-month delay. Limited partnership interests accounted for under the cost method of accounting recognize income only upon cash distributions by the partnership.

Short-term investments Our short-term investment portfolio was $3.06 billion and $8.91 billion at December 31, 2009 and 2008, respectively. The decrease in short-term investments was primarily due to funding reductions in contractholder obligations and purchases of fixed income securities.

Other investments Our other investments as of December 31, 2009 are comprised primarily of $1.13 billion of policy loans, $548 million of certain derivatives and $420 million of bank loans. Policy loans are carried at the unpaid principal balances. Bank loans are comprised primarily of senior secured corporate loans and are carried at amortized cost. For further detail on our use of derivatives, see the Net Realized Capital Gains and Losses section of the MD&A and Note 6 of the consolidated financial statements.

Unrealized net capital losses See Note 4 of the consolidated financial statements for further disclosures regarding unrealized losses on fixed income and equity securities and factors considered in determining whether securities are other-than-temporarily impaired. Unrealized net capital losses totaled $2.32 billion as of December 31, 2009, compared to unrealized net capital losses of $8.81 billion as of December 31, 2008. The improvement since December 31, 2008 for fixed income securities was primarily a result of tightening credit spreads on certain fixed income securities during 2009 that more than offset the rise in risk-free interest rates. The unrealized net capital gain for equity securities as of December 31, 2009 compared to unrealized net capital loss as of December 31, 2008 was a result

of improvements in equity security valuations as a result of improving equity market conditions. The following table presents unrealized net capital gains and losses, pre-tax and after-tax at December 31.

($ in millions)	2009	2008
U.S. government and agencies	$ 203	$ 962
Municipal	(403)	(1,717)
Corporate	345	(3,413)
Foreign government	291	469
RMBS	(1,500)	(1,445)
CMBS	(925)	(1,994)
ABS	(488)	(1,348)
Redeemable preferred stock		(10)
Fixed income securities [1]	(2,477)	(8,496)
Equity securities	179	(332)
Short-term investments		3
Derivatives	(23)	11
Unrealized net capital gains and losses, pre-tax	(2,321)	(8,814)
Amounts recognized for:		
Insurance reserves [2]		(378)
DAC and DSI [3]	990	3,500
Amounts recognized	990	3,122
Deferred income taxes	461	1,954
Unrealized net capital gains and losses, after-tax	$ (870)	$ (3,738)

(1) Unrealized net capital gains and losses for fixed income securities as of December 31, 2009 comprises $(679) million related to unrealized net capital losses on fixed income securities with other-than-temporary impairment and $(1,798) million related to other unrealized net capital gains and losses.

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

(3) The DAC and DSI adjustment balance represents the amount by which the amortization of DAC and DSI would increase or decrease if the unrealized gains or losses in the respective product portfolios were realized. Only the unrealized net capital gains and losses on the Allstate Financial fixed annuity and interest-sensitive life product portfolios are used in this calculation. The DAC and DSI adjustment balance, subject to limitations, is determined by applying the DAC and DSI amortization rate to unrealized net capital gains or losses. Recapitalization of the DAC and DSI balances is limited to the originally deferred costs plus interest. The DAC and DSI adjustment balance was limited as of December 31, 2008 because the calculated amount, when added to the DAC and DSI balance before the impact of unrealized capital gains and losses, was greater than originally deferred costs plus interest. The DAC and DSI adjustment balance is below the limitation as of

December 31, 2009. The limitation amount changes from period to period based on changes in the DAC and DSI balance before the impact of unrealized capital gains and losses, as well as new deferrals and interest.

The net unrealized loss for the fixed income portfolio totaled $2.48 billion, comprised of $2.47 billion of gross unrealized gains and $4.95 billion of gross unrealized losses at December 31, 2009. This is compared to a net unrealized loss for the fixed income portfolio totaling $8.50 billion, comprised of $2.54 billion of gross unrealized gains and $11.04 billion of gross unrealized losses at December 31, 2008.

Gross unrealized gains and losses as of December 31, 2009 on fixed income securities by type and sector are provided in the table below.

($ in millions)			Gross unrealized			Amortized cost as a percent of par value [(2)]	Fair value as a percent of par value [(2)]
	Par value [(1)]	Amortized cost	Gains	Losses	Fair value		
Corporate:							
Banking	$ 4,345	$ 4,131	$ 81	$ (367)	$ 3,845	95.1%	88.5%
Financial services	3,482	3,370	95	(100)	3,365	96.8	96.6
Utilities	5,752	5,755	291	(79)	5,967	100.1	103.7
Consumer goods (cyclical and non-cyclical)	4,872	4,917	202	(75)	5,044	100.9	103.5
Transportation	1,670	1,684	59	(50)	1,693	100.8	101.4
Capital goods	3,363	3,367	127	(42)	3,452	100.1	102.6
Communications	1,841	1,826	83	(26)	1,883	99.2	102.3
Basic industry	1,501	1,520	68	(21)	1,567	101.3	104.4
Technology	1,132	1,157	40	(13)	1,184	102.2	104.6
Energy	2,132	2,143	89	(13)	2,219	100.5	104.1
FDIC guaranteed	1,513	1,523	18		1,541	100.7	101.9
Other	1,528	1,377	39	(61)	1,355	90.1	88.7
Total corporate fixed income portfolio	33,131	32,770	1,192	(847)	33,115	98.9	100.0
U.S. government and agencies	7,580	7,333	219	(16)	7,536	96.7	99.4
Municipal	27,425	21,683	537	(940)	21,280	79.1	77.6
Foreign government	3,375	2,906	306	(15)	3,197	86.1	94.7
RMBS	9,984	9,487	130	(1,630)	7,987	95.0	80.0
CMBS	3,790	3,511	30	(955)	2,586	92.6	68.2
ABS	3,974	3,514	62	(550)	3,026	88.4	76.1
Redeemable preferred stock	47	39	1	(1)	39	83.0	83.0
Total fixed income securities	$ 89,306	$ 81,243	$ 2,477	$ (4,954)	$ 78,766	91.0	88.2

---

(1) Included in par value are zero-coupon securities that are generally purchased at a deep discount to the par value that is received at maturity. These primarily included corporate, municipal, foreign government and U.S. government and agencies zero-coupon securities with par value of $882 million, $8.19 billion, $1.42 billion, and $792 million, respectively.

(2) Excluding the impact of zero-coupon securities, the percentage of amortized cost to par value would be 99.5% for corporates, 100.0% for municipals, 103.9% for foreign governments and 101.6% for U.S. government and agencies. Similarly, excluding the impact of zero-coupon securities, the percentage of fair value to par value would be 100.4% for corporates, 99.5% for municipals, 108.8% for foreign governments and 102.7% for U.S. government and agencies.

The banking, financial services, utilities and consumer goods sectors had the highest concentration of gross unrealized losses in our corporate fixed income securities portfolio at December 31, 2009. While credit spreads have tightened in the last three quarters of 2009 from the historically high levels observed in the fourth quarter of 2008 and the first quarter of 2009, they remain wider than at initial purchase for certain securities in the portfolio.

The scheduled maturity dates for fixed income securities in a gross unrealized loss position at December 31, 2009 are shown below. Actual maturities may differ from those scheduled as a result of prepayments by the issuers.

($ in millions)		Unrealized loss	Percent to total		Fair value	Percent to total
Due in one year or less	$	(14)	0.3%	$	458	1.5%
Due after one year through five years		(171)	3.4		6,645	21.8
Due after five years through ten years		(302)	6.1		4,300	14.1
Due after ten years		(2,287)	46.2		13,551	44.4
RMBS and ABS [(1)]		(2,180)	44.0		5,574	18.2
Total	$	(4,954)	100.0%	$	30,528	100.0%

(1) Because of the potential for prepayment, these securities are not categorized based on their contractual maturities.

The equity portfolio is comprised of securities in the following sectors at December 31, 2009.

($ in millions)			Gross unrealized				
		Amortized cost		Gains		Losses		Fair value
Consumer goods (cyclical and non-cyclical)	$	1,045	$	65	$	(33)	$	1,077
Financial services		425		17		(31)		411
Banking		318		28		(18)		328
Communications		300		18		(10)		308
Energy		411		50		(9)		452
Capital goods		311		24		(8)		327
Technology		499		53		(6)		546
Utilities		159		6		(6)		159
Real estate		112		7		(4)		115
Basic industry		215		35		(3)		247
Transportation		81		7		(3)		85
Other [(1)]		969		71		(71)		969
Total equity securities	$	4,845	$	381	$	(202)	$	5,024

(1) Other consists primarily of index-based securities.

The net unrealized gain for the equity portfolio totaled $179 million, comprised of $381 million of unrealized gains and $202 million of unrealized losses at December 31, 2009. This is compared to a net unrealized loss for the equity portfolio totaling $332 million, comprised of $112 million of unrealized gains and $444 million of unrealized losses at December 31, 2008. Within the equity portfolio, the losses were primarily concentrated in index-based securities and the consumer goods, financial services, banking, communications and energy sectors. The unrealized losses in these sectors were company and sector specific. As of December 31, 2009, we have the intent and ability to hold our equity securities with unrealized losses until recovery.

Other-than-temporary impairment evaluation We have a comprehensive portfolio monitoring process to identify and evaluate each fixed income and equity security whose carrying value may be other-than-temporarily impaired. The process includes a quarterly review of all securities through a screening process which identifies instances where the fair value compared to amortized cost for fixed income securities and cost for equity securities is below established thresholds, and also includes the monitoring of other criteria such as ratings, ratings downgrades or payment defaults. The securities identified, in addition to other securities for which we may have a concern, are evaluated based on facts and

circumstances for inclusion on our watch-list. All investments in an unrealized loss position at December 31, 2009 were included in our portfolio monitoring process for determining whether declines in value were other than temporary.

Due to recent market conditions and liquidity concerns, as well as wider credit spreads than at initial purchase which persist in certain markets, particularly related to structured assets, the extent and duration of a decline in fair value have become less indicative of when the market may believe there has been credit deterioration with respect to an

issue or issuer. While we continue to use declines in fair value and the length of time a security is in an unrealized loss position as indicators of potential credit deterioration, our determination of whether a security's decline in fair value is other-than-temporary has placed greater emphasis on our analysis of the underlying credit and collateral.

The following table summarizes fixed income and equity securities in a gross unrealized loss position according to significance, aging and investment grade classification.

($ in millions, except number of issues)	**December 31, 2009**				**December 31, 2008**			
	Fixed income				**Fixed income**			
	Investment grade	**Below investment grade**	**Equity**	**Total**	**Investment grade**	**Below investment grade**	**Equity**	**Total**
Category (I): Unrealized loss less than 20% of cost (1) (2)								
Number of issues	2,626	290	1,517	4,433	4,303	275	112	4,690
Fair value	$							