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Allstate Insurance Group
Combined Management Discussion and Analysis
For the Year Ended December 31, 2009

The Allstate Insurance Group (referred to in this document as "Allstate", the "Group" or the "Company") consists of the Allstate Insurance Company ("AIC"), Allstate Indemnity Company ("AI"), Allstate Texas Lloyd's ("ATL"), Deerbrook Insurance Company ("DIC"), Allstate Property and Casualty Insurance Company ("APC"), Allstate County Mutual Insurance Company ("ACM"), Allstate Fire and Casualty Insurance Company ("AFCIC"), Northbrook Indemnity Company ("NIC"), Allstate North American Insurance Company ("ANAIC"), Encompass Insurance Company ("EIC"), Encompass Indemnity Company ("EI"), Encompass Independent Insurance Company ("EIIC"), Encompass Home and Auto Insurance Company ("EHAIC"), Encompass Insurance Company of America ("EICA"), Encompass Insurance Company of Massachusetts ("EICMA") Encompass Property and Casualty Company ("EPC") and North Light Specialty Insurance Company ("NLSIC"). Since these insurers are part of a consolidated group that utilize 100% intercompany reinsurance agreements, regulatory approval was obtained to prepare a combined Management Discussion and Analysis ("MD&A"). Accordingly, the combined results of the aforementioned companies have been analyzed in this MD&A.

In addition to the affiliated property-liability insurers listed above, Allstate has several unconsolidated subsidiaries, the largest of which is the Allstate Life Insurance Company ("Allstate Life"). Allstate Life and its subsidiaries market a broad line of life insurance and investment products. Allstate also has several unconsolidated property and casualty insurers, the two largest being Allstate New Jersey Insurance Company ("ANJ") and Castle Key Insurance Company ("CKIC"). ANJ writes auto and homeowners exclusively in New Jersey, while CKIC writes only homeowners in Florida. Allstate also has an affiliated foreign insurer, Allstate Insurance Company of Canada ("AICC"), which has three subsidiary insurance companies. Separate MD&As were filed for Allstate Life and certain of its subsidiaries, and ANJ and CKIC.

AIC is an Illinois domiciled insurer licensed to write property and casualty business in 49 states, the District of Columbia, and Puerto Rico and offers a broad range of personal and commercial insurance products. Allstate Insurance Holdings, LLC, a Delaware Corporation, owns all of AIC's outstanding shares of common stock and is wholly-owned by The Allstate Corporation (the "Corporation").

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 the Company's results of operations and financial position. The Group defines a catastrophe as an event that produces pretax losses before reinsurance in excess of $1 million and involves multiple first party policyholders, or an event that produces a number of claims in excess of a preset, per-event threshold of average claims in a specific area, occurring within a certain amount of time following the event. Catastrophes are caused by various natural events including high winds, winter storms, tornadoes, hailstorms, wildfires, tropical storms, hurricanes, earthquakes and volcanoes. The Group is also exposed to certain 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.

Over time the Group has limited its aggregate insurance exposure to catastrophe losses in certain regions of the country that are subject to high levels of natural catastrophes. Limitations include the Company's participation in various state facilities, such as the California Earthquake Authority, which provides insurance for California earthquake losses; the Florida Hurricane Catastrophe Fund, which provides reimbursements on certain qualifying Florida hurricane losses; and other state facilities, such as wind pools. However, the impact of these actions may be diminished by the growth in insured values, and the effect of state insurance laws and regulations. In addition, in various states the Group is 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 Allstate's participation in these and other state facilities such as wind pools, the Company may be exposed to losses that surpass the capitalization of these facilities and/or to assessments from these facilities.

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

- Increased utilization of wind storm pools, including in Texas where Allstate cedes significant wind exposure related to insured property located in wind pool eligible areas along the coast including the Galveston Islands.
- No writing of new homeowners business in California.
- Renewals are no longer offered on certain homeowners insurance policies in New York in certain down-state geographical locations.

Property catastrophe exposure management includes purchasing reinsurance in areas that have known exposure to hurricanes, earthquakes, wildfires, fires following earthquake and other catastrophes. Allstate is 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.

The Group considers 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. Generally, the average premium on a property policy near these coasts is greater than other areas. However, average premiums are not considered commensurate with the inherent risk of loss. In addition, 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.

The Group has addressed it's risk of hurricane loss by, among other actions, purchasing reinsurance for specific states and on a countrywide basis for it's personal lines property insurance in areas most exposed to hurricanes; limiting personal homeowners new business writings in coastal areas in southern and eastern states; and not offering continuing coverage on certain policies in coastal countries in certain states. The Group's actions are expected to continue during 2010 in northeastern and certain other hurricane-prone states.

BUSINESS SEGMENTS

The Company's 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 Allstate no longer writes 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.

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

The Allstate brand is differentiated from competitors by offering a comprehensive range of product options as well as product customization, including Allstate® Your Choice Auto Insurance ("YCA") with options such as safe driving deductibles and a safe driving bonus. The Company will continue to focus on developing and introducing products and services that further differentiate Allstate and enhance the customer experience, and broaden customer relationships by identifying the greatest cross sell opportunities.

Within the Company's multiple distribution channels the Company is undergoing a focused effort to enhance it's capabilities by implementing uniform processes and standards to elevate the level and consistency of the customer experience.

Allstate continues to enhance technology to integrate the Company's 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 the distribution and service channels by increasing the productivity of the Allstate brand's exclusive agencies and direct channels.

Both pricing and underwriting are designed to enhance the Company's competitive position and profit potential. The Company will provide and continue to enhance a range of discounts and attract more high lifetime value customer segments. The Company also increased the discount on homeowners customers receive if they insure their automobiles with Allstate.

Pricing sophistication which underlies the Company's 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, the Company continues to improve it's mix of customers towards those the Company considers high lifetime value that generally are homeowners that insure multiple autos, have better retention and more favorable loss experience.

The Company's strategy for the Encompass brand includes enhancing the 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 $2.4 billion in 2009. The Company expects to accelerate profitable growth in Emerging Businesses during 2010.

Pricing of property products is typically intended to establish returns that are deemed 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 the stated 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 that were incorporated into the products' pricing. Accordingly, property products are more capital intensive than other personal lines products.

FINANCIAL POSITION

Cash and invested assets

Allstate's investment strategy emphasizes safety of principal and consistent income generation, within a total return framework. This approach is designed to produce competitive returns over time, and to ensure financial strength and stability for paying claims, while maximizing economic value and surplus growth. The Company employs a strategic asset allocation model, which considers the nature of the liabilities and risk tolerances, as well as the risk and return parameters of the various asset classes in which the Company invests. The model's recommended asset allocation, along with duration and liquidity considerations, guides the Company's initial asset allocation. This is further adjusted based on an analysis of other potential market opportunities available. Portfolio performance is measured against benchmarks at target allocation weights.

The Company has a comprehensive portfolio monitoring process to identify and evaluate each security whose carrying values may be other-than-temporarily impaired. The portfolio monitoring process includes a quarterly review of all securities through a screening process which identifies instances where the fair value compared to amortized cost for bonds, including loan-backed and structured securities and cost for stocks is below established thresholds, and also includes the monitoring of other criteria such as ratings and payment defaults.

The composition of the investment portfolio at December 31 was:

(in millions)		2009		2008
Bonds	$	22,974	$	22,129
Preferred stocks		129		233
Common stocks		8,864		6,511
Mortgage loans on real estate		47		104
Real estate		318		310
Cash and cash equivalents		(269)		742
Short-term investments		64		320
Other invested assets		2,566		2,641
Total	$	34,693	$	32,990

Cash and invested assets increased 4.9%, or $1.7 billion, primarily due to investing cash from operations. Additionally, common stocks increased mostly due to the increased investment in its subsidiary, Allstate Life.

Bonds

The Group's bond portfolio consists of municipal bonds, corporate bonds, U.S. government bonds, mortgage-backed securities ("MBS") and asset-backed securities ("ABS"). Allstate generally holds it's bonds to maturity, but has classified all bonds as available for sale to allow maximum flexibility in portfolio management.

Municipal bonds including tax-exempt and taxable securities totaled $13.8 billion, or 60% of the bond portfolio at December 31, 2009 compared to $17.0 billion at December 31, 2008. The municipal bond portfolio at December 31, 2009 consisted of 4,138 issues from 1,691 issuers. The largest exposure to a single issuer was 1% of the municipal bond portfolio. Corporate entities were the ultimate obligors of 4% of the municipal bond portfolio.

Public corporate bonds totaled $2.9 billion at December 31, 2009 compared to $1.6 billion at December 31, 2008. As of December 31, 2009, the portfolio also contained $734 million of privately placed corporate obligations, compared with $559 million at December 31, 2008. Privately placed securities primarily consist of corporate issued senior debt securities that are in unregistered form and are directly negotiated with the borrower. Privately placed corporate securities are rated by the National Association of Insurance Commissioners ("NAIC") Securities Valuation Office based on information provided to them. 47.7% of the privately placed corporate securities in the Company's portfolio were rated by an independent rating agency.

MBS totaled $1.8 billion at December 31, 2009 compared to $1.1 billion at December 31, 2008, of which 93.9% were investment grade in 2009. The credit risk associated with MBS was 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 MBS portfolio is subject to interest rate risk, but unlike other fixed income securities, is additionally subject to significant prepayment risk from the underlying mortgages.

ABS totaled $1.3 billion at December 31, 2009 compared to $1.5 billion at December 31, 2008. 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 Company identified it had exposure to subprime residential mortgage related risk in the form of asset-backed residential mortgage-backed securities ("ABS RMBS"), as well as a limited partnership investment. The ABS RMBS portfolio includes securities that are collateralized by mortgage loans issued to borrowers that cannot qualify for prime or alternative financing terms due in part to an impaired or limited credit history. It also includes securities that are collateralized by certain second lien mortgages regardless of the borrower's credit profile. At December 31, 2009, the ABS RMBS portfolio had net unrealized losses of $78 million, of which $79 million were gross unrealized losses and $1 million were gross unrealized gains. At December 31, 2008, the ABS RMBS portfolio had net unrealized losses of $327 million, of which $330 million were gross unrealized losses and $3 million were gross unrealized gains.

The Company continues to believe that the unrealized losses on these securities are not predictive of the ultimate performance and the unrealized losses should reverse over the remaining lives of the securities. The Company anticipates that these securities will recover in line with it's best estimate of the expected cash flows which are used for other-than-temporary impairment evaluations as well as managing the portfolio.

At December 31, 2009, 93.4% of the consolidated bond 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.

Bonds are carried at amortized cost. The fair value of bonds was $23.4 billion and $20.9 billion at December 31, 2009 and 2008, respectively. At December 31, 2009, unrealized net capital gains on the bond portfolio, which are measured as the difference between statement value and fair value, were $417 million compared to unrealized net capital losses of $1.2 billion as of December 31, 2008.

Equity securities

Equity securities include common and non-redeemable preferred stocks, and investments in affiliates. The $2.4 billion increase in common stocks was attributable to investing cash from operations, cash on hand and proceeds from short-term investments. Additionally, common stocks increased due to the increased investment in its subsidiary, Allstate Life, of $714 million.

Mortgage loans on real estate

Allstate's investment in mortgage loans decreased from $104 million at December 31, 2008 to $47 million at December 31, 2009. The decrease was due to the repayment of twelve mortgages in 2009. The Company closely monitors the 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.

Short-term investments

The short-term investment portfolio was $64 million and $320 million at December 31, 2009 and 2008, respectively. The $256 million decrease was a result of increased investments in common stock and bonds for enhanced yields.

Other assets

The Company is in a current federal income tax payable position of $363 million at December 31, 2009. In the prior year, the Company was in a recoverable position of $713 million. The change was primarily related to the increase in net income.

Reserves for losses and loss adjustment expenses

Activity in the reserve for losses and loss adjustment expenses, on a net basis, was summarized as follows at December 31:

(in millions)	2009	2008
Balance at January 1	$ 14,864	$ 14,232
Current year	17,264	18,197
Prior years	(69)	212
Total incurred	17,195	18,409
Paid related to:		
Current year	11,285	11,609
Prior years	6,271	6,168
Total paid	17,556	17,777
Balance at December 31	$ 14,503	$ 14,864

Incurred losses and loss adjustment expenses attributable to insured events of prior years were $(69) million and $212 million as a result of the reestimation of unpaid losses and loss adjustment expenses for the years ending December 31, 2009 and 2008, respectively. During 2009, favorable development in incurred losses and loss adjustment expenses related to prior years was primarily due to a reduction in catastrophe losses. During 2008, incurred losses and loss adjustment expenses related to prior years were primarily composed of litigation settlements and catastrophe losses. These changes were generally the result of ongoing analyses of recent loss development trends. Initial estimates were revised as additional information regarding claims became known.

Other liabilities

Commissions payable, contingent commissions and other similar charges decreased $559 million due to the change in sponsorship of certain Other Postretirement Employee Benefit plans from the Company to the Corporation. Payable for securities decreased $425 million as a result of the lower volume of trades near the end of December.

Capital and surplus

The following table summarizes Allstate's capital position at the end of the last two years.

(in millions)	2009	2008
Common capital stock	$ 4	$ 4
Gross paid in and contributed surplus	4,237	3,364
Unassigned funds (surplus)	10,558	9,638
Aggregate write-ins for special surplus funds	232	29
Total surplus as regards policyholders	$ 15,031	$ 13,035

Total surplus as regards policyholders increased 15.4%, or $2.0 billion, and was comprised of the following main items:

- $1.3 billion in net income
- $874 million in capital contributions from parent
- $303 million decrease in non-admitted assets

Offsetting these increases were $203 million in additional minimum pension liability, $179 million decrease in unrealized capital gain driven by the decrease in the investment of a subsidiary (Allstate Life), offset by trading gains due to the improved market conditions and an $88 million decrease in net deferred income tax.

RESULTS OF OPERATIONS

(in millions)		**2009**		**2008**
Premiums earned	$	23,992	$	24,776
Losses incurred		14,288		15,233
Loss expenses incurred		2,907		3,086
Other underwriting expenses incurred		5,997		6,210
Total underwriting deductions		23,192		24,619
Net underwriting gain (loss)		800		157
Net investment income earned		1,111		1,439
Net realized capital gains (losses)		(328)		(860)
Net investment gain (loss)		783		579
Total other income		166		213
Net income, after dividends to policyholders but before federal and foreign income taxes		1,749		950
Federal and foreign income taxes incurred		453		253
Net income	$	1,296	$	697

Net underwriting gain
The $643 million increase in underwriting gain was primarily due to lower catastrophe losses, partially offset by increases in auto and homeowner claim frequency and homeowner severities.

The Discontinued Lines and Coverages segment generated an underwriting loss of $32 million in 2009, mainly related to a $28 million unfavorable reestimate of other reserves and a $13 million unfavorable reestimate of environmental reserves. The overall underwriting loss was partially offset by an $8 million favorable reestimate of asbestos reserves largely the a result of the annual third quarter 2009 review using established industry and actuarial "ground up" best practices.

Net investment income earned
Net investment income earned decreased from $1.4 billion in 2008 to $1.1 billion in 2009. The change was primarily due to decreases of $184 million in interest income on fixed income securities and $56 million from investments in partnerships. In addition, the annualized estimated investment yield decreased to 3.74% in December 2009 from 4.41% in December 2008.

Net realized capital gains (losses)
Net realized capital losses of $861 million in 2008 decreased $533 million resulting in net realized capital losses of $328 million in 2009. Several write-downs taken in 2008 were reversed in December 2009 in accordance with SSAP No. 43R - Loan-backed and Structured Securities which caused the year-over-year distortion. Impairments were much lower in 2009 compared to 2008 due to this revised accounting guidance. In addition, the portfolio benefited from trading gains during 2009 as market conditions improved.

Other
In 2009, the Company became aware of allegations that some employees responsible for trading equity securities in certain portfolios of two AIC defined benefit pension plans and certain portfolios of AIC and an AIC subsidiary may have timed the execution of certain trades in order to enhance their individual performance under incentive compensation plans, without regard to whether such timing adversely impacted the actual investment performance of the portfolios.

The Company retained outside counsel, who in turn engaged an independent economic consulting firm to conduct a review and assisted the Company in understanding the facts surrounding, and the potential implications of, the alleged timing of these trades for the period from June 2003 to May 2009. The consulting firm reported that it was unable to determine from the Company's records the precise amounts by which portfolio performance might have been adversely impacted during that period. Accordingly, the economic consultant applied economic modeling techniques and assumptions reasonably designed to estimate the potential adverse impact on the pension plans and the company accounts, taking into account, among other things, the distinctions between the pension plans and the Company's portfolios.

Based on their work, the economic consultants estimated that the performance of the pension plans' portfolios could have been adversely impacted by approximately $91 million (including interest) and that the performance of the Company's portfolios could have been adversely impacted by approximately $116 million (including interest) in the aggregate over the six-year period under review. The Company believes the financial statements and those for the pension plans properly reflected the portfolios' actual investment performance results during the entire period that was reviewed.

In December 2009, based on the economic consultant's modeled estimates, the Company paid an aggregate of $91 million into the two defined benefit pension plans. These payments had no material impact on the Company's reported earnings or surplus, but reduced the Company's assets, operating cash flows, and unfunded pension liability to the plans. At December 31, 2009, the Company's total assets, operating cash flows and surplus were $40.9 billion, $1.6 billion and $15.0 billion, respectively. At all times during this period, the plans were adequately funded pursuant to applicable regulatory and actuarial requirements. As a result of these additional funds in the plans, the Company's future contributions to the plans, based on actuarial analysis, may be reduced. Using the economic consultant's calculation of the potential adverse impact on the portfolios, the Company currently estimates that the additional compensation paid to all the employees working in the affected area was approximately $1.2 million over the six-year period as a result of these activities. In late 2009, the Company retained an independent investment firm to conduct portfolio management and trading activity for the specific portfolios impacted by these activities. The Company has reported this matter to the U.S. Department of Labor and the U.S. Securities and Exchange Commission and has advised both agencies that the Company will respond to any questions they might have.

CASH FLOW AND LIQUIDITY

The following table summarizes cash flow.

(in millions)	2009	2008
Net cash from operations	$ 1,630	$ 1,751
Net cash from investments	(3,602)	3,393
Net cash from financing and miscellaneous sources	705	(4,461)
Net change in cash, cash equivalents and short-term investments	$ (1,267)	$ 683

The Company's operations typically generate substantial positive cash flows from operations as most premiums are received in advance of the time claim payments are made. Cash provided from investments decreased in 2009 as a result of investing cash and short-term investments in long-term assets during the year. Cash provided from financing increased as a result of not paying dividends to the stockholder in 2009.

Financial strength ratings and outlook

Allstate's financial strength ratings and outlook were Aa3 (stable), AA- (negative) and A+ (stable) by Moody's, S&P and A.M. Best, respectively, at December 31, 2009.

Risk based capital

The NAIC has a standard to help assess the solvency of insurance companies, which is referred to as risk based capital ("RBC"). The standard is based on a formula for determining each insurer's RBC and a model law specifying regulatory actions if an insurer's RBC falls below specified levels. The formula for calculating RBC takes into account asset and credit risks, but places more emphasis on underwriting factors for reserving and pricing. At December 31, 2009, the RBC for each of the insurers comprising the Group was significantly above levels that would require regulatory action.

IRIS ratios

The NAIC has also developed a set of financial relationships or tests known as the Insurance Regulatory Information System ("IRIS") to assist state regulators in monitoring the financial condition of insurance companies and identifying companies that require special attention or action by insurance regulatory authorities. The NAIC analyzes financial data provided by insurance companies using prescribed ratios, each with a defined usual range. Additional regulatory scrutiny may occur if a company's ratio results fall outside the usual range for four or more of the ratios. At December 31, 2009, no insurer comprising the AIC group had more than two ratio results outside the usual range.