NAIC Group Code 0008
NAIC Company Code 00086
Employer's ID Number 36-07196665

Allstate Insurance Group
Combined Management Discussion and Analysis
For the Year Ended December 31, 2010

The Allstate Insurance Group (referred to as "Allstate", the "Group" or the "Company") consists of Allstate Insurance Company, Allstate Indemnity Company, Allstate Texas Lloyd's, Allstate Vehicle and Property Insurance Company (formerly known as Deerbrook Insurance Company), Allstate Property and Casualty Insurance Company, Allstate County Mutual Insurance Company, Allstate Fire and Casualty Insurance Company, Northbrook Indemnity Company, Allstate North American Insurance Company, Encompass Insurance Company, Encompass Indemnity Company, Encompass Independent Insurance Company, Encompass Home and Auto Insurance Company, Encompass Insurance Company of America, Encompass Insurance Company of Massachusetts, Encompass Property and Casualty Company and North Light Specialty Insurance Company. 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, ANJ and CKIC.

AIC is an Illinois domiciled insurer licensed to write property and casualty business in 50 states, the District of Columbia, and Puerto Rico and offers a broad range of personal and commercial insurance products. Allstate Insurance Holdings, LLC ("Allstate Holdings"), a Delaware Corporation, owns all of AIC's outstanding shares of common stock and is wholly-owned by The Allstate 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 pre-tax losses before reinsurance in excess of $1 million and involves multiple first party policyholders, or an event 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 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 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 specific down-state geographical locations.

Property catastrophe exposure management includes purchasing reinsurance to provide coverage for 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. While the actions that Allstate takes will be primarily focused on reducing the catastrophe exposure in our property business, Allstate also considers their impact on our ability to market our auto lines.

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. 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, 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 its risk of hurricane loss by, among other actions, purchasing reinsurance for specific states and on a countrywide basis for its 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 counties in certain states. The Group continues to seek appropriate returns for its risks. This may require further actions, similar to those already taken, in geographies where the Group is not getting appropriate returns. However, the Group may maintain or opportunistically increase its presence in areas where the Group achieves adequate returns and does not materially increase its hurricane risk.

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 utilizes marketing delivered to target customers to promote the Company's strategic priorities, with messaging that continues to communicate affordability and the ease of doing business with Allstate, as well as the importance of having proper coverage by highlighting the Company's comprehensive product and coverage options.

The Allstate brand is differentiated from competitors by offering a comprehensive range of innovative product options and features as well as product customization, including Allstate Your Choice Auto® with options such as accident forgiveness, safe driving deductible rewards and a safe driving bonus. The Company will continue to focus on developing and introducing products and services that benefit today's consumers and further differentiate Allstate and enhance the customer experience. The Company will deepen customer relationships through value-added customer interactions and expanding its presence in households with multiple products by providing financial protection for customer needs.

Within the Company's multiple distribution channels the Company is undergoing a focused effort to enhance its capabilities by implementing uniform processes and standards to elevate the level and consistency of the Company's 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 Company's distribution and service channels by increasing the productivity of the Allstate brand's exclusive agencies and the Company's direct channel.

The Company's pricing and underwriting strategies and decisions, made in conjunction within a program called Strategic Risk Management, are designed to enhance both the Company's competitive position and the Company's profit potential. 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. The Company's auto risk evaluation pricing model was implemented for 9 states in 2010 and these implementations will continue in other states throughout 2011. The Company's pricing strategy involves marketplace pricing and underwriting decisions that are based on these risk evaluation models and an evaluation of competitors.

The Company will also continue to provide a range of discounts to attract more target customers. For Allstate brand auto and homeowners business, the Company continues to improve its mix of customers towards those customers that have better retention and thus potentially present more favorable prospects of profitability over the course of their relationships with Allstate. For homeowners, the Company will address rate adequacy and improve underwriting and claim effectiveness.

The Company's strategy for the Encompass brand includes enhancing the Premier Package Policy (providing customers with the ability to simplify their insurance needs by consolidating their coverage into one policy, with one bill, one premium and one renewal date) to appeal to customers with broad personal lines coverage needs and that value an independent agent. Additionally, the Encompass brand is focused on increasing distribution effectiveness and improving agency technology interfaces to become the package carrier of choice for aligned agencies to generate stable, consistent earnings growth.

The Allstate Protection segment also includes a separate organization called Emerging Businesses which comprises 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). The Company expects to accelerate profitable growth in Emerging Businesses during 2011.

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. The Company pursues rate increases where indicated using a newly re-designed methodology that appropriately addresses the changing costs of losses from catastrophes such as severe weather and the net cost of reinsurance.

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 and income requirements. Portfolio performance is measured against income targets, with performance relative to benchmarks a secondary consideration.

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 to identify instances where the fair value of a security compared to its amortized cost (for bonds, including loan-backed and structured securities) and cost (for stocks) is below established thresholds. The process also includes the monitoring of other impairment indicators such as ratings and payment defaults.

The composition of the investment portfolio at December 31 was:

(in millions)		**2010**		**2009**
Bonds	$	22,911	$	22,974
Preferred stocks		156		129
Common stocks		8,463		8,864
Mortgage loans on real estate		17		47
Real estate		322		318
Cash and cash equivalents		(439)		(269)
Short-term investments		54		64
Other invested assets		3,318		2,566
Total	$	34,802	$	34,693

The investment portfolio was flat year-over-year increasing less than 1%, or $109 million. Explanations for the more significant items follow.

Bonds

The Group's bond portfolio consists of municipal bonds, public and privately placed corporate bonds, U.S. government bonds, mortgage-backed securities ("MBS"), asset-backed securities ("ABS") and foreign government bonds.

Municipal bonds including tax-exempt and taxable securities totaled $8.5 billion, or 37% of the bond portfolio at December 31, 2010 compared to $12.8 billion at December 31, 2009. The municipal bond portfolio at December 31, 2010 consisted of 2,878 issues from 1,277 issuers. The largest exposure to a single issuer was 1% of the municipal bond portfolio. Corporate entities were the ultimate obligors of 5% of the municipal bond portfolio.

Public corporate bonds totaled $4.8 billion at December 31, 2010 compared to $2.8 billion at December 31, 2009. As of December 31, 2010, the portfolio also contained $1.5 billion of privately placed corporate obligations, compared with $718 million at December 31, 2009. 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.

MBS totaled $2.6 billion at December 31, 2010 compared to $2.4 billion at December 31, 2009, of which 98.8% were investment grade in 2010. 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 $2.2 billion at December 31, 2010 compared to $1.7 billion at December 31, 2009. Credit risk is managed by monitoring the performance of the underlying collateral. Many of the securities in the ABS portfolio have credit enhancement 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 borrowers' credit profile. At December 31, 2010, the ABS RMBS portfolio had net unrealized losses of $34 million, comprised of $35 million in gross unrealized losses and $1 million in gross unrealized gains. At December 31, 2009, the ABS RMBS portfolio had net unrealized losses of $78 million, comprised of $79 million in gross unrealized losses and $1 million in gross unrealized gains. The Company continues to believe that the unrealized losses on these securities, including those over 24 months, result from the current risk premium on these securities, which should continue to reverse over the securities' remaining lives, as demonstrated by improved valuations in 2010. The Company expects to receive its estimated share of contractual principal and interest collections used to determine the securities' recovery value.

At December 31, 2010, 91.4% of the consolidated bond portfolio was rated investment grade, which is defined as having a NAIC Securities Valuation Office rating of 1 or 2, a Moody's rating of Aaa, Aa, A or Baa, 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.

Bonds are carried at amortized cost. Bonds with an NAIC rating 3 through 6 are carried at the lower of amortized cost or fair value, with the difference reflected in unassigned surplus. The fair value of bonds was $23.3 billion and $23.4 billion at December 31, 2010 and 2009, respectively. At December 31, 2010, unrealized net capital gains on the bond portfolio, which are measured as the difference between statement value and fair value, were $382 million compared to $417 million as of December 31, 2009.

Equity securities

Equity securities include common and non-redeemable preferred stocks, and investments in affiliates. The $374 million decrease in common stocks was due to managements' decision to reduce exposure in the equity markets.

Other invested assets

Other invested assets increased $752 million due to additional money allocated to hedge fund investments during 2010. Additions to two joint venture investments totaled $596 million.

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)	2010	2009
Balance at January 1	$ 14,503	$ 14,864
Current year	17,410	17,264
Prior years	(95)	(69)
Total incurred	17,315	17,195
Paid related to:		
Current year	11,168	11,285
Prior years	5,865	6,271
Total paid	17,033	17,556
Balance at December 31	$ 14,785	$ 14,503

Incurred losses and loss adjustment expenses attributable to insured events of prior years were $(95) million and $(69) million as a result of the reestimation of unpaid losses and loss adjustment expenses for the years ending December 31, 2010 and 2009, respectively. During 2010, favorable development in incurred losses and loss adjustment expense related to prior years was primarily due to favorable prior year catastrophes and severity development that was better than expected, partially offset by litigation settlements. During 2009, favorable development in incurred losses and loss adjustment expenses related to prior years was primarily due to a reduction in 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

Current federal income tax payable decreased $314 million primarily due to the decrease in net income. Other expenses decreased $233M as a result of the decrease in pension unfunded accumulated benefit obligation due to the increase in market related value of assets through contributions and asset returns.

Capital and surplus
The following table summarizes Allstate's capital position at December 31:

(in millions)	2010	2009
Common capital stock	$ 4	$ 4
Gross paid in and contributed surplus	4,238	4,238
Unassigned funds (surplus)	10,945	10,557
Aggregate write-ins	209	232
Total surplus as regards policyholders	$ 15,396	$ 15,031

Total surplus as regards policyholders increased 2.4%, or $365 million, and was mainly comprised of the following items:

- $1.0 billion in net income
- $1.3 billion in dividends paid to Allstate Holdings
- $300 million in additional minimum pension liability
- $276 million increase in unrealized capital gains

RESULTS OF OPERATIONS

(in millions)	2010	2009
Premiums earned	$ 23,622	$ 23,992
Losses incurred	14,532	14,288
Loss expenses incurred	2,783	2,907
Other underwriting expenses incurred	6,016	5,997
Total underwriting deductions	23,331	23,192
Net underwriting gain(loss)	291	800
Net investment income earned	1,091	1,111
Net realized capital gains(losses)	(190)	(328)
Net investment gain(loss)	901	783
Total other income	185	166
Net income, after dividends to policyholders but before federal and foreign income taxes	1,377	1,749
Federal and foreign income taxes incurred	348	453
Net income	$ 1,029	$ 1,296

Net underwriting gain
The $509 million decrease in underwriting gain was primarily due to decreases in standard auto underwriting income and increases in homeowners underwriting losses, partially offset by increases in other personal lines underwriting income.

Net realized capital gains(losses)
Although, net investment income earned was relatively flat year-over-year, net realized capital losses decreased $138 million to $(190) million in 2010. This decrease was primarily due to the $151 million reduction in the federal income tax on capital gains caused by changes in temporary adjustments related to partnership writedowns, mark-to-market adjustments and straddle losses.

CASH FLOW AND LIQUIDITY

The following table summarizes cash flow.

(in millions)		2010		2009
Net cash from operations	$	861	$	1,630
Net cash from investments		121		(3,602)
Net cash from financing and miscellaneous sources		(1,162)		705
Net change in cash, cash equivalents and short-term investments	$	(180)	$	(1,267)

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 increased in 2010 as a result of proceeds from improving markets during the year. Cash provided from financing decreased as a result of paying dividends to the stockholder in 2010.

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, as of February 7, 2011.

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, 2010, 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 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, 2010, no insurer comprising the Group had more than two ratio results outside the usual range.